# CONSOLIDATED REPORT & ACCOUNTS

2016

CP- Comboios de Portugal E.P.E.

www.cp.pt

# Technical Information


## CP – Comboios de Portugal, E.P.E.

Calçada do Duque, nº 20

1249 – 109 Lisbon

Corporate Taxpayer number: 500 498 601

Registered in the Commercial Registry Office of Lisbon under the no. 109

Statutory Capital € 3,333,713,275.71 (as at the 31st December, 2016)

### Design and Coordination:

Department of Planning and Activity Control

Financial Management

**Contacts:** webmaster@cp.pt

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# SUMMARY OF THE YEAR

| Operating Indicators of the Group | 2016 | 2015 (*) | Variation | |
|---|---|---|---|---|
| | | | Amount | % |
| **Demand** | | | | |
| Passengers ($10^3$) | 114 841 | 112 024 | 2 818 | 2,5% |
| Passengers Kilometre ($10^3$) | 3 802 762 | 3 624 903 | 177 859 | 4,9% |
| **Supply** | | | | |
| Train-Km ($10^3$) | 29 128 | 28 834 | 294 | 1,0% |
| **Human Resources** | | | | |
| **Final Effective Staff** | **3 798** | **3 715** | **83** | **2,2%** |
| CP | 2 708 | 2 684 | 24 | 0,9% |
| CP - EMEF | 1 048 | 979 | 69 | 7,0% |
| CP - Fernave | 20 | 28 | -8 | -28,6% |
| CP - Ecosaúde | 21 | 23 | -2 | -8,7% |
| CP - Saros | 1 | 1 | 0 | 0,0% |
| **Fleet - Active Fleet** | | | | |
| Railcars | 239 | 235 | 4 | 1,7% |
| Locomotives | 31 | 31 | 0 | 0,0% |
| Carriages | 103 | 101 | 2 | 2,0% |

(*) For comparability purposes, CP Carga - whose privatisation was completed on the 20th of January, 2016 - is not considered in the 2015 amounts.

| Financial Indicators of the Group (Amounts in $10^3$ €) | 2016 | 2015 | Variation | |
|---|---|---|---|---|
| | | | Amount | % |
| **Income Statement** | | | | |
| Operating Result | -53 587 | -176 731 | 123 144 | 69,7% |
| Operations Subsidies | 0 | 0 | 0 | 0,0% |
| Net Result | -144 000 | -278 657 | 134 657 | 48,3% |
| EBITDA (1) | 6 710 | 6 992 | -260 | -3,7% |
| **Balance Sheet** | | | | |
| Asset | 667 693 | 725 606 | -57 913 | -8,0% |
| Equity | -2 651 383 | -3 162 144 | 510 761 | 16,2% |
| Liability | 3 319 077 | 3 887 750 | -568 673 | -14,6% |
| Funding Obtained | 3 026 948 | 3 525 424 | -498 476 | -14,1% |

(1) It does not include compensation due to Termination of Employment, Fair Value, Impairments, Provisions, Depreciations, and other operations unrelated with the activity of the Company.

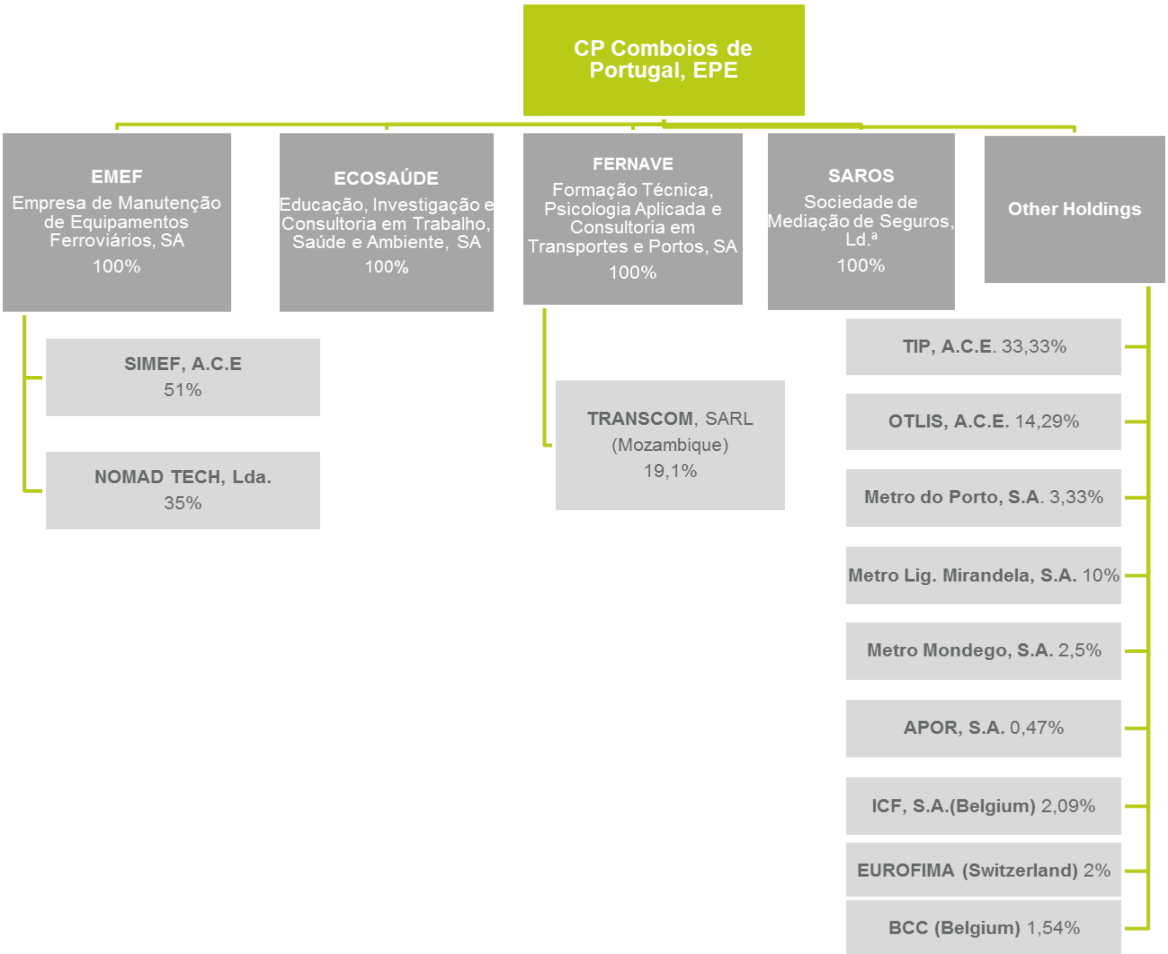
**Note:** by considering that the terms of the reference sale agreement - signed on the 21st of September, 2015 - significantly conditioned dominant influence and control, pursuant to article 6 of Decree-Law no. 158/2009, CP Carga was not included in the consolidation under 2015's full consolidation method.

# CP GROUP

CP is a public railway transport company held 100% by the State. CP controls a group of companies in the field of supplies in the sector, with minority case-by-case holdings.

The privatisation process of CP Carga S.A. was completed on the 20th of January, 2016, once the buyer's and government approval conditions were met, with the final signing of the corresponding sales agreement to MSC Mediterranean Shipping Company Rail (Portugal) – Operadores Ferroviários, S.A. [1]The process was approved by the relevant authorities, namely the Competition Authority, who issued an opinion approving of the contractual conditions in December 2015.

The following diagram presents the holdings from CP and its affiliate companies as at 31-12-2016:




The Group carries out the following activities:

[1] As at the 31st of December, 2016, CP still has a temporary 5% shareholding (adjusted with impairment) in the share capital of CP Carga, which was disposed of in 2016, since it is awaiting for the completion of certain procedures foreseen in the agreement in order for the disposal to make up the total shareholding.

## CP – Comboios de Portugal, E.P.E.

The main purpose of CP – Comboios de Portugal, E.P.E., is the provision of passenger railway transport services.

## EMEF – Empresa de Manutenção de Equipamento Ferroviário, S.A.

EMEF has a vast involvement in the area of railway engineering. EMEF carries out the manufacture, large repair and maintenance of equipment, railway vehicles, vessels and buses, as well as the study of workshop facilities for maintenance purposes.

## SIMEF, A.C.E

SIMEF carries out the maintenance of “LE 5600” and "LE 4700" locomotives.

## Ecosaúde – Educação, Investigação e Consultoria em Trabalho, Saúde e Ambiente, S.A.

ECOSAÚDE provides healthcare services, teaching, training and technical/professional development within the sectors of working conditions, health and environment. ECOSAÚDE also performs services related to recruitment, selection and assessment of staff, as well as technical assistance, consultancy and auditing, specifically regarding health, occupational health and safety, environment and environmental management. ECOSAÚDE performs drug and alcohol tests and ensures proper referral for the treatment of such addictions.

## FERNAVE – Formação Técnica, Psicologia Aplicada e Consultoria em Transportes e Portos, S.A.

FERNAVE carries out training and professional technical development, as well as studies and projects within the scope of the creation, organisation and management of companies. FERNAVE also provides services related to applied psychology, as well as medical and psychological assessment, higher education and scientific research regarding transportation, communications or technological areas within the technological scope of the aforementioned companies.

## SAROS – Sociedade de Mediação de Seguros, Lda.

SAROS provides services in the area of mediation within the category of insurance agents in the fields of LIFE and NON-LIFE. SAROS's activity is focused on managing the insurance portfolio of the companies in the CP Group.

## TIP, A.C.E.

TIP is responsible for the implementation and management of a common and exclusive ticketing system of the Grouping (CP, STCP and Metro do Porto) in the Greater Porto area, as well as for establishing the common and exclusive intermodal tariff for the public means of transportation of passengers which are operated either directly or indirectly by the Grouping entities.

## OTLIS, A.C.E.

OTLIS is responsible for the development of the tele-ticketing project in the Greater Lisbon area in association with other international partners, in accordance with the commitments assumed by the companies comprising the grouping within the scope of the global proposal of the aforementioned project (OTLIS, A.C.E.).

CP further has a few minority holdings based on cooperation with other Operators.

# INTRA-GROUP RELATIONS

The following table shows the services the companies in the Group provide to each other:

| | | Receiving Entity | | | | |
|---|---|---|---|---|---|---|
| Provider | Service | CP | EMEF | Fernave | Ecosaúde | SAROS |
| CP | Leasing of Workshop Buildings | | ☑ | | | |
| | Service Provision (Accounting, IT, Etc.) | | ☑ | ☑ | ☑ | ☑ |
| | Re-invoicing (housekeeping of premises, surveillance, utilities, etc.) | | ☑ | ☑ | ☑ | |
| EMEF | Rolling Stock Maintenance and Repair Services | ☑ | | | | |
| Fernave | Training | ☑ | ☑ | | | ☑ |
| EcoSaúde | Medical, occupational health and safety services as well as blood alcohol and drugs tests | ☑ | ☑ | ☑ | | ☑ |
| SAROS | Insurance Mediation | ☑ | ☑ | ☑ | ☑ | |

# FRAMEWORK OF THE YEAR

## CONTEXT

Pursuant to article 4 of Regulation no. 1606/2002 of the European Parliament and the European Council, of the 19th of July, the entities whose securities are admitted to trading in a regulated market shall draw up their consolidated accounts in accordance with the international financial reporting standards.

For this reason, CP presents its consolidated financial statements, which express the financial position and results of the group's operations as if it were a single entity, aiming to highlight the results of the operations that the companies of the group have carried out with third parties.

This consolidation shall not have an impact at a fiscal level, namely regarding Income Tax, given that there are no expectations for the group to obtain future taxable profits which allow using the accumulated tax losses.

## MACROECONOMIC FRAMEWORK

According to the estimates available during the preparation of this report, the Gross Domestic Product (GDP) increased by 1.4% in volume during 2016, less 0.2 p.p. compared with the previous year. There was a decrease in the domestic demand contribution for the variation of the GDP, reflecting the reduction of Investment and, to a lesser degree, the deceleration of private consumption. Net foreign demand had a significantly less negative contribution than that of 2015[2], whereby it benefitted from the sharp increase in tourism.

In a period of low inflation rate, the household consumption expenditure continued its recovery, essentially as a result of the drop in the unemployment rate, the effect associated with the reduction of household debt service with interest rates stabilised at low levels, and due to the reversal of some measures implemented in the scope of the Economic and Financial Assistance Programme. There was also an improvement of the household financing conditions and an increase of the household saving ratio to 4% of the disposable income. Industry and Consumer Confidence Indexes have gradually increased throughout the year.

Public Consumption continued to decrease reflecting the budget consolidation effort. In order to offset the negative variations identified in tax revenue, captive funds prescribed in the State Budget for 2016 were not used, since such procedure would eventually create significant complications in public companies' expenditure.

[2] Banco de Portugal [Central bank of Portugal] – Statistical Bulletin – Mar 2017 and www.INE.pt

# CONSOLIDATED ACTIVITY OF THE YEAR

## CP

### EXECUTIVE SUMMARY

CP kept its continued growth trend in 2016, which is occurring since the end of 2013.

Around 115 million passengers were transported during the year, which represented an increase of 2.5% compared with 2015 and of 7.8% compared with 2013.

Concerning services, we highlight the increase in urban services of Lisbon and Porto, as well as the growth of the Long-distance service, with an increase of 9.4% compared with the previous year and of 30.2% compared with 2013.

Although there were no increases in tariffs, profits from traffic exceeded 230 million Euros, demonstrating an increase of almost 10 million Euros regarding the previous year (+4.4%).

The Net Result amounted to -144.6 million Euros, which translates into an improvement of 133.9 million Euros, comparing with the previous year (-278.4 million Euros).

The recognition of the reference agreement for the sale of CP Carga, with a net negative impact on the Company's accounts in 2015 of approximately -85 million Euros, and the liabilities arising from the integration of variable allowances as remuneration used for the calculation of holiday payment and holiday allowance, of 27 million Euros, contributed to this evolution.

If we exclude these effects, the Net Result still presents an improvement of approximately 13%.

Although CP did not receive any operations subsidies for the second year in a row, the recurrent EBITDA remained positive at 344 thousand Euros, and the reduction in sales and services rendered to former CP Carga (MEDWAY) following its privatisation was partially offset by the growth in profits from traffic.

### OPERATION

CP's activity during the year was carried out based on the 2016 Budget and Activities Plan (PAO 2016), approved by the Sector and Financial Ministries on the 30th of December, 2016. The strategic focus kept aiming to the promotion of the company's efficiency and sustainability.

Among the actions that have been carried out, the following are the most relevant:

## Supply / Operation

- **Half-life Intervention of CPA [Tilting Trains] –** The project Nova Geração dos Comboios Alfa Pendular [New Generation of Alfa Pendular Trains] was presented to the public and the intervention of the first unit began. It is a complete remodelling of the exterior and interiors of CPA4000 trains;
- **New Image of Inter-city Trains –** The exterior renovation of 103 carriages of the Inter-city service was completed;
- **Wi-Fi in Modernised Carriages –** Wi-Fi installation in 31 IC [Inter-city] carriages of the Beira Alta, Alentejo and Sul [South] lines.
- **Alterations in the North Region Supply –** Non-stop trains between Coimbra and Porto Campanhã were established and the links in the Marco, Nine and Ermesinde stations were improved. Expansion of the Alfa Pendular service to Guimarães;
- **New Timetables in the Sado Line –** These alterations include the extension of the service between Setúbal and Praias do Sado-A;
- **Douro Historical Train 2016 –** The campaigning period was extended and the supply was reinforced with more traffic, so as to meet the increasing demand for this product. This campaign was also marked by the return of the Steam Locomotive, which started using diesel as its primary energy in replacement of coal.

## Tariff and Ticketing

- **Yield Management –** New commercial conditions were implemented regarding Long-distance Services, with emphasis on the Advance Purchase discount;
- **APP – CP** – Launch of a mobile application to search and buy trips, with free download for iOS and Android;
- **Rail & Fly SATA –** Partnership agreement between CP and SATA INTERNACIONAL – AZORES AIRLINES, designed for customers of the airline company who complete their travel itinerary with train trips;
- **Rail & Fly CP / Emirates –** Partnership agreement between CP and EMIRATES AIRLINES that allows any passenger with a flight operated by that airline company the chance to buy an Alfa Pendular or Inter-city train ticket with a discount. Emirates also grants a discount in Economy Class to CP Customers registered in myCP;
- **Sintra Green Card -** An all-in-one ticket to travel in the Urban trains of Lisbon, in the Sintra routes of ScottUrb, and to visit historical monuments of the Municipality;
- **Travelling all Lisbon Ticket –** An all-in-one ticket valid for 24 hours in Carris/Metro/CP was created in order to meet the needs of the tourism market in the Lisbon region;
- **Park & Ride –** Ticket including train + parking in the Cascais Line.

## Communication

- **AP and IC Discount Campaign –** With the "Há comboios para tudo. Há comboios para todos" ["Trains for everything. Trains for everyone"] title, this campaign represents the main publicity work for the premium product of CP and for brand promotion, reaching the mass media, and television in particular;
- **INTRA RAIL Campaigns -** With the slogan "Portugal wasn't made for you to stay at home", the campaign for the INTRA RAIL product was developed, designed for the Youth sector, promoting its advantages;

- **"From Musical to Train Enthusiasts" -** CP partnerships continued with the greatest music events all over Portugal, with the reinforcement of supply, creation of special trains and sale of all-in-one tickets (event + train ticket);
- **International Campaign –** This campaign selected the most iconic destinations in the track of the Sud, Lusitânia and Celta trains, under the theme "Best choice for your holidays". The campaign was carried out in Portuguese and Spanish digital media, radio and press.

## Innovation

- **Digital Channels –** The modularisation of the information contents and regulations related to digital channels, as well as their implementation into webservices, was concluded. The digital sales channels were incorporated into conventional sales channels, and a new interface application was created in order to expand accessibility to the different digital sales channels, such as travel agencies, ATMs, the new netTicket and Apps. The responsive design of the online ticket services was implemented, with a restructuring of the netTicket application;
- **CPKids MiniGames -** A free mobile app for children was developed in partnership with Science4you, which addresses the train travelling subject with the mascot Kimboy as its brand image;
- **COI Project – Lisbon Integrated Operating Centre –** An agreement between CP and the Municipal Council of Lisbon (CML) was signed for the exchange of information regarding timetables, changes within the services, number of passengers and of incidents. It is an initiative of the Municipal Council of Lisbon for the development of an Open Data Policy in the city.

## Internal Processes

- **Human Resources Recruitment –** hiring shunters, commercial assistants, licensed technicians and rolling stock operators;
- **Reinforcing the Fight against Fraud –** checks resorting to inspection brigades in station platforms and on board trains, by launching awareness-raising campaigns for the mandatory nature of the purchase and validation of tickets;
- **Renewal of Safety Certification –** renewal by IMT – Portuguese Mobility and Transport Institute – of CP's Safety Certification, in accordance with Directive 2004/49/EC and the applicable national legislation.

## Asset Management

- **Interventions in Rolling Stock Yards -** The interventions in the Rolling Stock Yards of Stª Apolónia, Campolide and Algueirão have been concluded;
- **Decommissioning of the public railway sector of the Terreiro de Paço Terminal –** Following the publication of order 10759-A/2016, from the Office of the Deputy Secretary of State of Treasury and Finance and of the Deputy Secretary of State of Infrastructure, the immovable property called "Estação Sul e Sueste" [South and Southeast Station] is no longer in the ownership of CP, having been written off from the Registration of properties under its administration;
- **Asset Profitability –** signing of the promissory purchase and sale agreement regarding the Praia das Maçãs Resort.

### Social Intervention

- **SIM – Integrated Mobility Service –** expansion to all trains and stations of the assistance to Customers with Special Needs (CSN) who are not wheelchair users, provided there is a request at least 12 hours in advance;
- **New CP / INR protocol –** agreement between CP and the National Rehabilitation Institute (INR) allowing all citizens who are disabled to a degree of 80% or more to benefit from a 75% discount in CP's train travels;
- **160th Anniversary of the Train in Portugal -** celebration, with several events, of the first train travel in Portugal, between Lisbon and Carregado, on the 28th of October, 1856;
- **100th Anniversary of the S. Bento Station –** programme of events commemorating three historical dates: 100th Anniversary of the Start of World War I, 160th Anniversary of the Train in Portugal and the 100th Anniversary of the S. Bento Station.

## RESOURCE MANAGEMENT

### Human Resources

The company closed 2016 with 2,708 effective staff members, i.e. an addition of 24 employees compared with the end of the previous year. Within the scope of the permanent staff rejuvenation strategy, 138 employees have been hired by the company, whereas 114 have left the company, mainly due to the termination of employment agreements by mutual consent.

The absenteeism rate is 6.97% and the overtime work rate is 13.3%, representing an increase compared with the previous year. The increase in absenteeism was due to an increase of sick leaves, as well as of absences due to occupational accidents. The variation of overtime work was essentially justified by the creation of special trains in order to strengthen supply, by inspection activities for the fight against fraud, and by the need of assigning several employees to give training within recruitment processes.

The Company maintained the investment in its employees during 2016, in particular through the development of a Training Cycle in the scope of traffic safety, regarding technical and regulatory improvements. The initial training to 124 new employees should also be noted.

### Fleet

As at the 31st of December, 2016, the total of CP's tractive and hauled stock was 798 units. Out of these units, 373 were active fleet, 333 were inoperable equipment and 92 were occasional equipment, such as the Historical Train, the rescue train, or were assigned to the National Railway Museum Foundation of Portugal.

The active fleet of rolling stock in commercial service had 189 electric railcars, 50 diesel railcars, 25 electric locomotives, 6 diesel locomotives and 103 carriages.

It should be noted that in the active fleet there are 20 diesel railcars, series 592 and 592.2, which are rented from RENFE.

## DEMAND AND SUPPLY

In 2016, 115 million passengers were transported by CP, corresponding to a 2.5% increase regarding 2015 and representing, in absolute terms, an increase of approximately 2.8 million transported passengers.

Such growth of demand was transversal to all CP services, such as the Long Distance Service, with a growth of 9.4% which exceeded 6 million passengers, and the Urban Service in Lisbon, with a 2% growth, which translates into an increase of 1.5 million passengers.

These results were influenced by, on one hand, various activities of fight against fraud and commercial nature and, on the other hand, the peaceful environment at work and the recovery of Portugal's economic indicators.

| Passengers (*$10^3$) | 2016 | 2015 | 2016-2015 | 2016 /2015 |
|---|---|---|---|---|
| Urban Service Lisbon | 77 375 | 75 865 | 1 511 | 2,0% |
| Urban Service Porto | 20 794 | 20 060 | 734 | 3,7% |
| Long-distance Service | 6 025 | 5 508 | 517 | 9,4% |
| Regional Service | 10 647 | 10 591 | 57 | 0,5% |
| **TOTAL** | **114 841** | **112 024** | **2 818** | **2,5%** |

In 2016, CP's supply, assessed in Trains*Kilometre, was 29,128 thousand Trains*Km, which is 1% higher than the previous year.

There were some adjustments to supply, such as the expansion of Alfa Pendular trains to Guimarães, the creation of non-stop trains between Coimbra and Porto Campanhã, and the extension of the service between Setúbal and Praias do Sado-A within the Sado Line.

It is also worth mentioning that 2016 was a leap year and that there were no strikes.

| Trains kilometre (*$10^3$) | 2016 | 2015 | 2016-2015 | 2016 /2015 |
|---|---|---|---|---|
| Urban Service Lisbon | 6 670 | 6 644 | 27 | 0,4% |
| Urban Service Porto | 4 604 | 4 565 | 39 | 0,9% |
| Long-distance Service | 8 593 | 8 534 | 59 | 0,7% |
| Regional Service | 9 260 | 9 091 | 169 | 1,9% |
| **TOTAL** | **29 128** | **28 834** | **294** | **1,0%** |

## PROFITS

Although there were no increases in tariff, profits from traffic exceeded 230 million Euros, representing an increase of almost 10 million Euros regarding the previous year (+4.4%).

Profits followed the growth trend of market demand, being influenced by the higher relative weight of occasional tickets and of the Long Distance Service.

| Profits Traffic (*$10^3$) | 2016 | 2015 | 2016-2015 | 2016 /2015 |
|---|---|---|---|---|
| Urban Service Lisbon | 78 396 | 75 058 | 3 338 | 4,4% |
| Urban Service Porto | 25 189 | 24 704 | 485 | 2,0% |
| Long-distance Service | 98 616 | 92 725 | 5 891 | 6,4% |
| Regional Service | 28 121 | 28 072 | 49 | 0,2% |
| **TOTAL** | **230 322** | **220 558** | **9 764** | **4,4%** |

## INVESTMENTS

In 2016, CP has invested a total of 12.2 million Euros, from which 79% were assigned for rolling stock and 11% for computerisation.

Taking the financial restrictions into account, the investment decisions were, as in the previous years, assessed in order to ensure essential interventions for guaranteeing safety and operability of rolling stock, systems, equipment and railway premises, or for concluding ongoing projects.

## RESULTS

| INCOME AND EXPENSES (amounts in thousands of Euros) | PERIODS | | Variation 2016/2015 | |
|---|---|---|---|---|
| | ACTUAL 31-12-2016 | ACTUAL 31-12-2015 | Amount | % |
| Provided sales and services | 239 243 | 241 783 | -2 540 | -1% |
| Provided sales and services Former CPCarga (Medway) | 5 776 | 16 821 | -11 045 | -66% |
| Operating allowances | 17 | | 17 | s/s |
| Other income | 26 757 | 30 886 | -4 129 | -13% |
| | 266 017 | 272 669 | -6 652 | -2% |
| Sold commodities and consumed materials costs | -5 460 | -5 985 | 526 | 9% |
| External services and supplies | -158 701 | -164 078 | 5 377 | 3% |
| Personnel expenses (w/o Compensations and agreement on variables) | -96 683 | -96 334 | -349 | 0% |
| Other expenses | -4 830 | -3 011 | -1 818 | -60% |
| | -265 674 | -269 408 | 3 735 | 1% |
| Operating result from transportation activity * (EBITDA) | 344 | 3 261 | -2 917 | -89% |
| Expenses/reversals of depreciation and amortisation | -55 362 | -58 882 | 3 521 | 6% |
| Impairment of depreciable/amortisable investments (losses/reversals) | 856 | 1 158 | -303 | -26% |
| Compensations for termination of employment | -2 689 | -2 423 | -266 | -11% |
| Agreement on variables | | -27 246 | 27 246 | 100% |
| Gains/losses attributed to subsidiaries, associated companies and joint ventures | 3 257 | -9 685 | 12 942 | 134% |
| Inventory impairment (losses/reversals) | -266 | -255 | -11 | -4% |
| Impairment of receivables (losses/reversals) | -290 | -31 254 | 30 964 | 99% |
| Provisions (increases/decreases) | -11 497 | 297 | -11 794 | -3973% |
| Impairment of non-depreciable and non-amortisable investments (losses/reversals) | 1 684 | -93 385 | 95 070 | 102% |
| Other income (reclassification by deferred taxes) | 11 025 | | 11 025 | s/s |
| Other income (movements transf assets CPCarga) | | 40 285 | -40 285 | -100% |
| Other income (recognition sale value CPCarga) | 1 634 | | 1 634 | s/s |
| Other income (invest. grants recognised in result of decommissioned material) | 276 | | 276 | s/s |
| Other income (sale of scrap) | | 906 | -906 | s/s |
| Other expenses (decommissioning Build. Terr. Paço - Order_10759-A/2016) | -1 998 | | -1 998 | s/s |
| Other expenses (other rolling stock decommissioning) | -2 596 | -383 | -2 213 | -577% |
| Operating result | -55 623 | -177 608 | 121 985 | 69% |
| Fair value increase/Decreases | 1 292 | 2 412 | -1 120 | -46% |
| Interest and similar income gained | 1 048 | 4 437 | -3 389 | -76% |
| Payable interest and similar expenses | -88 331 | -107 445 | 19 115 | 18% |
| Financial result | -85 991 | -100 597 | 14 606 | 15% |
| Result before taxation | -141 614 | -278 205 | 136 591 | 49% |
| Income tax of the period | -2 951 | -221 | -2 730 | s/s |
| Net result of the period | -144 565 | -278 426 | 133 861 | 48% |

* Before compensations for termination of employment, fair value, impairments, provisions, depreciations, financing expenses and taxes and other transactions unrelated to the company's activity.

CP's *Net Result* amounted to -144.6 million Euros, which translates into an improvement of 133.9 million Euros, comparing with the previous year (-278.4 million Euros).

This improvement was primarily due to the fact that there were no net negative impacts incurred in 2015 in the company's accounts, of approximately -85 million Euros, arising from the sale of CP Carga, from the recognition – also in 2015 – of additional personnel expenses of previous years, amounting to 27.2 million Euros, resulting from the agreement entered into with Organisations Representing Employees (ORT) on the inclusion of variable bonuses within the concept of remuneration used for the calculation of the holiday compensation and holiday allowance, and from the improvement of the financial result, of 14.6 million Euros, particularly resulting from the decrease in the company's financial Liabilities and financing interest rates.

It is also important to mention the negative impact on 2016's *Net Result*, amounting to 2.6 million Euros, due to the non-acceptance of CP's application to join the special scheme applicable to deferred tax assets.

Recurrent EBITDA remained positive at approximately 0.3 million Euros, and the growth in provided sales and services associated with passenger transport has partially offset the decrease in sales and services provided to former CP Carga (MEDWAY), following its privatisation.

By not considering the impact of the decrease in services provided to former CP Carga (MEDWAY) of approximately 11 million Euros, there would be an improvement in recurrent EBITDA of 8.1 million Euros (+60%) vis-à-vis the previous year.

The *Operating Result* in 2016 amounted to -55.6 million Euros, which translates into an improvement of 122 million Euros (+69%), comparing with the previous year.

Apart from the aforementioned reasons for the recurrent EBITDA, the following were the main factors which contributed to this situation:

- Decrease in *impairments of non-depreciable and non-amortisable investments* by 95.1 million Euros due to the net negative impacts incurred in 2015, arising from the adjustment of the value of the financial holding of CP in CP Carga by virtue of the conclusion of a reference agreement for the sale of the latter company;
- Decrease in *impairments of receivables* by 31 million Euros, mainly due to the recognition in 2015 of expected losses associated with the sale of credits, due to the conclusion of a reference sale agreement for the sale of CP Carga;
- No negative impacts on *personnel expenses* – recognised in 2015 – of previous years, amounting to 27.2 million Euros, resulting from the agreement entered into on the 22.04.2015 with Organisations Representing Employees (ORT) on the inclusion of variable bonuses within the concept of remuneration used for the calculation of the holiday compensation and holiday allowance;
- Increase in *gains / losses attributed to subsidiaries, associated companies and joint ventures* by 12.9 million Euros, considering the losses in CP Carga amounting approximately to 10.9 million Euros in 2015, which did not occur in 2016 due to the disposal of said company, and due to the fact that EMEF had positive results in 2016 of approximately 3.4 million Euros, thereby positively affecting CP's result through the application of the equity method;
- Decrease in the value of *depreciations* by 3.5 million Euros, mainly due to the transfer of locomotives to CP Carga in 2015, the decrease in investment in recent years and the end of the depreciation period of certain assets;
- Recognition of income amounting to 1.6 million Euros, concerning the sale of the former CP Carga (MEDWAY), through the settlement of an advance payment carried out in 2015, based on the estimated sale value;
- No positive impacts in 2015 in *Other Income and Gains* (transactions transfer of assets CP Carga), amounting to 40.3 million Euros, arising from the capital increase in kind made by CP in CP Carga, particularly the capital gains recognition from the transfer of locomotives to the latter company (+19.3 million Euros), and the recognition as income of all investment grants allocated to such material (+20.9 million Euros);
- Increase in *other expenses and losses* due to expenses with the decommissioning of rolling stock, of approximately 2.6 million Euros in 2016 (2.2 million Euros higher than the previous year), and resulting from the decommissioning of the Terreiro do Paço Terminal, amounting to 2 million Euros, due to the publication of order 10759-A/2016, from the Offices of the Deputy Secretary of State of Treasury and Finance and of the Deputy Secretary of State of Infrastructure;
- Decrease in income connected with the sale of scrap by 0.9 million Euros.

It is also worth mentioning that provisions, amounting to 11.5 million Euros in 2016, mainly as a result of the accounting reclassification of the amounts recognised in expenses into provisions, in order to tackle liabilities associated with occupational accidents pensions, due to the non-acceptance of CP's application to join the special scheme applicable to deferred tax assets. This reclassification positively affected the heading of *other income and gains (reclassification by deferred taxes)* in the same amount.

# EMEF

## EXECUTIVE SUMMARY

EMEF closed the 2016 financial year with a positive Net Result (3.5 million Euros, 2.1 million Euros higher than 2015) for the third year in a row. EBITDA (without indemnities) was also positive, at 5.4 million Euros (63% higher than the previous year).

In 2016 there was a substantial increase in services provided by EMEF. The 8% increase in turnover was accompanied with a 3% increase in the total average staff and a 9% increase in variable operating expenses (billable consumption and sub-agreements). Concerning the labour productivity in the Company, it sustained a 3% increase regarding the previous year, when measured by using the GVA per capita indicator.

## OPERATION

The services provided by EMEF remained characterised by a full maintenance supply of its Customers' fleets, comprising three main segments:

- Repair and modernisation of railway vehicles, their components and equipment, being a segment with predominant features of industrial production;
- Routine maintenance of rolling stock, with features of response targeted for the direct support to the railway operation of the operators, with service levels associated to each type of operation, such as availability and reliability;
- Reconditioning of rolling stock.

2016 was marked by the following events:

- **Start of the half-life intervention to Alfa Pendular Trains** (R1 CPA4000 Project) – The project started following prior approval by the Court of Auditors of the agreement entered into with CP for the half-life intervention of Alfa Pendular Trains. This large refurbishment endeavour, led by a project team exclusive thereto, with cooperation and integration of several sub-agreements for the various areas of intervention, shall grant a new life and a more modern image to Alfa Pendular trains, and shall increase passenger comfort.

- **Maintenance of the fleet of Porto Metro –** Following the addendum to the Sub-Concession Agreement entered into on the 31st of March, 2016, between Metro do Porto, S.A. and Prometro, the rendering of maintenance services to Rolling Stock of the Porto Metro fleet has been awarded to EMEF by the sub-dealer, for a 24-month term (until April 2018).

- **960,000 Km inspection of Eurotram vehicles of Metro do Porto –** Following prior approval by the Court of Auditors of the agreement of the 960,000 Km General Inspection of Eurotram vehicles of Metro do Porto, the agreement was executed on 2016.

- **Repair of rotables for Fertagus –** EMEF and Fertagus have reached an agreement on the general inspection and repair of components within the scope of R2 intervention of UQE3500 of the latter company's rolling stock fleet, specifically Brake Distributors, Brake Blocks, Main Compressor, Bogie Frame, Engine and Batteries.

- **Extension of the maintenance service agreement for SIMEF –** The maintenance service agreement entered into between EMEF and SIMEF has been extended for an additional 5-year term (until the 30th of April, 2026) in order to coincide with the new duration specified in the Agreement of Partial Assignment of Contractual Position and Amendment to the Maintenance Agreement entered into between CP, Medway and SIMEF.

- **Conversion of short-term debt into medium and long-term debt –** A debt payment agreement has been formalised with CP for a 9-year term, converting the granted loans – amounting to 13.5 million Euros – into a single medium and long-term loan agreement.

- **Reorganising the Entroncamento Workshop Yard –** In order to emphasise a business-oriented organisation, the areas for the maintenance and repair of goods and rotables of the remaining activities in the Entroncamento Workshop Yard have been made autonomous.

- **Visual identity and communication –** In order to modernise its communication image and to have a more commercial stance, EMEF changed its visual identity in 2016, by modernising its institutional image, specifically the external form of presentation and the uniformisation of internal communications, in order to render them more efficient.

- **Process SA.41727 – European Commission/DGComp: Alleged State Aids to EMEF –** The European Commission is investigating the Portuguese State due to alleged State aids to EMEF. The investigation commenced following a complaint filed by a third party, which initiated a formal procedure of thorough investigation on the 2nd of June, 2016. The investigation is on-going, with no final decision from the Commission, and EMEF is cooperating with the Portuguese State to show that there were no State aids which it deems to have not received.

In addition to its main activity, the Company has also ensured:

- The permanent prevention service for any emergency interventions involving rolling stock;
- Rescue operations in line, whenever necessary;
- Performing calibration tests in monitoring and measuring equipment, either for internal use, or for external customers;
- Performing tests on oil, lubricants and insulants in order to characterise their status, as well as the status of the equipment it lubricates, whether they are used in the maintenance performed by EMEF, or for external customers.

## Repair and Modernisation

This activity continued integrating the types of programmed repairs in the tractive and hauled stock of passengers (repairs type R), in the hauled stock of goods (safety repairs – RS and RSP) and in equipment (general repairs – RG and intermediate repairs – RI), other repairs due to unforeseen causes, accidents or vandalism on the railway vehicles (repairs due to malfunction - RAV and repairs due to accident - RAC) and, also, changes/modernisations in rolling stock in accordance with the specific request from the customers.

The R1 to CPA4000 was launched, and the CPA4009 started to be repaired on the 20/6/2016, an intervention which was ongoing by the end of the year under analysis. In parallel with R1 works, RAC were carried out to the BBS vehicle due to fire while in operation. It involved significant resources regarding inspections, large disassembly of interiors, frame and interior restoration, new electrical wirings, cabinets and switchboards, and final tests.

Within the scope of this segment, the following should also be noted:

- Consistency review to R2 of UME 3150/3250, mainly of interiors (interior panel painting, linings and seats, interior and exterior glass replacement) and technical studies;
- The carrying out of preparation works for the redesign of stainless steel carriages, Series 2240, and modernised 2$^{nd}$ class carriages similar to those currently in Inter-city operation;
- The redesign and approval by CP of the change in modernised 2$^{nd}$ class carriages for the transportation of bikes.

Regarding the repairs to tractive and hauled passenger stock of, 25 Rs to the fleet of the Customer, CP, have been completed throughout the year (15 in carriages, 4 in electric railcars, 2 in diesel locomotives and 3 in diesel railcars) and 4 LPs (3 to CPA 4000 and 1 to carriages). Regarding goods hauled stock, the repairs carried out to approximately 400 vehicles should be highlighted.

The repairing of rotables began on July 2016, within the scope of R2 intervention of Fertagus' UQE 3500.

General inspection works of vehicles at 960,000 km of the Metro do Porto Eurotram fleet began on December 2016.

As a whole, the repair segment allowed the Company to obtain, in 2016, income amounting to 28,089 thousand Euros, which corresponded to 44.6% of the amount of global income of the Company and an improvement of 1.1% regarding 2015.

## Maintenance

The goal of this activity has been centred in the compliance with the maintenance programmes set forth in the specific agreements of the fleet/market segment of each customer: CP, Medway, Metro do Porto and RENFE.

The provision of maintenance services of the 11 tank wagon fleet of ADP-Fertilizantes began in 2016 under the new agreement, encompassing the four functions of EU Regulation no. 445/2011.

At the same time, the service of seasonal maintenance to historical trains – a product of the customer, CP – continued being provided with a significant impact on its image.

As a whole, the maintenance segment allowed the Company to obtain, in 2016, income amounting to 34,474 thousand Euros, which corresponded to 54.7% of the amount of global income of the Company and an improvement of 12.5% regarding 2015.

## Reconditioning

In this component, the completion and inauguration of the project of reconstruction of the 0186 steam locomotive's boiler – with the alteration of coal-fired heating into diesel heating – should be highlighted. This reconditioning allowed the Company to obtain, in 2016, income amounting to 446 thousand Euros, which corresponded to 0.7% of the amount of global income of the Company.

## Engineering, innovation and development

With the purpose of allowing the dissemination of technical knowledge in EMEF, there was a continuation of the effort to make technical information available, thereby seeking to contribute to procedures' optimisation and uniformisation. The involvement of participants from EMEF's Engineering in several railway technical forums, as well as the frequency of several training technical courses, were essential actions towards the update and strengthening of knowledge on the railway sector held by the company's employees, which shall be disseminated throughout the organisation.

EMEF became part of the Portuguese Railway Platform in 2016, initially as an observer, however, the remaining partners have requested it to play a leading role in certain projects.

Throughout the year, many relevant reengineering works for the replacement of original materials by alternative materials have also been carried out, thereby allowing clear financial savings to be made and the shortening of supply deadlines.

Within the scope of Maintenance Management, the preparation/review of Maintenance Manuals should be highlighted, thereby promoting coordination between the intervening workshops and the Customer, as well as the involvement in the RCM analysis of 5600 locomotives, by an agreement entered into with SIMEF.

Concerning the nomenclature and standardisation field, there was an intervention on over 2500 nomenclatures, including the creation of 2000 new nomenclatures, which is double of those created in the preceding year. The assignment of this amount of new nomenclatures, mostly arising from the needs of large projects, such as the 960K intervention to Eurotram, and the R1 intervention to CPA4000, was only made possible by allocating means and reformulating working methods, as well as the commitment of all employees involved.

The Metallurgy, Welding and Non-Destructive Testing (NDT) sector monitored, defined and prepared several repair procedures, namely for the bogie frames and the repairs to aluminium frames.

The certification of welders was carried out and welding procedures were prepared, and Quality Procedures within the scope of welding have been assessed / prepared.

Lists of intervention materials have been drawn up, namely for Metro do Porto, as well as lists of repair materials for rotables and repair diagrams.

New developments were carried out in SAP, such as the Parameter tracking for wheels, Notes Status, loading of the field "Group of External goods" (PP / SE), loading of the field "Reference material for price" (traceable code / nomenclature code for the new part), creation of a type/feature to insert the Porto Metro code (001 - codigo_MP) and review of the PVUs report.

## Within the scope of internationalisation

In March, a proposal for the "Ciclo Largo" [Long Cycle] review of 136 boxes of series 3000 of Madrid Metro was submitted. The provision of such service was not granted to the company, however, this allowed it to widen contacts with said potential customer.

Following the proximity to the operator Irish Rail, EMEF took part in 3 tenders initiated by this Operator from the Republic of Ireland, throughout 2016. All tenders have a pre-qualification phase, and EMEF was not deemed qualified in two out of the three tenders. EMEF is awaiting the result of the pre-qualification phase for the couplings repair tender.

In late May, a consultancy proposal for the implementation of a Railway Rescue system in Mozambique (Nacala Line) was submitted to Mota-Engil, with the addition of a rescue equipment sales proposal, and no final decision has been obtained so far regarding such proposal.

On July, a proposal for the reconditioning of 5 “Italian carriages” was submitted to a Belgian customer, and EMEF has not been informed of the award decision so far.

## HUMAN RESOURCES

By the end of the 2016 financial year (31st of December), EMEF had 1048 staff members, which represents a 7% increase regarding the end of 2015 (979).

Absenteeism was at 8.96%, having sustained an increase of 0.15 p.p. regarding 2015. The main causes for absenteeism were disease and occupational accidents. Overtime work sustained an increase of 0.67 p.p. regarding 2015.

Within the scope of professional expertise development, EMEF achieved a balance between internal and external training. 1,188 trainees have participated in the training sessions, and the hours of training have amounted to 23,388.

## PROFITS

In 2016, EMEF’s Turnover has registered a growth of approximately 7.7% regarding 2015.

In terms of turnover developments per customer, CP, MEDWAY and Metro do Porto remain to be the company’s most important customers. As a whole, such customers make up 91.6% of the company’s sales and service provisions.

| Customer | Value in € 2016 | Value in € 2015 | % |
|---|---|---|---|
| CP | 38 907 474 | 36 870 983 | 62% |
| MEDWAY | 13 144 619 | 11 846 208 | 21% |
| BOMBARDIER/PROMETRO/METRO DO PORTO | 5 707 789 | 4 604 579 | 9% |
| EMEF / SIEMENS ACE | 3 192 511 | 3 144 506 | 5% |
| RENFE | 500 444 | 952 324 | 1% |
| INFRAESTRUTURAS DE PORTUGAL | 1 187 354 | 656 202 | 2% |
| Other | 404 617 | 487 428 | 1% |
| Total | 63 044 806 | 58 562 230 | |

In 2016, the maintenance segment had a slightly larger significance than the repair segment, and there was a positive development on both activity segments vis-à-vis 2015.

| Activity Segment (Amounts in €) | 2016 | 2015 | Variation | |
|---|---|---|---|---|
| | | | Amount | % |
| Repair* | 28 089 448 | 27 770 135 | 319 313 | 1% |
| Maintenance* | 34 474 099 | 30 639 052 | 3 835 047 | 13% |
| Reconditioning* | 445 598 | 0 | 445 598 | 0% |
| TOTAL | 63 009 145 | 58 409 187 | 4 599 958 | 8% |

* Sales + Provided Services + Changes in production inventories

## INVESTMENTS

By continuing with an investment containment policy, the investments made were limited to equipment which is strictly necessary for pursuing the company's activity, approximately amounting to 658 thousand Euros in the period of 2016 (65% higher than 2015). The works undertaken in the company's premises and the SAP/ERP software update should be highlighted.

## RESULTS

| INCOME AND EXPENSES | PERIODS | | Variation | |
|---|---|---|---|---|
| | 31/12/2016 | 31/12/2015 | Amount | % |
| Provided sales and services | 63 044 806 | 58 562 230 | 4 482 576 | 8% |
| Operating allowances | 0 | 6 649 | -6 649 | -100% |
| Gain/losses attribued to subsidiaries, associated companies and joint ventures | 426 394 | 453 565 | -27 171 | -6% |
| Changes in production inventories | -35 661 | -153 043 | 117 382 | 77% |
| Capitalised production costs | 0 | 1 140 | -1 140 | -100% |
| Sold commodities and consumed materials costs | -17 827 250 | -16 396 296 | -1 430 953 | -9% |
| External services and supplies | -15 529 870 | -13 718 177 | -1 811 693 | -13% |
| Personnel expenses | -25 495 239 | -25 314 167 | -181 072 | -1% |
| Inventory impairment (losses/reversals) | -59 398 | -418 132 | 358 734 | 86% |
| Impairment of receivables (losses/reversals) | -33 514 | -7 225 | -26 289 | -364% |
| Provisions (increases/decreases) | 30 247 | 184 733 | -154 487 | -84% |
| Other income and gains | 2 730 503 | 1 209 395 | 1 521 108 | 126% |
| Other expenses and losses | -1 846 790 | -1 087 628 | -759 162 | -70% |
| **Result before depreciations, financing expenses and taxes** | **5 404 228** | **3 323 044** | **2 081 184** | **63%** |
| Expenses/reversals of depreciation and amortisation | -1 020 879 | -1 114 171 | 93 292 | 8% |
| **Operating result (before financing expenses and taxes)** | **4 383 350** | **2 208 873** | **2 174 476** | **98%** |
| Payable interest and similar expenses | -476 845 | -707 923 | 231 077 | 33% |
| **Result before taxes** | **3 906 504** | **1 500 951** | **2 405 554** | **160%** |
| Income tax of the period | -406 577 | -122 900 | -283 677 | -231% |
| **Net result of the period** | **3 499 927** | **1 378 050** | **2 121 877** | **154%** |

In 2016, EMEF obtained a positive Operating Result, of 4,383 thousand Euros, which translates into an increase amounting to 2,174 thousand Euros regarding the preceding year (+98%). This development is explained by the increase in the company's operating income, although it is partially offset by the increase in operating expenses.

The increase in operating expenses is directly associated with the increase in the activity. The more significant increases were noted in the following headings:

- Sold Commodities and Consumed Materials Costs (+1.4 million Euros);
- Other External Services and Supplies (+1.3 million Euros).

The decrease in the item of Interest and Similar Expenses incurred with funding was mainly caused by the decrease in indebtedness, particularly concerning the use of current accounts' ceilings, as well as the decrease in the reference interest rates and spreads charged by the funders.

# FERNAVE

## EXECUTIVE SUMMARY

2016 was a year of consolidation and growth of Fernave's activity in the market, wherefore important steps have been taken for the fulfilment of strategic objectives that were laid down, particularly concerning the increase of the activity and its economic and financial sustainability.

By mobilising internal expertise of its Business Units, Fernave has developed new projects in partnership with consultants / teachers and external partners, reinforcing its expertise in order to offer a value creating response for its Customers, and promoting new approaches in new markets.

In 2016, Fernave's Operating Result improved approximately 113%, at 44.9 thousand Euros. Similarly, despite being negative, its Net Result recovered approximately by 88%. This variation was mainly due to the exponential increase in profits (102%) and a decrease in Personnel Expenses.

The impairment accounted for in 2016 should also be noted – which had an impact on the Results – regarding the affiliate company Transcom, amounting to negative 111.1 thousand Euros due to the decrease in the value of the metical against the euro.

## OPERATION

### Training

Similarly to the previous year, there was a growth in the number of training hours (+73%), corresponding to a total of 183,388 training hours (+116.5%), despite the decrease in the amount of training sessions performed, considering that some were "long-term" training sessions, such as initial training courses: Initial Training Course of Train Drivers for the Market, Initial Training Course of Inspection and Sales Operators, Initial Training Course of Commercial Assistant and Course of Process Operator.

CP accounted for 63% of training hours, an increase of 112% regarding 2015.

There was a higher volume of training hours in the Traction (51.5%) and Operations and Fixed Premises Management (34.8%) sectors.

Globally speaking, the profits generated by the Training Unit have increased, reaching 1,608 thousand Euros, which represents approximately 92% of the company's total revenue, translating into a 125% decrease regarding the previous financial year.

### Psychological Assessment

The amount of selection and psychological assessment examinations increased by 37%, having the activity of the Customer Shareholder greatly contributed thereto, considering the performed recruitment process.

However, similarly to the previous year, Other Customers remained to have the largest significance in the Customers' structure, of 64% (ascertained through the amount of examinations performed).

### Consultancy

Throughout 2016, the consultancy activity covered projects for external Customers, as well as internal projects (supporting the company's activity and operation).

In this context, three external consultancy projects were active, translating into a decrease of approximately 63% regarding the previous year.

## RESOURCE MANAGEMENT

### Human Resources

The Company has reduced its permanent staff by 28% vis-à-vis 2015. Comparing with 2010 – when it employed 58 employees – such reduction was 60%. By the end of the 2016 financial year (31st of December), Fernave had 20 staff members on duty.

Out of the 20 permanent employees of the Company, 5 are under an assignment scheme, 4 of which belong to CP and 1 to IP.

The absenteeism rate was at 10.3% due to the significant number of long-term sick leaves.

In the 2016 financial year, there was record of one occupational accident.

### Material and technological resources

Within the scope of its core intervention – training –, the Company fulfils a set of requirements regarding teaching materials and equipment. Similarly, the recruitment and psychology activities also rely on specific equipment and software.

## PROFITS

Globally speaking, there was a 102% increase in the value of services provision. Such increase occurred in all business areas, with the exception of the consultancy sector.

| Profits | 2016 | 2015 | Variation | |
|---|---|---|---|---|
| | | | Amount | % |
| Training | 1 607 508 | 713 325 | 894 183 | 125% |
| Psychology | 67 881 | 43 441 | 24 440 | 56% |
| Consultancy | 66 901 | 107 245 | -40 344 | -38% |
| Other Services | 960 | 600 | 360 | 60% |
| TOTAL | 1 743 250 | 864 610 | 878 640 | 102% |

## RESULTS

| INCOME AND EXPENSES | PERIODS | | Variation | |
|---|---|---|---|---|
| | 31/12/2016 | 31/12/2015 | Amount | % |
| Provided sales and services | 1 743 250 | 864 610 | 878 640 | 102% |
| External services and supplies | -733 088 | -499 790 | -233 298 | -47% |
| Personnel expenses | -805 534 | -948 819 | 143 285 | 15% |
| Impairment of receivables (losses/reversals) | 7 506 | -15 252 | 22 758 | 149% |
| Impairment of non-depreciable and non-amortisable investments (losses/reversal | -111 101 | 19 820 | -130 921 | -661% |
| Other income and gains | 9 452 | 299 355 | -289 903 | -97% |
| Other expenses and losses | -36 370 | -26 438 | -9 932 | -38% |
| Result before depreciations, financing expenses and taxes | 74 115 | -306 514 | 380 629 | 124% |
| Expenses/reversals of depreciation and amortisation | -24 217 | -88 415 | 64 198 | 73% |
| Operating result (before financing expenses and taxes) | 49 898 | -394 929 | 444 827 | 113% |
| Interest and similar income gained | | 2 218 | -2 218 | -100% |
| Payable interest and similar expenses | -96 738 | -87 576 | -9 162 | -10% |
| Result before taxes | -46 840 | -480 287 | 433 447 | 90% |
| Income tax of the period | -11 734 | -3 434 | -8 300 | -242% |
| Net result of the period | -58 574 | -483 721 | 425 147 | 88% |

EBITDA was positive at 74 thousand Euros, thereby representing a 124% increase regarding 2015.

The coverage ratio of the main operating expenses headings (External Services and Supplies + Personnel Expenses) by the turnover was at 113%, translating into a 90 % increase regarding 2015 (60%).

There was still a decrease in certain headings of Supplies and Services rendered by third parties, specifically in headings not associated with the activity. The general increase in External Services and Supplies was due to the increase in the sub-agreements heading, which relies on the company’s activity.

The Personnel Expenses heading sustained a 15% decrease due to the assignment of certain staff members to the shareholder and the retirement of 2 staff members, who have not been replaced.

The decrease in the value of amortisations is due to the fact that the values of the Lisbon and Porto buildings that have been disposed to the shareholder in late 2015 are no longer included in this heading.

The shareholder's funding amounted to 2.6 million Euros by the end of the year, an amount similar to that of 2015. The medium financing cost for the year was higher than that of 2015 due to the increase in the spread rate associated with loans, from 3% to 4%.

# ECOSAÚDE

## EXECUTIVE SUMMARY

In 2016, ECOSAÚDE achieved a positive EBITDA, Operating Result and Net Result of the financial year for the second time in a row.

This factor was preceded by a corporate restructuring process started in 2009. Through this process, the company has gradually rationalised its structure of operating expenses, has reduced its permanent staff and, simultaneously, has optimised its operational efficiency.

Along with this restructuring process, the facilities in the two main regional hubs of the company were also renewed: Lisbon and Porto, which allowed for a better quality in the provided services.

It is additionally noted that, in 2016, the company has once again sustained a slight growth in turnover, with +1% compared to the previous year.

The level of activity sustained a slight decrease (-2% compared with 2015), however, if compared with 2014's activity, was higher by 9%.

In spite of a positive economic performance in 2016, it should be noted that, in April, ECOSAÚDE lost its second largest customer in the field of Occupational Health (INFRAESTRUTURAS DE PORTUGAL GROUP), and, in late December, its second largest customer in the field of Occupational Safety (MEDWAY).

Both customers have initiated tendering procedures, with award at the best price. ECOSAÚDE was not able to be granted such procedures, given the unfavourable competitive environment, with a price war based on pricing models on marginal costs, which is not sustainable.

## OPERATION

ECOSAÚDE carries out its activity in several domains, which, as a whole and in an integrated manner, contribute for the improvement of working conditions, well-being and, as a result, the increase in the companies' productivity in the medium and long-term.

### Occupational Health

Through the monitoring and supervision of the Occupational Medicine Specialist Physicians, Occupational Nurses and other Healthcare Workers, Ecosaúde establishes risk prevention measures for the worker's health, as well as measures for occupational disease mitigation.

In 2016, 12,642 medical interventions were carried out, -5% than in the same period in the previous year, but +9% compared to 2014.

### Occupational Safety

The occupational safety auditing and safety consultancy activities enable the Customers to improve working conditions, as well as to prevent occupational accidents and incidents, by mitigating the negative human and material consequences of such events.

In 2016, 1,395 interventions were carried out within the scope of this subject, which represents an increase in the level of activity of approximately 6%, compared with the preceding year.

### Prevention and Control of Addictions

With the inhibition of the negative influence of alcohol and drug consumption in the workplace, and supporting the assistance to workers affected by excessive consumptions of these substances as main objectives, 12,062 control interventions were carried out throughout 2016, -12% compared to 2015, due to the loss of one large Customer (IP Group) in April 2016.

### Accident Management

Within the scope of Accident Management, 1,051 medical interventions concerning the monitoring and treatment of occupational accidents, as well as accidents involving passengers, have been performed.

Within the scope of CP's Railway Emergency Plans, the company also has an Emergency Department on a prevention and on-call basis, with a set of healthcare and safety professionals providing assistance and information services to passengers.

Throughout 2016, the Emergency Department was active twice: once in Spain and once in Santarém.

### Medical Specialties

In order to complement the occupational health activity, the company supports organisations and their employees by providing healthcare services in several medical specialties, by creating the conditions for preventing, detecting and treating each event.

In 2016, 3,818 specialty appointments were conducted, as well as 70 nursing treatments and 1,797 physical therapy treatments.

### Training

The training activity within the Health and Safety fields aims to stimulate the health and safety culture, as well as to develop working conditions. In this regard, Ecosaúde provides inter-companies training services within the scope of the subject matters and contents which are common to all the organisations and business sectors. Ecosaúde further provides intra-company training in line with the specific needs of each organisation.

Throughout 2016, 93 Training sessions were carried out, with a total of 13,170 training hours, provided to a total of 1,059 Trainees.

## Summary of the Activity

| Activity indicators | Year 2016 | Year 2015 | Year 2014 | Year 2013 |
|---|---|---|---|---|
| Occupational health (medical interventions) | 12 642 | 13 289 | 11 602 | 11 324 |
| Occupational safety (working conditions interventions) | 1 395 | 1 310 | 1 335 | 1 235 |
| Prevention and control of addictions (tests conducted in workplaces) | 12 062 | 13 650 | 12 410 | 11 647 |
| Medical and nursing specialties | 3 888 | 4 171 | 4 410 | 4 761 |
| Accidents management (appointments and treatments of OAs) | 1 051 | 1 076 | 1 123 | 1 152 |
| Training - Amount of training hours | 13 169 | 5 905 | 6 883 | 5 123 |
| Training - no. of training sessions | 93 | 57 | 74 | 73 |
| Training - no. of trainees | 1 059 | 635 | 758 | 698 |
| **Activity index (weighted parcelled level by weight in Turnover, 2013 basis)** | **111** | **114** | **103** | **100** |
| Growth rate of the activity index | -2% | 11% | 3% | |

## HUMAN RESOURCES

The company has 21 permanent employees (20 under an open-ended employment agreement and 1 under a fixed-term employment agreement) as well as 60 highly qualified service providers.

Throughout 2016, ECOSAÚDE reduced its effective staff by 9% by way of a termination of employment process by mutual consent.

The absenteeism rate was 6.1% and the overtime work rate was almost non-existent, at 0.2%. Absenteeism sustained an increase due to a rise in sick leaves. Overtime work occurred due to missions without overnight accommodation of safety technicians for audits carried out to Customers.

## RESULTS

| INCOME AND EXPENSES | PERIODS | | Variation | |
|---|---|---|---|---|
| | 31/12/2016 | 31/12/2015 | Amount | % |
| Provided sales and services | 2 134 589 | 2 123 367 | 11 222 | 1% |
| External services and supplies | -1 339 419 | -1 264 496 | -74 923 | -6% |
| Personnel expenses | -698 128 | -714 534 | 16 406 | 2% |
| Impairment of receivables (losses/reversals) | -8 928 | -9 631 | 703 | 7% |
| Provisions (increases/decreases) | 0 | 0 | 0 | |
| Other income and gains | 40 826 | 840 | 39 986 | 4760% |
| Other expenses and losses | -21 646 | -29 563 | 7 917 | 27% |
| Results before depreciations, financing expenses and taxes | 107 294 | 105 983 | 1 311 | 1% |
| Expenses/reversals of depreciation and amortisation | -79 595 | -77 711 | -1 884 | -2% |
| Operating result (before financing expenses and taxes) | 27 699 | 28 272 | -573 | -2% |
| Payable interest and similar expenses | -15 275 | -16 461 | 1 186 | 7% |
| Result before taxes | 12 424 | 11 811 | 613 | 5% |
| Income tax of the financial year | -8 059 | -7 738 | -321 | -4% |
| Net Result of the Period | 4 365 | 4 073 | 292 | 7% |

Ecosaúde continued the previous year's trend in 2016. It accounted for a 1% increase in the Volume of Services Provided, a positive EBITDA amounting to 107 thousand Euros, a positive Operating Result amounting to 28 thousand Euros and a positive Net Result amounting to 4 thousand Euros.

Concerning the monitoring of the implementation of the budget, the headings have been implemented according to plan.

Throughout 2016, similarly to what had already happened in 2014 and 2015, the company was autonomous, self-sufficient and did not need additional financial support from third parties.

# SAROS

## EXECUTIVE SUMMARY

In 2016, the company accounted for a 3% growth in Provided Sales and Services and a positive EBITDA amounting to 483 thousand Euros, an amount similar to that of the previous year.

The Net Result was positive at 395 thousand Euros, which translates into an upward variation of 2% vis-à-vis 2015.

## OPERATION

The company exclusively carries out the insurance mediation activity, which is its corporate purpose, whose financial year is governed by Decree-Law no. 144/2006, of the 31st of July.

SAROS's Insurance Portfolio is nearly fully composed of insurance policies of the companies of the CP Group.

The company is entitled to remuneration (commissions) for its mediation services, which is paid by the Insurers, pursuant to the Mediation Agreement entered into with each Insurer.

## HUMAN RESOURCES

The company carried out its activity with the current functioning ensured only by Management.

Management is composed of two Managers, as follows:

- One member of CP's Board of Directors;
- One Manager responsible for the insurance mediation activity, complying with the legal requirements that apply to the company's activity[3].

## PROVIDED SALES AND SERVICES

In 2016, the Sales and Services provided by SAROS amounted to 463 thousand Euros, which translates into a 3% increase vis-à-vis the preceding year (449 thousand Euros).

It should be noted that, in 2016, this heading includes "Mediation commissions", totalling 458 thousand Euros and two insurance premium settlements of the Insurer Fidelidade, amounting to 5 thousand Euros.

The following table shows the commissions obtained per Insurance Branch:

[3] As an insurance mediation company, one of the Managers is legally required to be an insurance intermediary.

| Branches | 2016 | 2015 | Variation | |
|---|---|---|---|---|
| | | | Amount | % |
| Health | 203 | 189 | 14 | 8% |
| Work Accidents | 162 | 153 | 9 | 6% |
| Civil Liability | 66 | 75 | -9 | -12% |
| Multi-Risk Companies | 19 | 21 | -2 | -10% |
| Other | 8 | 11 | -3 | -29% |
| TOTAL | 458 | 449 | 9 | |

As a whole, the Health, Work Accidents and Civil Liability Branches make up 94% of the commissions obtained in 2016.

Concerning the commissions obtained per Insurer, Fidelidade and Mapfre Insurers have jointly represented 99% of the commissions received by SAROS.

## RESULTS

| INCOME AND EXPENSES | PERIODS | | Variation | |
|---|---|---|---|---|
| | 31/12/2016 | 31-12-2015 (Restated) | Amount | % |
| Provided sales and services | 463 348 | 449 075 | 14 273 | 3% |
| External services and supplies | -9 143 | -9 452 | 309 | 3% |
| Personnel expenses | -50 854 | -48 679 | -2 175 | -4% |
| Other Income | 89 961 | 103 001 | -13 040 | -13% |
| Other Expenses | -10 180 | -10 798 | 618 | 6% |
| Results before depreciations, financing expenses and taxes | 483 132 | 483 147 | -15 | 0,0% |
| Expenses/reversals of depreciations and amortisation | 0 | 0 | 0 | 0% |
| Operating result (before financing expenses and taxes) | 483 132 | 483 147 | -15 | 0% |
| Interest and similar income gained | 295 | 162 | 133 | 82% |
| Result before taxes | 483 427 | 483 309 | 118 | 0% |
| Income tax of the financial year | -88 803 | -94 715 | 5 912 | 6% |
| Net result of the period | 394 624 | 388 594 | 6 030 | 2% |

In 2016, the company's Net Result amounted to 395 thousand Euros, which translates into an upward variation of 2% vis-à-vis the previous year.

The positive contribution on the "Provided Sales and Services" heading, with a positive 3% variation regarding the previous year, as well as on the "External Services and Supplies" heading, which decreased by 3% compared with 2015. "Personnel Expenses" have increased by 4% due to the partial reversal of salary decreases applied in previous financial years.

It should be noted that the company retrospectively changed the estimate of previous periods, specifically concerning the recognition of the tax estimate, which led to the need of restatement of the 2015 financial statements for the purpose of comparison with 2016.

# FINANCIAL AND ECONOMIC ANALYSIS

## RESULTS OF THE CP GROUP – DEVELOPMENT COMPARED TO THE PREVIOUS YEAR

(amounts in thousands of Euros)

| INCOME AND EXPENSES | PERIODS | | Variation 2016/2015 | |
|---|---|---|---|---|
| | ACTUAL 31-12-2016 | ACTUAL 31-12-2015 | Amount | % |
| Provided sales and services | 266 219 | 264 545 | 1 674 | 1% |
| Provided sales and services Former CPCarga/Medway | 5 776 | 16 821 | -11 045 | -66% |
| Operating allowances | 17 | 7 | 10 | s/s |
| Capitalised production costs | 8 335 | 7 310 | 1 025 | 14% |
| Other income | 23 202 | 27 721 | -4 519 | -16% |
| | 297 772 | 299 583 | -1 811 | -1% |
| Changes in production inventories | -36 | -122 | 86 | 71% |
| Sold commodities and consumed materials costs | -23 287 | -22 381 | -906 | -4% |
| External services and supplies | -141 321 | -145 124 | 3 803 | 3% |
| Personnel expenses (w/o Compensations and agreement on variables) | -121 680 | -121 030 | -650 | -1% |
| Other expenses | -4 738 | -3 934 | -804 | -20% |
| | -291 063 | -292 591 | 1 529 | 1% |
| **Operating result of the core activity* (EBITDA)** | **6 710** | **6 992** | **-282** | **-4%** |
| Expenses/reversals of depreciation and amortisation | -56 487 | -60 163 | 3 676 | 6% |
| Impairment of depreciable and amortisable investments (losses/reversals) | 856 | 1 158 | -303 | -26% |
| Compensations for termination of employment | -3 094 | -2 678 | -416 | -16% |
| Agreement on variables | | -27 246 | 27 246 | 100% |
| Gains/losses attributed to subsidiaries, associated companies and joint ventures | 510 | -11 168 | 11 678 | 105% |
| Inventory impairment (losses/reversals) | -326 | -673 | 348 | 52% |
| Impairment of receivables (losses/reversals) | -325 | -31 286 | 30 961 | 99% |
| Provisions (increases/decreases) | -11 344 | 893 | -12 237 | -1371% |
| Impairment of non-depreciable and non-amortisable investments (losses/reversals) | 1 573 | -93 365 | 94 939 | 102% |
| Other income (reclassification by deferred taxes) | 11 025 | | 11 025 | s/s |
| Other income (movements transf assets Former CPCarga) | | 40 285 | -40 285 | -100% |
| Other income (recognition sale value Former CPCarga) | 1 634 | | 1 634 | s/s |
| Other income (subs invest. reconhecidos em resultado de material abatido) | 276 | | 276 | s/s |
| Other income (sale of scrap) | | 906 | -906 | s/s |
| Other expenses (decommissioning Build. Terr. Paço - Order_10759-A/2016) | -1 998 | | -1 998 | s/s |
| Other expenses (other rolling stock decommissioning) | -2 596 | -383 | -2 213 | -577% |
| **Operating result** | **-53 587** | **-176 731** | **123 144** | **70%** |
| Fair value increase/decreases | 1 292 | 2 412 | -1 120 | -46% |
| Interest and similar income gained | 180 | 3 652 | -3 472 | -95% |
| Payable interest and similar expenses | -88 418 | -107 629 | 19 211 | 18% |
| **Financial result** | **-86 947** | **-101 566** | **14 619** | **14%** |
| **Result before taxes** | **-140 534** | **-278 296** | **137 763** | **50%** |
| Income tax of the period | -3 466 | -361 | -3 105 | s/s |
| **Net result of the period** | **-144 000** | **-278 657** | **134 658** | **48%** |

| | | | | |
|---|---|---|---|---|
| **OPERATING RESULT OF THE PASSENGER TRANSPORTATION ACTIVITY (EBITDA)** | 6 710 | 6 992 | -282 | -4% |
| Compensations for termination of employment | -3 094 | -2 678 | -416 | s/s |
| Agreement on variables | | -27 246 | 27 246 | 100% |
| Applying the EM, fair value, impairment, provisions, deferred taxes and other non-core | -1 571 | -94 793 | 93 222 | 98% |
| Depreciations/impairment of depreciable investments | -55 631 | -59 005 | 3 374 | 6% |
| **OPERATING RESULT** | -53 587 | -176 731 | 123 144 | 70% |
| **FINANCIAL RESULT** | -86 947 | -101 566 | 14 619 | 14% |
| **NET RESULT** | -144 000 | -278 657 | 134 658 | 48% |

* Before compensations for termination of employment, fair value, impairments, provisions, depreciations, financing expenses and taxes and other transactions unrelated to the company's activity.

## NET RESULT

The Net Result in 2016 amounted to -144 million Euros, which translates into an improvement of 134.7 million Euros, comparing with the previous year (-278.7 million Euros).

This improvement was primarily due to the fact that there were no net negative impacts incurred in 2015 in the Group's accounts, of approximately -85 million Euros, arising from the sale of CP Carga, from the recognition – also in 2015 – of additional personnel expenses of previous years, amounting to 27.2 million Euros, resulting from the agreement entered into with Organisations Representing Employees (ORT) on the inclusion of variable bonuses within the concept of remuneration used for the calculation of the holiday compensation and holiday allowance, and from the improvement of the financial result, of 14.6 million Euros, particularly resulting from the decrease in historical debt.

## OPERATING RESULT OF THE TRANSPORT ACTIVITY (EBITDA)

The Group's recurrent EBITDA in 2016 was positive at 6.7 million Euros, which is lower than that of 2015, by 0.3 million Euros (4%). The headings with the most significant changes are as follows:

- Decrease in *other income and gains* by 4.5 million Euros, mainly due to the fact that the energy consumptions of former CP Carga (Medway) are no longer invoiced to CP as of June 2016, within the scope of the agreement renegotiation, with the resulting cessation of re-invoicing thereto;
- Increase in personnel expenses (without indemnities and agreement on variables) by 0.7 million Euros, mainly due to additional reversals – in 2016 – of the temporary pay cuts, whereby the pay cuts have reached 100% in remunerations paid from October 1st;
- Increase in other expenses by 0.8 million Euros, mainly due to the correction of expenses from previous financial years;
- Increase in *Provided sales and services* by 1.7 million Euros, mainly arising from the growth in the provision of passenger transportation services of approximately 10 million Euros vis-à-vis the previous year, as well as the significant increase in the activity carried out in the rolling stock maintenance business sector, with a growth amounting to 4.5 million Euros. However, there was a significant decrease in invoicing regarding rolling stock leasing, by virtue of the transfer of rolling stock to CP Carga in 2015;
- Decrease in external services and supplies by approximately 3.8 million Euros, mainly influenced by the decrease in expenses regarding maintenance and repair of rolling stock, specifically with regard to the maintenance agreement entered into with SIMEF, due to the transfer of rolling stock to CP Carga in 2015, and the expenses with traction electricity, following the execution of the agreement establishing that the invoicing from the energy supplier was made directly to former CP Carga (Medway).

## OPERATING RESULT

The *Operating Result* in 2016 amounted to -53.6 million Euros, which translates into an improvement of 123.1 million Euros comparing with the previous year. Apart from the aforementioned reasons for the EBITDA, the following were the main factors which contributed to this situation:

- Decrease in *impairments of non-depreciable and non-amortisable investments* by 94.9 million Euros due to the net negative impacts incurred in 2015 in the Group's accounts, arising from the adjustment of the value of the financial holding of CP in CP Carga by virtue of the conclusion of a reference agreement for the sale of the latter company;
- Decrease in *impairments of receivables* by 31 million Euros, mainly due to the recognition in 2015 of expected losses associated with the sale of credits, arising from the conclusion of a reference sale agreement for the sale of CP Carga;
- No negative impacts on personnel expenses – recognised in 2015 – of previous years, amounting to 27.2 million Euros, resulting from the agreement entered into on the 22.04.2015 with Organisations Representing Employees (ORT) on the inclusion of variable bonuses within the concept of remuneration used for the calculation of the holiday compensation and holiday allowance;
- Increase in *gains attributed to subsidiaries, associated companies and joint ventures* by 11.7 million Euros, considering the losses in CP Carga amounting approximately to 10.9 million Euros in 2015;
- Decrease in the value of *depreciations* by 3.7 million Euros vis-à-vis 2015, mainly due to the transfer of rolling stock to CP Carga in 2015, the decrease in investment carried out in recent years and the end of the depreciation period of the assets;
- Recognition of income amounting to 1.6 million Euros, concerning the sale of the former CP Carga (*Medway)*, through the settlement of an advance payment carried out in 2015, based on the estimated sale value;
- No positive impacts in 2015 in *Other Income and Gains* (*transactions transfer of assets CP Carga*), amounting to 40.3 million Euros, arising from the capital increase in kind made by CP in CP Carga, particularly the capital gains recognition from the transfer of locomotives to the latter company (+19.3 million Euros), and the recognition as income of all investment grants allocated to such material (+20.9 million Euros);
- Increase in expenses with the decommissioning of rolling stock, amounting approximately to 2.2 million Euros;
- Increase in *other expenses and losses* by approximately 2 million Euros, resulting from the decommissioning of the Terreiro do Paço Terminal, due to the publication of order 10759-A/2016, from the Offices of the Deputy Secretary of State of Treasury and Finance and of the Deputy Secretary of State of Infrastructure;
- Decrease in *income connected with the sale of scrap* by 0.9 million Euros.

Provisions are also worth mentioning, amounting to 11.3 million Euros in 2016, mainly as a result of the accounting reclassification of the amounts recognised in expenses to provisions, in order to tackle liabilities associated with occupational accidents pensions, due to the non-acceptance of CP's application to join the special scheme applicable to deferred tax assets. This reclassification positively affected the heading of other income and gains (reclassification by deferred taxes) in the same amount.

## FINANCIAL RESULT

The *Financial Result* of 2016 had an improvement of 14.6 million Euros compared with 2015, due to the reduction of the financial debt of the CP Group, as well as the generalised decrease of the financing interest rates.

Despite this improvement, there was a decrease in the positive impact of the variations in fair value of derivatives by 1.1 million Euros, as a result of the termination of the derivatives agreements held by the Group.

# BALANCE SHEET

(amounts in thousands of Euros)

| HEADINGS | PERIODS | | Variation 2016/2015 | |
|---|---|---|---|---|
| | 31/12/2016 | 31/12/2015 | Amount | % |
| **ASSET** | | | | |
| Non-Current Asset | 571 583 | 618 151 | -46 567 | -8% |
| Current Asset | 96 110 | 107 455 | -11 345 | -11% |
| **Total Asset** | 667 693 | 725 606 | -57 913 | -8% |
| **EQUITY AND LIABILITY** | | | | |
| Equity including: | -2 651 383 | -3 162 144 | 510 761 | 16% |
| Net Result of the period | -144 000 | -278 657 | 134 658 | 48% |
| **Total Equity** | -2 651 383 | -3 162 144 | 510 761 | 16% |
| **LIABILITY** | | | | |
| Non-Current Liability | 2 640 638 | 3 065 444 | -424 806 | -14% |
| Current Liability | 678 438 | 822 306 | -143 868 | -17% |
| **Total Liability** | 3 319 077 | 3 887 750 | -568 673 | -15% |
| **Total Equity + Liability** | 667 693 | 725 606 | -57 913 | -8% |

## ASSETS

In 2016, the assets of the CP Group have sustained a decrease of 57.9 million Euros, whereby the following impacts are the most significant:

- Decrease in *fixed tangible assets* by 44.2 million Euros, mainly resulting from the fact that the depreciations were not offset by a new investment. The decommissioning of rolling stock and other fixed tangible assets is also worth mentioning, such as the Terreiro do Paço Terminal in the total net amount of 4.6 million Euros;
- Decrease in *deferred tax assets* by 2.6 million Euros due to the non-acceptance of CP's application to join the special scheme applicable to deferred tax assets;
- Increase in *inventories* by 4.6 million Euros, in the business segment of maintenance of rolling stock with the purpose of ensuring the carrying out of the scheduled interventions;
- Decrease of balance of *customers and other accounts receivable* by 15.7 million Euros, mainly due to the decrease in debts of the former CP Carga (Medway);
- Decrease in *non-current assets held for sale* by 2.6 million Euros, particularly resulting from the decommissioning of the Terreiro do Paço River Terminal, due to the publication of order 10759-A/2016, from the Offices of the Deputy Secretary of State of Treasury and Finance and of the Deputy Secretary of State of Infrastructure;
- Increase of the balance of *cash flow and bank deposits* by 2.6 million Euros from collecting revenue at the end of the year which could no longer be used.

## EQUITY

The increases in capital carried out by the State throughout 2016 amount to 654.9 million Euros:

- The increase of statutory capital by 113 million Euros was approved in March, following the Joint Order of the Deputy Secretary of State of Treasury and Finance and the Secretary of State of Infrastructure, to be paid by the State in cash. The amount of 29 million was paid in March, and the remaining sum, amounting to 84 million, was paid in April;
- The increase of statutory capital of CP, E.P.E. by 303.8 million Euros was approved in July 2016, following the Joint Order of the Deputy Secretary of State of Treasury and Finance and the Secretary of State of Infrastructure, to be paid by the State in the following way: 266.8 million Euros by the conversion of credit held by the State / Directorate-General of Treasury and Finance which matured on the 31st of May 2016, effective from that date; 37 million Euros in cash, 10 million of which were paid in July 2016, and the remaining sum of 27 million Euros was paid in September 2016;
- The increase of statutory capital of CP, E.P.E. by 25.9 million Euros was approved in October 2016, following the Joint Order of the Deputy Secretary of State of Treasury and Finance and the Secretary of State of Infrastructure, to be paid by the State in cash;
- The increase of statutory capital of CP, E.P.E. by 212.2 million Euros was approved in November 2016, following the Joint Order of the Deputy Secretary of State of Treasury and Finance and the Secretary of State of Infrastructure, to be paid by the State by conversion of credit held by the Directorate-General of Treasury and Finance, which matured on the 30th of November 2016.

## LIABILITY

The liability of the CP Group has sustained a decrease of 568.7 million Euros in 2016, and the following impacts are the most significant:

- Decrease of *funding obtained* by 498.5 million Euros, through the use of cash related to capital increases carried out by the State for the amortisation of funding with maturity in 2016, as well as from the conversion of matured debt service into statutory capital;
- Increase of *Provisions* by 10.6 million Euros, mainly as a result of the transfer of *other accounts payable* (by expenditure accruals), due to the non-acceptance of CP's application to join the special scheme applicable to deferred tax assets;
- Decrease of the balance of *Suppliers and other accounts payable* by 65.2 million Euros, mainly due to the reduction of accrued interest payable resulting from the amortisation of some funding;
- Decrease in *Deferrals* by 13.1 million Euros, mainly due to the settlement of the invoicing issued to the Ministry of Public Works of Argentina, amounting to 4.9 million Euros, because the rolling stock sales agreement has been terminated by reason of default, as well as the recognition of received investment grants as income for the financial year, on a systematic and rational basis during the assets' useful life, in the proportion in which its depreciation is also recognised;
- Decrease in *Financial Liabilities held for trading* by 1.3 million Euros, due to the termination of the latest derivatives agreement.

# FUNDING

## FUNDING POLICY

With the integration of CP in the consolidation perimeter of the State Budget in 2015, CP was able to stop relying on funding from credit institutions. This way, its funding needs were satisfied by loans from the Portuguese State, in accordance with the laws in force for Reclassified Public Companies (EPR).

In this sense, following the joint orders from the Sector and Financial Ministries, it was determined that the statutory capital of CP, EPE. would be increased by 654.9 million Euros in 2016, to be paid up by the State as follows:

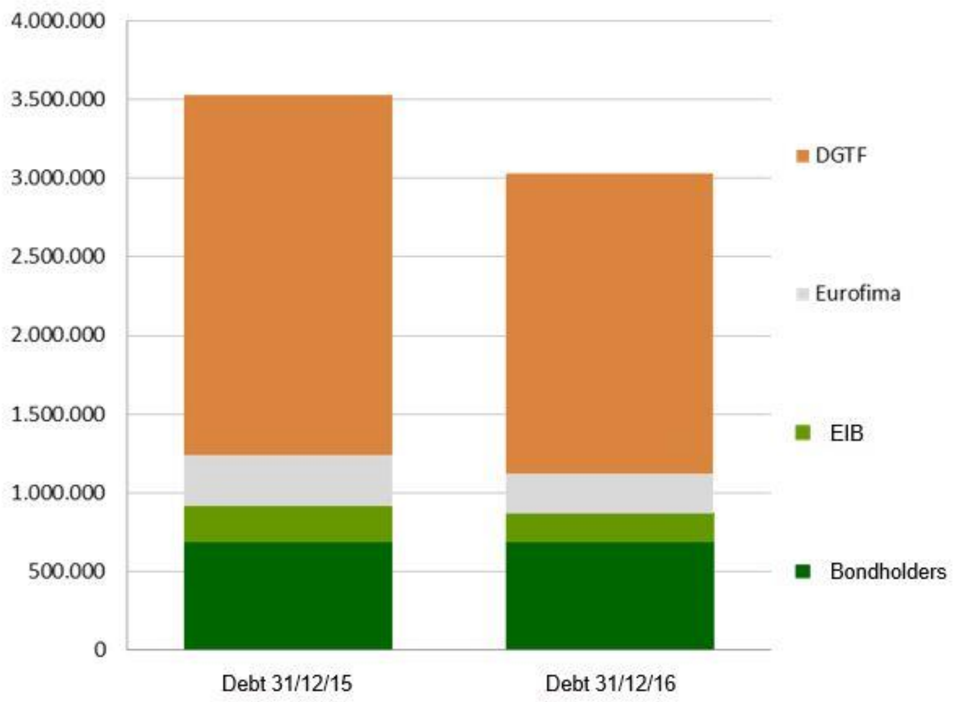
- March / April – 113 million Euros in cash;
- July / September – 303.8 million Euros, from which 266.8 million Euros were the result of the conversion of credits held by the State / Directorate-General of Treasury and Finance and 37 million Euros in cash;
- October – 25.9 million Euros in cash;
- November – 212.2 million Euros, by conversion of credits held by the State / Directorate-General of Treasury and Finance.

These amounts were meant to cover the needs arising from the debt service (amortisations, interest and other costs), of investment and personnel expenses related to the historical agreement on variables.

The remaining operating liabilities were covered by the revenue of the company, therefore CP had no indebtedness throughout 2016, as was the case in 2015.

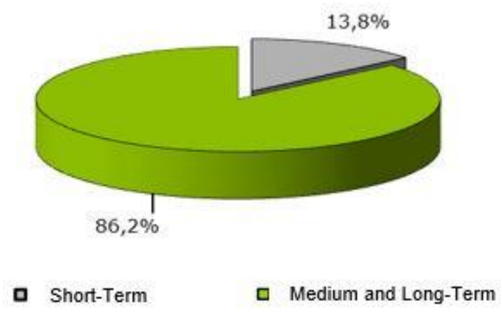
### Remunerated Debt

As a result of these measures, the remunerated debt of the CP Group decrease by approximately 498.5 million Euros throughout 2016. Therefore, by the end of the year, the value of the debt amounted to 3.027 billion Euros, detailed as follows (by financing sources):




Throughout the year, the CP Group has undertaken amortisations amounting approximately to 498.5 million Euros (specifically, EIB, amounting to 42.7 million Euros, Eurofima, amounting to 75 million Euros, and the loan from DGTF [Directorate-General of Treasury and Finance] amounting to 380.5 million Euros).

The debt structure remained virtually unchanged; the medium and long-term debt is the most significant, and the loan entered into with the Portuguese State in the last quarter of 2014 has contributed thereto. This loan now represents approximately 63% of the total debt.



# PERSPECTIVES FOR 2017

Perspectives for the Portuguese economy in 2017 point out the continuity of a moderate recovery of economy and employment.

The economic activity in Portugal should grow at a slightly higher rate than 2016, resulting in a larger contribution of exports (exports less imports). There should be a slight decrease in the contribution of domestic demand for the gross domestic product (GDP), and it is estimated that the growth rate of private consumption will present a deceleration, although offset by the growth of gross fixed capital formation (GFCF). Public Consumption will continue to decrease reflecting the budget consolidation effort.

It is worth highlighting that, in 2017, private consumption will continue to benefit from the positive impact on the households' disposable income as a result of the reversal of some measures implemented in the scope of the Economic and Financial Assistance Programme.

In a framework of gradual improvement of the labour market, it is expected that there will be a reduction of the unemployment rate.

In this context, it is predicted that there will be a slight boost of mobility needs of the population in 2017, arising from the increase of tourism.

In order to meet the mobility needs whilst strengthening its role as a sustainable transportation that facilitates both the development of a rational energy policy and the economy, CP will continue to use the means of production it has in the most efficient way possible, to promote dialogue with Employees and its Representative Organisations, to maintain a dynamic, flexible and proactive commercial attitude in the light of the evolution found and predicted for the market, as well as to adjust its supply whenever possible, improving the effects of the commercial services network to handle market changes and circumstances.

However, it is important to note that there still exist obstacles regarding the activity.

In national railway infrastructures, the electrification of important railway routes is still in progress, which implies the compliance with demanding maintenance cycles of the diesel rolling stock with frequent and extended immobilisations.

In terms of the company, both the budget restrictions and the absence of a Public Service Agreement for the establishment of obligations and corresponding financial compensations remain.

Keeping the economy forecasts in mind, as well as the guidelines from the Sector and Financial Ministries, CP's Board of Directors established the following strategic guidelines for 2017:

1. Meet mobility needs, through the promotion of transport connectivity and accessibility, appropriateness of supply and service provision of higher quality and that contributes for a greater Customer satisfaction;
2. Reinvigorate organisation, through increasing motivation of employees and greater productivity of means of production;
3. Create more value, by promoting dialogue with social and political agents and with organisations representing employees and establishing strategic partnerships with the manager of infrastructures and other stakeholders;
4. Promote financial balance, by establishing contracting frameworks whether from public service or from infrastructure use, by continuing the recovery of historical debt, by rationalising expenses, by profiting from nonessential assets, and by promoting the sustainability of affiliate companies.

In this context, some activities foreseen for 2017 are highlighted:

- “Half Life” intervention in CPAs [Tilting Trains] and marketing of the "New Service AP";
- Wi-Fi installation in urban trains;
- Modernisation of embedded traffic systems (Convel / GSM-R);
- Improvement of access conditions to rolling stock for passengers with reduced mobility;
- Launching Vouga Historical Train;
- External recruitment of HR;
- Revision of the Company’s Agreement;
- Expansion of the automatic access control to stations;
- Purchase / rental of vending devices;
- Improvement of the Sales Network;
- Yield Management monitoring and developing;
- Broadening the use of CP Card;
- Implementation of a Customer Relationship Management programme;
- Development of the Enterprise Content Management (ECM) platform;
- Profiting from nonessential assets;
- Maintenance of rolling stock fleet.

Concerning EMEF, the strategic focus remains to be the maintenance and improvement of the company’s economic and financial balance, as well as the promotion of efficiency, through the following principles:

- Ensuring the maintenance of appropriate Quality / Reliability / Safety standards and meeting customer needs;
- Productivity improvement;
- Business growth and diversification;
- Efficient resource management;
- Valuing employees.

The projections point to an increase compared with 2016 in both business lines - maintenance and repair:

- The increase in maintenance is due to maintenance works to the Porto Metro fleet and the non-regular maintenance of CP’s rolling stock;
- The increase in the repair segment is mainly due to the R1 agreements of CPA 4000 and the 960,000 Km general inspection of Eurotram vehicles of Porto Metro, but it is also due to several regular and non-regular repair interventions in CP’s rolling stock.

Regarding FERANAVE, in 2017, it shall maintain its Vision of wanting to be a reference entity, recognised in the development of knowledge and skills in the transportation and logistics sector, but also in the consultancy and support to the companies and other entities involved in the sector, both on a national and international level.

The Company’s activity shall be carried out according to the following assumptions:

- The maintenance of relationships with the CP Group within the scope of railway training intervention and recruitment and psychology sectors, by increasing the commercial relations with Medway, as well as recovering the commercial relationship with Infraestruturas de Portugal, Carris and the Lisbon Metro;

- Fostering the provision of training services in the railway, road, maritime and port sectors with the main players thereof, as well as recruitment and psychology services;
- Ensuring the continuity of specialisation programmes for medium and upper management in companies involved in the transportation sector and in the general market, specifically regarding the various means of port and railway transportation, and launching similar programmes in the logistics sector;
- In the Consultancy area, supporting Customers in their reorganisation/restructuring and investment actions, and continuing the intervention on the international market, particularly in Angola and Mozambique (in cooperation with the affiliate company, Transcom).

Fernave shall continue to focus on road training (for which it is certified for the provision of training services within the scope of CAM - Certification of Aptitude of Drivers, of TCC - Children Transportation and of Taxi Drivers).

The strategic goal of ECOSAÚDE is ensuring economic and operating autonomy, by maintaining its management policies with a focus on rationalisation of the operating expenses structure and on the appropriateness of services supply to demand, by adjusting its operations to the foreseen level of activity.

It is crucial to keep on gaining critical mass in other activity sectors apart from the transportation sector, by always standing for the continuity of a highly qualified service level.

Priority will continue to be given to the commercial effort in medium and large customers (with occupational safety and health risks), as well as to the electronic platforms of public procurement, where access is given to large tenders, thereby profiting from the company's installed capacity, particularly in the Occupational Health and Medical Specialties sectors.

Apart from attracting new customers, the search for services based on the existing customers shall also be boosted in order to fully explore the company's capacity, whether through cross-selling or the increase in the intensity of the provision of already contracted services.

Concerning SAROS, it is expected that in 2017 it will continue to maximise the potential it may offer to the CP Group, by keeping its strategic position of captive mediator and combining such potential with the aim of maximising the obtained results.

Concerning the company's operational functioning model, the existing resources are sufficient in order for SAROS to provide an appropriate response to the tasks it is to perform, however, and if any specific needs arise, consideration should be given to the possibility that the existing resources may eventually be complemented by the sporadic cooperation from an insurance consultant.

# RELEVANT FACTS AFTER THE END OF THE FINANCIAL YEAR

There were no relevant events after the date of balance sheet.

# STATEMENT OF CONFORMITY

*(in accordance with paragraph c) of item 1 of article 245 of the Securities Code)*

As far as we know: the information foreseen in paragraph a) of item 1 of article 245 of the Securities Code was established in compliance with the applicable accounting standards, providing a true and appropriate image of the asset and liability, the financial situation and the results of CP - Comboios de Portugal, EPE and of the companies included within the consolidation perimeter (CP Group), and the management report accurately shows the business evolution, the performance and the position of the CP Group and, furthermore, such report contains a description of the main risks and uncertainties of the Group.

Lisbon, 12th of April, 2017

The Board of Directors

President: Eng. Manuel Tomás Cortez Rodrigues Queiró

Voting Member: Dr. Maria João Semedo Carmelo Rosa Calado Lopes

Voting Member: Dr. Nuno Serra Sanches Osório

# FINANCIAL STATEMENTS

Statement of consolidated financial position as at the 31st December, 2016 (amounts in Euros)

| HEADINGS | NOTES | PERIODS | |
|---|---|---|---|
| | | 31/12/2016 | 31/12/2015 |
| **Asset** | | | |
| **Non-current asset** | | | |
| Fixed tangible assets | 7 | 542 527 658 | 586 755 584 |
| Intangible assets | 8 | 261 198 | 29 503 |
| Financial holdings - equity method | 9 | 802 236 | 718 981 |
| Other financial investments | 10 | 27 992 171 | 28 092 388 |
| Deferred tax assets | 11 | | 2 554 258 |
| | | 571 583 263 | 618 150 714 |
| **Current asset** | | | |
| Inventory | 13 | 27 740 855 | 23 147 084 |
| Customers | 14 | 12 794 087 | 11 829 843 |
| State and other public entities | 15 | 9 166 458 | 9 422 764 |
| Other receivables | 16 | 11 366 842 | 27 994 518 |
| Deferrals | 17 | 1 132 150 | 1 189 620 |
| Financial assets held for trading | 18 | 4 | 16 |
| Non-current assets held for sale | 19 | 16 995 564 | 19 561 448 |
| Cash and bank deposits | 4 | 16 914 089 | 14 309 964 |
| | | 96 110 049 | 107 455 257 |
| Total asset | | 667 693 312 | 725 605 971 |
| **EQUITY AND LIABILITY** | | | |
| Subscribed capital | 20 | 3 333 713 276 | 2 678 800 000 |
| Legal reserves | 21 | 24 703 | 24 703 |
| Other reserves | 22 | 1 306 650 | 1 306 650 |
| Results brought forward | 23 | (5 933 918 492) | (5 655 108 293) |
| Adjustments/other changes in equity | 24 | 91 490 008 | 91 490 008 |
| Net result of the period | | (143 999 549) | (278 657 308) |
| Total equity | | (2 651 383 404) | (3 162 144 240) |
| **Liability** | | | |
| **Non-current liability** | | | |
| Provisions | 25 | 17 969 218 | 7 351 232 |
| Funding obtained | 26 | 2 609 278 327 | 3 026 166 540 |
| Other debts payable | 27 | 13 390 899 | 31 926 392 |
| | | 2 640 638 444 | 3 065 444 164 |
| **Current liability** | | | |
| Suppliers | 28 | 23 831 725 | 24 387 755 |
| Advance payments from customers | 29 | 574 500 | 2 189 470 |
| State and other public entities | 15 | 4 113 609 | 3 795 317 |
| Funding obtained | 26 | 417 669 625 | 499 257 669 |
| Other debts payable | 27 | 109 603 276 | 155 663 919 |
| Deferrals | 17 | 122 645 537 | 135 720 001 |
| Financial liabilities held for trading | 30 | | 1 291 916 |
| | | 678 438 272 | 822 306 047 |
| Total liability | | 3 319 076 716 | 3 887 750 211 |
| **Total equity and liability** | | **667 693 312** | **725 605 971** |

To be read together with the notes to the financial statements.

Certified Accountant - Dr. Ana Coelho

President - Eng. Manuel Tomás Cortez Rodrigues Queiró

Voting Member - Dr. Nuno Serra de Sanches Osório

Voting Member - Dr. Maria João Semedo Carmelo Rosa Calado Lopes

Consolidated income statement and statement of other comprehensive income

Period ended on the 31st December, 2016 (amounts in Euros)

| INCOME AND EXPENSES | NOTES | PERIODS | |
|---|---|---|---|
| | | 31/12/2016 | 31/12/2015 |
| Provided sales and services | 31 | 266 218 886 | 264 545 210 |
| Operating allowances | 32 | 16 929 | 6 649 |
| Gains/losses attributed to subsidiaries, associated companies and joint ventures | 9,33 | 509 730 | (11 168 469) |
| Changes in production inventories | 13 | (35 661) | (121 531) |
| Capitalised production costs | 34 | 8 334 943 | 7 310 347 |
| Sold commodities and consumed materials costs | 35 | (23 286 771) | (22 381 039) |
| External services and supplies | 36 | (141 321 428) | (145 124 257) |
| Personnel expenses | 37 | (124 774 822) | (150 954 758) |
| Inventory impairment (losses/reversals) | 13 | (325 744) | (673 301) |
| Impairment of receivables (losses/reversals) | 14,16 | (324 716) | (31 286 018) |
| Provisions (increases/decreases) | 25 | (11 343 906) | 892 787 |
| Impairment of non-depreciable and non-amortisable investments (losses/reversals) | 38 | 1 573 246 | (93 365 403) |
| Other income | 39 | 36 135 636 | 68 911 324 |
| Other expenses | 40 | (9 331 995) | (4 317 407) |
| **Result before depreciations, fair value, financing expenses and taxes** | | 2 044 327 | (117 725 866) |
| Expenses/reversals of depreciation and amortisation | 42 | (56 486 597) | (60 162 710) |
| Impairment of depreciable and amortisable investments (losses/reversals) | 43 | 855 533 | 1 158 064 |
| **Operating result (before financing expenses and taxes)** | | (53 586 737) | (176 730 512) |
| Fair value increases/decreases | 41 | 1 291 916 | 2 411 650 |
| Interest and similar income gained | 44 | 179 648 | 3 651 990 |
| Payable interest and similar expenses | 45 | (88 418 439) | (107 629 336) |
| **Result before taxes** | | (140 533 612) | (278 296 208) |
| Income tax of the period | 12 | (3 465 937) | (361 100) |
| **Net result of the period** | | (143 999 549) | (278 657 308) |

To be read together with the notes to the financial statements.

Certified Accountant - Dr. Ana Coelho

President - Eng. Manuel Tomás Cortez Rodrigues Queiró

Voting member - Dr. Nuno Serra de Sanches Osório

Voting member - Dr.ª Maria João Semedo Carmelo Rosa Calado Lopes

Consolidated statement of changes in equity in the period of 2015

(amounts in Euros)

| DESCRIPTION | | NOTES | Equity attributed to the holders of the parent company's capital: Subscribed Capital | Own shares (quotas) | Other equity instruments | Share premiums | Legal reserves | Other reserves | Results brought forward | Revaluation surplus | Adjustments / Other changes in equity | Net result of the period | Total | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Position at the beginning of the period of 2015 | 1 | 20 to 24 | 1 995 317 000 | | | | 24 703 | 1 306 650 | (5 495 796 519) | | 91 490 008 | (161 345 168) | (3 569 003 326) | | (3 569 003 326) |
| Changes in the period | | | | | | | | | | | | | | | |
| First adoption of the new accounting referential | | | | | | | | | | | | | | | |
| Changes in accounting policies | | 5 | | | | | | | | | | | | | |
| Differences of conversion of financial statements | | | | | | | | | | | | | | | |
| Realisation of revaluation surplus | | | | | | | | | | | | | | | |
| Revaluation surplus | | | | | | | | | | | | | | | |
| Adjustments by deferred taxes | | | | | | | | | | | | | | | |
| Other changes recognised in equity | | 23 to 24 | | | | | | | | | | | | | |
| | 2 | | | | | | | | | | | | | | |
| Net result of the period | 3 | | | | | | | | | | | (278 657 308) | (278 657 308) | | (278 657 308) |
| Comprehensive result | 4 = 2 + 3 | | | | | | | | | | | (278 657 308) | (278 657 308) | | (278 657 308) |
| Operations with stakeholders in the period | | | | | | | | | | | | | | | |
| Realisations of capital | | | 683 483 000 | | | | | | | | | | | | |
| Realisations of share premiums | | | | | | | | | | | | | | | |
| Distributions | | | | | | | | | | | | | | | |
| Down payments for hedging losses | | | | | | | | | | | | | | | |
| Other operations | | | | | | | | | (159 311 774) | | | 161 345 168 | 161 345 168 | | 161 345 168 |
| | 5 | | 683 483 000 | | | | | | (159 311 774) | | | 161 345 168 | 685 516 394 | | 685 516 394 |
| Position at the end of the period of 2015 | 6 = 1+2+3+5 | | 2 678 800 000 | | | | 24 703 | 1 306 650 | (5 655 108 293) | | 91 490 008 | (278 657 308) | (3 162 144 240) | | (3 162 144 240) |

To be read together with the notes to the financial statements.

Certified Accountant - Dr. Ana Coelho

President - Eng. Manuel Tomás Cortez Rodrigues Queiró

Voting Member - Dr. Nuno Serra de Sanches Osório

Voting Member - Dr. Maria João Semedo Carmelo Rosa Calado Lopes

Consolidated statement of changes in equity in the period of 2016

(amounts in Euros)

| DESCRIPTION | | NOTES | Equity attributed to the holders of the parent company's capital | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Subscribed Capital | Own shares (quotas) | Other equity instruments | Share premiums | Legal reserves | Other reserves | Results brought forward | Revaluation surplus | Adjustments / Other changes in equity | Net result of the period | Total | Non-controlling interests | Total Equity |
| Position at the beginning of the period of 2016 | 1 | 20 to 24 | 2 678 800 000 | | | | 24 703 | 1 306 650 | (5 655 108 293) | | 91 490 008 | (278 657 308) | (3 162 144 240) | | (3 162 144 240) |
| Changes in the period | | | | | | | | | | | | | | | |
| First adoption of the new accounting referential | | | | | | | | | | | | | | | |
| Changes in accounting policies | | 5 | | | | | | | | | | | | | |
| Differences of conversion of financial statements | | | | | | | | | | | | | | | |
| Realisation of revaluation surplus | | | | | | | | | | | | | | | |
| Revaluation surplus | | | | | | | | | | | | | | | |
| Adjustments by deferred taxes | | | | | | | | | | | | | | | |
| Other changes recognised in equity | | 23 to 24 | | | | | | | | | | | | | |
| | 2 | | | | | | | | | | | | | | |
| Net result of the period | 3 | | | | | | | | | | | (143 999 549) | (143 999 549) | | (143 999 549) |
| Comprehensive result | 4 = 2 + 3 | | | | | | | | | | | (143 999 549) | (143 999 549) | | (143 999 549) |
| Operations with stakeholders in the period | | | | | | | | | | | | | | | |
| Realisations of capital | | | 654 913 276 | | | | | | | | | | | | |
| Realisations of share premiums | | | | | | | | | | | | | | | |
| Distributions | | | | | | | | | | | | | | | |
| Down payments for hedging losses | | | | | | | | | | | | | | | |
| Other operations | | | | | | | | | (278 810 199) | | | 278 657 308 | 278 657 308 | | 278 657 308 |
| | 5 | | 654 913 276 | | | | | | (278 810 199) | | | 278 657 308 | 654 760 385 | | 654 760 385 |
| Position at the end of the period of 2016 | 6 = 1+2+3+5 | | 3 333 713 276 | | | | 24 703 | 1 306 650 | (5 933 918 492) | | 91 490 008 | (143 999 549) | (2 651 383 404) | | (2 651 383 404) |

To be read together with the notes to the financial statements.

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Voting Member - Dr. Maria João Semedo Carmelo Rosa Calado Lopes

Consolidated cash flow statement

Period ended on the 31st December, 2016

(amounts in €)

| HEADINGS | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Cash flows from operating activities - direct method** | | |
| Collections from customers | 298 638 537 | 282 604 497 |
| Payments to suppliers | (203 177 910) | (205 445 791) |
| Payments to employees | (127 725 134) | (124 659 283) |
| **Cash generated by the operations** | **(32 264 507)** | **(47 500 577)** |
| Payment/receipt of income tax | ( 315 286) | ( 353 488) |
| Other receivables/ payments | 20 203 471 | 15 566 104 |
| **Cash flows from operating activities (1)** | **(12 376 322)** | **(32 287 961)** |
| **Cash flows from investment activities** | | |
| **Payments regarding:** | | |
| *Fixed tangible assets* | (4 885 613) | (1 624 421) |
| *Intangible assets* | ( 55 828) | ( 8 104) |
| *Financial investments* | - | - |
| *Other assets* | (132 702 396) | (310 341 405) |
| **Receivables from:** | | |
| *Fixed tangible assets* | 472 567 | 582 550 |
| *Intangible assets* | - | - |
| *Financial investments* | - | 333 333 |
| *Other assets* | 132 920 094 | 304 500 000 |
| *Investment grants* | 1 540 660 | 1 575 000 |
| *Interest and similar income* | 539 414 | 2 593 928 |
| *Dividends* | 351 098 | 27 718 |
| **Cash flows from investment activities (2)** | **(1 820 004)** | **(2 361 401)** |
| **Cash flows from financing activities** | | |
| **Receivables from:** | | |
| *Funding obtained* | - | - |
| *Realisations of capital and other equity instruments* | 175 898 192 | 683 483 000 |
| *Coverage of losses* | - | - |
| *Donations* | - | - |
| *Other funding operations* | - | - |
| **Payments regarding:** | | |
| *Funding obtained* | (118 555 188) | (605 921 555) |
| *Interest and similar expenses* | (40 582 703) | (58 802 272) |
| *Dividends* | - | - |
| *Capital reductions and other equity instruments* | - | - |
| *Other funding operations* | - | - |
| **Cash flows from financing activities (3)** | **16 760 301** | **18 759 173** |
| **Variation of cash and its equivalents (1+2+3)** | **2 563 975** | **(15 890 189)** |
| **Effect of exchange rate differences** | **3 196** | **( 336)** |
| **Cash and its equivalents at the beginning of the period** | **14 121 482** | **30 012 007** |
| **Cash and its equivalents at the end of the period** | **16 688 653** | **14 121 482** |

To be read together with the financial statements.

Certified Accountant - Dr. Ana Coelho

President - Eng. Manuel Tomás Cortez Rodrigues Queiró

Voting Member - Dr. Nuno Serra de Sanches Osório

Voting Member - Dr. Maria João Semedo Carmelo Rosa Calado Lopes

# ATTACHMENTS TO THE FINANCIAL STATEMENTS

## IDENTIFICATION OF THE ENTITY AND OPERABILITY NOTES (NOTE 1)

### IDENTIFICATION

CP – Comboios de Portugal, E.P.E. is a corporate public entity, a legal person governed by public law, with administrative, financial and asset autonomy, with registered office in Calçada do Duque, nº 20, 1249-109 Lisbon, whose current legal framework and Articles of Association have been approved by Decree-Law 137-A/2009, of the 12th of June.

CP's main purpose is the provision of services of railway transportation of passengers in railway lines, sections of lines and branches which are, or will become, part of the national railway network, as well as the international transportation of passengers.

The transportation of goods was demerged in 2009, therefore, it started to be undertaken by CP Carga - Logística e Trasporte Ferroviário de Mercadorias, S.A., whose share capital was held entirely by CP until 2015, and disposed in 2016, to Mediterranean Shipping Company Rail (Portugal) – Operadores Ferroviários, S.A..

Through its subsidiaries and associated companies, the CP Group has carried out the following activities in 2016:

- Manufacture and reconditioning, large repair and maintenance of equipment, railway vehicles, vessels and buses, as well as the study of workshop facilities for maintenance purposes (EMEF, S.A.);
- Insurance mediation (Saros, Lda.);
- Synergy and optimisation of the activities concerning the maintenance of locomotives type "LE 5600" and "LE 4700" (SIMEF, A.C.E.);
- Training and professional technical development, preparation of studies and projects within the scope of the creation, organisation and management of companies, as well as the provision of services related to applied psychology, medical and psychological assessment, higher education and scientific research regarding transportation, communications or technological areas within the technological scope of the aforementioned companies (Fernave, S.A.);
- Provision of healthcare services; teaching, training and technical/professional development within the sectors of working conditions, health and environment; provision of services related to recruitment, selection and assessment of staff; technical assistance, consultancy and auditing, specifically regarding health, occupational health and safety, environment and environmental management; carrying out of drug and alcohol tests, thereby ensuring proper referral for the treatment of such addictions (Ecosaúde, S.A.);
- Implementation and management of a common and exclusive ticketing system of the Grouping (CP, STCP and Metro do Porto) in the Greater Porto area, as well as establishing the common and exclusive intermodal tariff for the public means of transportation of passengers which are operated either directly or indirectly by the Grouping entities (TIP, A.C.E.);
- Ensuring the development of the tele-ticketing project in association with other international partners, in accordance with the commitments assumed by the companies comprising the group within the scope of the global proposal of the aforementioned project (OTLIS, A.C.E).

EMEF, S.A.'s 35% holding in NOMAD TECH, Lda., and Fernave's 19.1% holding in TRANSCOM - Sociedade de Formação, Consultoria e Auditoria em Transportes e Comunicações, S.A.R.L., should also be noted. (Mozambican).

CP, as a corporate public entity, is subject to the management guidelines established by the Government, the responsible ministries – sector and finance -, the Ministries of Economy and Finance, as well as the financial control of the Court of Auditors and of the Inspectorate General of Finance.

Furthermore, apart from the aforementioned control, the articles of association foresee a dualistic structure of inspection comprised by the Supervisory Board and the Certified Public Accountant.

CP is the parent company of a group of subsidiary and associated companies, acting in several activity segments, whose characterisation is set forth in more detail in note 3, and the following are its consolidated financial statements.

## ACCOUNTING FRAMEWORK OF PREPARATION OF FINANCIAL STATEMENTS (NOTE 2)

### ACCOUNTING FRAMEWORK

The consolidated financial statements of the CP Group have been prepared on the assumption of continuity of operations, from the accounting records of the companies included in the consolidation perimeter, in accordance with the international financial reporting standards, as implemented by the European Union (EU), in force as at the 31st of December, 2016.

The International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), as well as the International Accounting Standards (IAS), issued by the International Accounting Standards Committee (IASC), and their respective interpretations (IFRIC and SIC), issued by the International Financial Reporting Interpretation Committee (IFRIC) and the Standing Interpretation Committee (SIC), shall be construed as forming part of the aforementioned standards. Hereinafter, all such standards and interpretations thereof shall be generically referred to as IFRS.

Such financial statements, which are expressed in Euros, have been examined by the Board of Directors in a meeting held on the 12th of April, 2017, having decided to submit such statements to the responsible Ministry for approval.

The accounting policies set forth in note 3 were used in the consolidated financial statements for the period ended on the 31st of December, 2016, as well as in the comparative financial information set forth in these financial statements for the period ended on the 31st of December, 2015.

### DEROGATIONS TO THE IFRS

There were no derogations made to the provisions of the IFRS.

### COMPARATIVE VALUES

No changes were made to the accounting policies, and no errors which materially affect the comparison of values between the financial years have been detected.

## MAIN ACCOUNTING POLICIES (NOTE 3)

The main accounting policies applied when preparing the consolidated financial statements herein are described below, and have been applied in a consistent manner for the presented periods.

### BASES OF MEASUREMENT

The consolidated financial statements were prepared in accordance with the historical cost principle, modified by the application of fair value for the derivative financial instruments, financial assets and liabilities held for trading, with the exception of those for which fair value is not available. Non-current assets held for sale and groups of assets held for sale are registered at the lower value between their accounting value and fair value deducted from the respective sale costs.

The preparation of financial statements in accordance with the IFRS requires the formulation of judgments, estimates and assumptions affecting the application of the accounting policies and the value of assets, liabilities, income and expenses. The associated estimates and assumptions are based on historical experience and on other factors deemed reasonable in accordance with the circumstances, and they are the basis for the judgments regarding the value of assets and liabilities whose valuation is not clear through other sources. The real results may differ from the estimates.

The matters requiring a larger index of judgment or complexity, or for those for which the assumptions and estimates are considered significant, are presented in the following headings: "Value judgments", “Main assumptions concerning the future” and “Main sources for estimate uncertainty”, which are set forth in this note.

### CONSOLIDATION

#### Introduction

Pursuant to the current legislation, the entities whose securities are admitted to trading in a regulated market shall draw up their consolidated accounts in accordance with the international financial reporting standards.

For this reason, CP presents its consolidated financial statements, which express the financial position and results of the Group’s operations as if it were a single entity, aiming to highlight the results of the operations that the companies of the Group have carried out with third parties.

#### The Group and the Company

##### General Remarks

Throughout 2016, CP continued its purpose of developing a sustainable Group strategy, by structuring its existing shareholdings and by developing a culture of efficiency and added value, focused on its respective core business.

CP has provided self-sufficiency to activity segments by turning them into companies, aiming at creating positive synergies for its business. Such activity segments include railway equipment maintenance and technical training.

CP holds most of the capital of all subsidiary companies. Furthermore, CP has a few minority holdings, based on cooperation with other Operators.

## CP

CP – Comboios de Portugal E.P.E. is, from July 2009, a corporate public entity, which is 100% held by the Portuguese State. CP is responsible for the provision of services related to national and international passenger railway transportation.

CP has a nationwide activity, providing essential services for the Country's development and for the social and territorial cohesion thereof.

## Affiliate companies

CP's financial holdings as at the 31st of December, 2016, are as follows:

Subsidiaries

### EMEF - Empresa de Manutenção de Equipamento Ferroviário, S.A.

CP's shareholding – 100%

Share Capital – 8,100,000 Euros

EMEF, SA was incorporated in 1992, and its purpose is the manufacture, reconditioning, large repair and maintenance of equipment, railway vehicles, vessels and buses; reconditioning engineering, repair and maintenance of transportation vehicles; study of workshop facilities for maintenance purposes. Thus, this company is of utmost importance for the national market.

### SAROS - Sociedade de Mediação de Seguros, Lda.

CP's shareholding – 100%

Share Capital – 5,000 Euros

The company's purpose is the activity of insurance mediation.

## FERNAVE - Formação Técnica, Psicologia Aplicada e Consultoria em Transportes e Portos, S.A.

CP's shareholding – 100%

Share Capital – 50,000 Euros

Incorporated in 1992, with the following corporate purpose:

- Training, as well as the technical and professional development of the shareholding company's personnel, as well as the personnel of other companies within the transportation, communications and port sectors, and of those falling within its technological scope;
- Preparation of studies and projects falling within the scope of the creation, organisation and management of transportation, communications and port companies, as well as of those falling within its technological scope;
- Provision of services within the scope of applied psychology, as well as of medical and psychological assessment, to the transportation, communications and port companies, as well as to those falling within its technological scope;
- Higher education and scientific research within the context of transportation, communications or in technological areas falling within its technological scope, either directly or through affiliate or associated institutions.

## ECOSAÚDE - Educação, Investigação e Consultoria em Trabalho, Saúde e Ambiente, S.A.

CP's shareholding – 100%

Share Capital – 50,000 Euros

Company incorporated in 1995, whose corporate purpose is the provision of healthcare, creating and managing healthcare units as well as working conditions; higher and secondary teaching, training and technical/professional development, namely in the areas of working conditions, health and environment; the provision of services falling within the scope of recruitment, selection and assessment of personnel; technical assistance, consultancy and audit services, namely concerning health, occupational health and safety, environment and environmental management; preparation of studies and analyses, having widened its operation to prevention and control strategies within the scope of drug addiction, alcoholism and smoking, to the carrying out of drug and alcohol control sessions, and, also to the proper referral and treatment of drug and alcohol addicts.

Jointly Controlled Entities

## SIMEF, A.C.E.

EMEF's shareholding – 51%

Capital – none

Complementary company grouping incorporated in 2009, whose corporate purpose is the synergy and optimisation of the activities of the grouped companies concerning the maintenance of locomotives type “LE 5600” and “LE 4700”, under the agreement between the Grouping and CP – Comboios de Portugal, E.P.E.

## TIP, A.C.E - Transportes Intermodais do Porto

CP’s shareholding – 33.33%

Share Capital – 30,000 Euros

TIP is a complementary company grouping incorporated in 2002, whose corporate purpose is the establishment and management of a common and exclusive ticketing system of the Grouping (CP, STCP and Metro do Porto) in the Greater Porto area, as well as the establishment of the common and exclusive intermodal tariff for the public means of transportation of passengers which are operated either directly or indirectly by the Grouping entities.

## OTLIS, A.C.E. - Operadores de Transportes da Região de Lisboa

CP’s shareholding – 14.29%

Share Capital – 392,832.02 Euros

OTLIS is a complementary company grouping incorporated in 1996, whose corporate purpose is to ensure the development of the tele-ticketing project in association with other international partners, in accordance with the commitments assumed by the companies comprising the grouping within the scope of the global proposal of the aforementioned project.

Associated Companies

## TRANSCOM - Sociedade de Formação, Consultoria e Auditoria em Transportes e Comunicações, S.A.R.L. (Mozambican)

Shareholding via Fernave – 19.1%

Share Capital – 32,900,000 meticals

The company was incorporated in 1998, and its corporate purpose is higher university teaching, as well as scientific research, namely within the scope of technology, management, logistics, distribution, transportation, communications and computer science; technical teaching and training of upcoming and current middle management, specifically within the scope of technology, management, logistics, distribution, transportation, communications and computer science; training, as well as technical and professional development of personnel working mainly in transportation, communications and computer science organisations; consultancy and auditing for companies and other organisations, especially those related to transportation, communications and computer science.

## NOMAD TECH, Lda

Shareholding via EMEF - 35%

Share Capital – 160,000 Euros

The company was incorporated in 2013, carrying out its activity within the scope of engineering, innovation and technology applied to transportation, manufacture, repair and maintenance of electronic components and the development of computer science solutions.

Other shareholdings

CP also has a set of small shareholdings in companies whose activities are connected to those carried out by the companies of the Group.

Such shareholdings are recognised at cost less impairment losses, given the fact that the value of such shareholdings is not publicly traded and there is no possibility of obtaining their fair value in a reliable manner.

## CP Carga - Logística e Transportes Ferroviários de Mercadorias, S.A.

CP's shareholding – 5%

Share Capital – 5,000,000 Euros

Its corporate purpose is the railway transportation of goods, logistics activities and related operations.

The company was incorporated by simple demerger, thereby complying with the commitment to liberalisation for the sector assumed by Portugal to the European Union.

Its share capital was fully held by CP until 2015, and disposed of in 2016 to Mediterranean Shipping Company Rail (Portugal) – Operadores Ferroviários, S.A.. As at the 31st of December, 2016, CP still has a temporary 5% shareholding, and is awaiting for the completion of certain procedures foreseen in the reference sale agreement.

## Metro do Porto, S.A.

CP's shareholding – 3.33%

Share Capital – 7,500,000 Euros

Incorporated in 1993, its corporate purpose is the operation of a light metro system in the Porto metropolitan area, under a concession scheme assigned by the State.

## Metropolitano Ligeiro de Mirandela, S.A.

CP's shareholding – 10%

Share Capital – 125,000 Euros

Company incorporated in 1995, whose corporate purpose is the exclusive operation of the surface metro transportation in the Municipality of Mirandela, Carvalhais-Cachão section.

## Metro Mondego, S.A.

CP's shareholding – 2.5%

Share Capital – 1,075,000 Euros

This company was incorporated in 2002, and its main corporate purpose is the exclusive operation of a light surface metro network in the area of the Municipalities of Coimbra, Lousã and Miranda do Corvo.

## APOR - Agência para a Modernização do Porto, S.A.

CP's shareholding – 0.47%

Share Capital – 1,064,825 Euros

Was incorporated in 1997, and its corporate purpose is Porto's economic modernisation, including urban development through the development of actions aimed at contributing for the implementation of correction factors for the city's social, economic and cultural fabric.

## ICF - Intercontainer - Interfrigo, S.A. (Belgian)

CP's shareholding – 2.09%

Share Capital – 18,300,000 Euros

The company's corporate purpose is the organisation and development of combined transportation, as well as of refrigerated transportation at an appropriate temperature, comprising all the operations intended for obtaining and maintaining the temperature deemed appropriate for the various goods, as well as for the availability of supporting services concerning such transportation.

## EUROFIMA - Société Européenne pour le Financement de Matériel Ferroviaire (Swiss)

CP's shareholding – 2%

Share Capital – 2,600,000,000 CHF

Its main corporate purpose is to provide the funding needed for investments for the renewal and modernisation of rolling stock, in order to ensure a progressive integration of railways into the European level, playing a rather competitive role in the granting of funds to shareholders.

## BCC - Bureau Central de Clearing (Belgian)

CP's shareholding – 1.54%

Share Capital – 110,250 Euros

The company's corporate purpose is to provide financial services to its associates, as well as all commercial operations required for such purpose, and, particularly, to reduce the number and amount of payments between its associates through the centralisation and offsetting of their reciprocate debits and credits.

### ■ Consolidation Method

The obligation to prepare consolidated accounts shall apply to the parent company holding control over one or more subsidiaries. In accordance with the specifications of the IFRS, all the companies of the Group over which the company holds control have been included in the consolidation, and the full consolidation method has been used for all such companies.

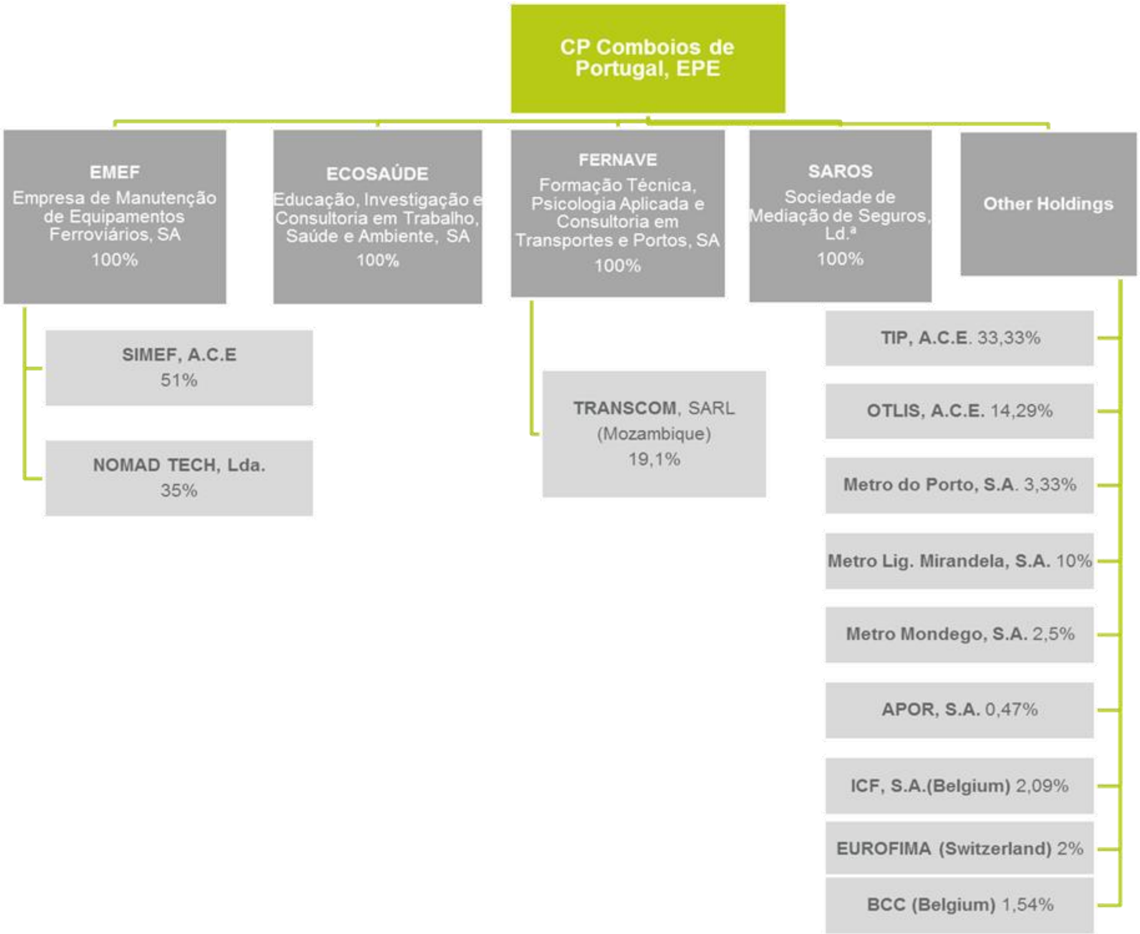
Thus, based on the specifications set forth in the IFRS 10, the financial statements have been prepared by grouping identical elements of assets, liabilities, equities, income and expenses, on a line-by-line basis.

The consolidation procedures have further involved the elimination of the parent company's investment in each subsidiary against equity, as well as the elimination of balances, transactions, intra-group income and gains, and expenses and losses.

Concerning joint ventures, the equity method was applied from January 2013, replacing the proportionate consolidation, in accordance with the provisions set forth in the IFRS 11.

By pursuing the specifications of the standard concerning the implementation of the equity method, the investment was initially recognised by the cost, and the carrying amount is increased or decreased in order to recognise the investor's part in the investee's results following the date of the incorporation/purchase of the joint venture. Distributions received reduce the carrying amount of the investment, and adjustments may also be made to the carrying amount for changes in the proportionate interest of the investor in the joint venture, as a result of changes in equity which have not been recognised in the joint venture's results.

## Consolidation Perimeter




The share capital of CP Carga- Logística e Transportes Ferroviários de Mercadorias, S.A, was disposed in 2016 to Mediterranean Shipping Company Rail (Portugal) - Operadores Ferroviários, S.A. As at the 31st of December, 2016, CP still has a 5% residual shareholding, which is temporary (and adjusted with impairment), given the fact that it is awaiting completion of certain procedures foreseen in the agreement, in order for the disposal to correspond to the entire shareholding. It is for this reason that CP Carga is not shown in the consolidation perimeter chart.

## COMPANIES INCLUDED IN THE CONSOLIDATION UNDER THE FULL CONSOLIDATION METHOD

The companies included in the consolidation under the full consolidation method, their registered offices and the proportion of the capital which is directly and indirectly held by the Group, as at the 31st of December, 2016, are the following:

| Company | Registered Office | Holders of capital | % of held Capital |
|---|---|---|---|
| EMEF, S.A. | Entroncamento | CP, E.P.E. | 100,00% |
| SAROS, LDA | Lisbon | CP, E.P.E. | 100,00% |
| FERNAVE, S.A. | Lisbon | CP, E.P.E. | 100,00% |
| ECOSAÚDE, S.A. | Lisbon | CP, E.P.E. | 100,00% |

## ASSOCIATED COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD

The companies included in the consolidation under the equity method, their registered offices and the proportion of the capital held, as at the 31st of December, 2016, are the following:

| Company | Registered Office | Holders of capital | % of held Capital |
|---|---|---|---|
| TIP, ACE | Porto | CP, E.P.E. | 33,33% |
| SIMEF, A.C.E. | Entroncamento | EMEF, S.A. | 51,00% |
| OTLIS, ACE | Lisbon | CP, E.P.E. | 14,29% |
| NOMAD TECH, LDA | Porto | EMEF, S.A. | 35,00% |

## OTHER SHAREHOLDINGS

In the case of financial investments whose fair values cannot be reliably identified, the former shall be measured at their acquisition cost, less any accumulated losses due to impairment.

### Eliminations that have not been carried out for being immaterial

Within the scope of the consolidation process, no margin has been eliminated in most transactions between the companies of the Group, due to the fact that such margins were deemed immaterial.

## RELEVANT ACCOUNTING POLICIES

### Fixed Tangible Assets

### Recognition and valuation

Fixed tangible assets concerning the passenger transportation segment are held by the parent company, and are accounted for at the acquisition cost, less their corresponding accumulated depreciations and impairment losses.

At the date of transition for the IFRS, CP decided to consider as cost of fixed tangible assets their revalued amount determined in compliance with the previous accounting policies, which was, in general terms, comparable to the measured cost in accordance with the IFRS.

The subsequent costs are recognised as fixed tangible assets only if it is likely that there will be future economic benefits therefrom for the entity. All the expenses related with maintenance and routine repairs which do not increase the useful life of the asset, or which do not correspond to replacements in regular intervals (large interventions performed with intervals varying between 2 and 15 years) of items of the asset are recognised as expense, in accordance with the accruals principle.

CP's fixed tangible assets include assets owned by the State (assets set forth in the joint order no. 261/99, of the 24th of March) and are assigned to the operational use by the company. Such assets are accounted for in the financial statements in order to allow for an assessment of the company's economic performance.

Such policy was also implemented in the recognition and measurement of the fixed tangible assets used by the remaining subsidiaries in the carrying out of their activity, particularly in the manufacture and maintenance of railway equipment and vehicles, in technical training and applied psychology, as well as in the provision of healthcare and occupational safety services.

The cost of all fixed tangible assets includes the purchase price, import duties, non-refundable taxes and all necessary costs in order to place the asset in the working location and condition, namely the transportation and assembly expenses, excluding trade discounts and abatements.

The subsequent expenses are recognised as fixed tangible assets only if it is likely that there will be future economic benefits therefrom. All maintenance and repair expenses which do not increase the good's useful life shall be recognised as costs, in accordance with the accruals principle.

### Maintenance and Repair Expenses

Rolling stock for passenger transportation:

- The expenses incurred with routine maintenance during the useful life of the rolling stock are recognised as operating expenses;
- The expenses incurred in large and indispensable pluriannual repairs, in order to ensure the continuity of the asset's operation, are recognised in the fixed tangible assets as specific components of rolling stock and depreciated by their estimated useful life in a separate section from the main component. Once each large repair is carried out, its cost is recognised in the carrying value of the item of the

fixed tangible asset as replacement, provided that the recognition criteria are met. Any remaining carrying amount of the cost of the previous large repair is not recognised; and

- The expenses incurred at the end of the useful life of the main component, which include the transformation and modernisation thereof, are recognised as fixed tangible assets and depreciated by the extension of its expected useful life.

Buildings and Fixed Facilities:

- The routine maintenance and repairs expenses (maintenance agreements, technical inspections, etc.) are recognised as operating expenses;
- The expenses incurred with pluriannual programmed maintenance plans are recognised in fixed tangible assets, through the partial or full replacement of the replaced component; and
- The maintenance and repair costs are accounted for in the results of the period in which they are incurred, in accordance with the accruals principle.

## Depreciation

Land is not depreciated. The depreciation of the remaining fixed tangible assets is calculated by the straight-line method, in accordance with the following expected useful life periods of the assets.

| Description of the asset | Years |
|---|---|
| Buildings and other constructions - State | 3 to 50 |
| Buildings and other constructions - CP | 3 to 50 |
| *Rolling Stock:* | |
| Diesel and electric locomotives: | |
| - Main Component | 17 to 35 |
| - Secondary Component | 5 to 15 |
| Diesel and electric railcars: | |
| - Main Component | 14 to 30 |
| - Secondary Component | 2 to 15 |
| Passenger carriages: | |
| - Main Component | 15 to 30 |
| - Secondary Component | 2 to 12 |
| Wagons | 3 to 35 |
| Transportation equipment | 4 to 12 |
| Administrative equipment and tools | 3 to 18 |
| Other fixed tangible assets | 5 to 20 |

Fixed tangible assets owned by the State (assets laid down in the Joint Order no. 261/99, of the 24th of March) are being depreciated since 1999 at a 2% rate, in accordance with the Regulatory Decree no. 25/2009, of the 14th of September, because the period for the agreement of concession of CP's Establishment has not yet been set.

No residual amounts were considered when determining the depreciated amounts.

## Government Grants

Government grants relating to fixed tangible and intangible assets are initially recognised as deferred income when there is a guarantee that the grant shall be received and that the conditions applicable to the award of the grant shall be complied with. Subsequently, such grants are recognised in the income statement on a systematic basis, in accordance with the asset's useful life.

Grants offsetting incurred expenses and losses are recognised as income in the income statement on a systematic basis and in the same period in which the expenses are recognised.

## Capitalisation of costs with loans and other directly attributable costs

The interest on loans directly attributable to the acquisition or construction of assets are capitalised as part of the cost of such assets. An asset eligible for capitalisation is an asset needing a substantial period of time in order to be available for use or sale. The amount of interest to be capitalised is determined through the application of a capitalisation rate on the value of the investments made. The capitalisation of costs with loans begins when the investment begins, when interest on loans has already been incurred and when the necessary activities for preparing the asset in order for it to be available for use or sale are already under way. The capitalisation is concluded once all the necessary activities for the asset to be available for use or sale are substantially concluded.

## Impairment of rolling stock for passenger transportation

Considering the nature of rolling stock for passenger transportation and, particularly, the absence of interoperability with the European network, the determination of a market value which is appropriate for such assets becomes unfeasible due to the absence of an active market where such assets are traded. Thus, this amount is only determined when there are offers for the purchase of specific material.

Regarding the determination of the use value, the latter shall reflect the expected cash flows, discounted at a discount rate appropriate for the business. It is considered that, for the calculation of the expected cash flows, the features of the provided public service shall be taken into account, as well as the specificities of the funding structure which has been followed until the current moment.

In the absence of a public service agreement, it is understood that it is not possible to determine the use value as defined in the IAS 36, given the fact that there are no specific rules defined for companies providing public service.

However, when there are specific situations showing that an asset may be impaired, in particular when the rolling stock ceases to operate, the recoverable amount is determined, and an impairment loss is recognised whenever the net value of an asset exceeds its recoverable amount. Thus, impairment losses are recognised in results.

## Recognition of impairment in the remaining assets of the Group

As defined in the IAS 36, when there is an indication that an asset may be impaired, its recoverable amount is estimated, and an impairment loss shall be recognised whenever the net book value of an asset exceeds its recoverable amount. Impairment losses are recognised in results. The recoverable amount is determined as the highest between its selling price (net realisable value) and its use value, which is calculated based on the current value of the estimated cash flows which are expected to be obtained from the continued use of the asset and of its disposal at the end of its useful life.

- **Leases**

The companies of the Group classify the leasing transactions as financial or operating leases, depending on their substance and not on their legal form. The transactions classified as financial leases are those where the risks and advantages inherent to the ownership of an asset are substantially transferred to the lessee. All remaining leasing transactions are classified as operating leases.

## Operating leases

Payments of an operating lease are recognised as an expense on a linear basis during the lease period.

## Financial leases

Financial lease agreements are accounted for at the date such agreements take effect, in assets and in liabilities, at the lower between the fair value of the leased property, or the current value of the due rents of the lease.

The rents are composed of the financial cost which is deducted in results, and of the reduction of the outstanding liability. Financial costs are recognised as expenses throughout the lease period, in order to produce a constant periodic interest rate on the remaining balance of the liability in each period.

Assets acquired through financial lease are depreciated in accordance with the policy established for fixed tangible assets.

## Intangible Assets

The intangible assets of the companies of the Group are accounted for at the acquisition cost deducted from the respective accumulated amortisations and impairment losses.

The companies of the Group carry out impairment tests whenever there are occurrences or circumstances indicating that the book value exceeds the recoverable value. If a difference arises, it shall be recognised in results. The recoverable amount is determined as the highest amount between its net selling price and its use value, the latter being calculated based on the current value of the estimated future cash flows expected to be obtained from the continued use of the asset and of its disposal at the end of its useful life.

Amortisations are calculated by the straight-line method for a 3-year period.

## Financial derivatives and hedge accounting

Financial derivatives are recognised on their trade date, at their fair value. Subsequently, the fair value of the financial derivatives is reassessed on a regular basis, and the gains or losses arising from such reassessment are directly accounted for in the results of the period, except for the cash flow hedging derivatives. The recognition of the fair value variations in the hedging derivatives, in the results of the period, depends on the nature of the hedged risk and the hedging model employed.

The fair value of the financial derivatives matches its market value, when available. If the latter is not available, it is determined by an external entity (IMF - Informação de Mercados Financeiros, SA), based on the valuation techniques used in the market.

### Hedge Accounting

Designating a financial derivative as a hedging instrument complies with the provisions set forth in the IAS 39. The financial derivatives which do not comply with all the provisions set forth in the IAS 39 concerning the possibility of being classified as hedge accounting – although such instruments have been entered into with the purpose of economic hedging in accordance with the risk management policies of the Group – are classified as financial instruments held for trading, and their corresponding variations in fair value are accounted for in results on the period of their occurrence.

Although the financial instruments within the Group until 2015 were aimed at hedging the interest rate risk, such instruments did not comply with the IAS 39 requirements in order for them to be classified as financial hedging instruments, and for such reason, they were classified as financial instruments held for trading.

As at the 31st of December, 2016, the CP Group does not hold financial derivatives.

## Other Financial Assets/Liabilities

The companies of the CP Group only recognise a financial asset, a financial liability or an equity instrument when the latter become part of the instrument's contractual provisions.

The CP Group classifies its investments on their trade date in accordance with the purpose of the acquisition thereof, in the following categories: financial assets at fair value through results (held for trading and fair value option); loans and receivables; held-to-maturity assets; and financial assets available for sale, in compliance with the provisions set forth in the IAS 39 – Financial instruments.

## Financial assets at fair value through results

This category includes: (i) financial trading assets acquired for the main purpose of being traded in the short term, and (ii) financial assets designated at the time of their initial recognition at fair value with variations recognised in results.

Following their initial recognition, the financial assets at fair value through results are valued at fair value, and the variations of such assets shall be recognised in results.

This category includes derivatives that do not qualify for hedge accounting purposes. The changes in their fair value are directly recognised in the results of the financial year.

## Held-to-maturity financial assets

Such investments are non-derivative financial assets with fixed or determinable payments and maturities, for which there is the intention and ability to hold up to maturity.

Such investments are measured at amortised cost, based on the effective interest rate method, and are deducted from impairment losses. Impairment losses are accounted for based on the estimation and assessment of losses, associated with doubtful credits on the date of the financial statements.

Impairment losses correspond to the difference between the asset's book value and the current value of the estimated future cash flows (by considering the recovery period) discounted at the financial asset's original effective interest rate.

Such assets are shown in the statement of financial position, net of the recognised impairment.

## Loans and receivables

Correspond to non-derivative financial assets, with fixed or determined payments, which are not quoted in an active market. The latter arise from the normal course of the operating activities, in the supply of goods or services, with no intention for trading.

The loans and receivables are initially recognised at their fair value, and are subsequently valued at amortised cost, based on the effective interest rate method.

Impairment losses are accounted for when there is proof suggesting that the company of the CP Group will not receive all the amounts to which it was entitled pursuant to the original terms of the agreements that have been concluded. Several indicators are used in the identification of impairment situations, such as:

i. Analysis of non-compliance;
ii. Non-compliance for more than 6 months;
iii. Financial difficulties of the debtor;
iv. Likelihood of the debtor's bankruptcy.

Impairment losses correspond to the difference between the asset's book value and the current value of the estimated future cash flows (by considering the recovery period) discounted at the financial asset's original effective interest rate.

Such assets are shown in the statement of financial position, net of the recognised impairment.

## Financial assets available for sale

Financial assets available for sale are non-derivative financial assets which the CP Group intends to keep indefinitely. Such assets are designated as available for sale at the time of their initial recognition, or if they do not fall under the aforementioned categories

Financial assets available for sale are accounted for at fair value, and the corresponding fair value variations are directly recognised in the equities, in the “fair value reserves” heading, until the investments are derecognised, or an impairment loss is identified, in which case the accumulated amount of the potential gains and losses accounted for in reserves is transferred for results. If there is no market value, the assets are carried at the acquisition cost. However, impairment tests shall be carried out.

The accrued interest of fixed income instruments, when classified as assets available for sale, as well as the differences between the acquisition cost and the nominal value (premium or discount), are accounted for in results in accordance with the effective interest rate method.

## Subsequent measurement of the financial assets/liabilities

Financial assets/liabilities are measured at cost or at amortised cost less any impairment loss, or at fair value, with the changes in fair value to be recognised in the income statement, in accordance with the provisions set forth in the IAS 39.

Following the initial recognition, the CP Group measures the financial assets, including derivatives that are assets, by their fair values without any deduction for the transaction costs the Group may incur upon sale or other disposal, except for the following financial assets:

- Granted loans and accounts receivable, which are measured at amortised cost by using the effective interest method;
- Held-to-maturity investments, which are measured at amortised cost by using the effective interest method; and
- Investments in equity instruments which do not have a market price quoted in an active market and whose fair value cannot be obtained in a reliable manner, as well as agreements linked to such instruments which, if concluded, result in the delivery of such instruments - which shall be measured at cost less impairment losses.

Financial assets designated as hedged items are subject to measurement according to the hedge accounting requirements set forth in the IAS 39.

All financial assets are subject to review concerning impairment, except for those measured at fair value through results, in accordance with the IAS 39.

Following the initial recognition, the CP Group measures all financial liabilities by the amortised cost by using the effective interest method, except for financial liabilities at fair value through results. Such liabilities, including derivatives forming part of the liability, are measured at fair value, except for a derivative liability that is linked to, and should be settled by, the delivery of an unquoted equity instrument, whose fair value cannot be measured in a reliable manner, and such fair value shall be measured at cost.

Financial liabilities designated as hedged items are subject to the hedge accounting requirements set forth in the IAS 39.

Upon determining the fair value of a financial asset or liability, the market price shall apply if there is an active market. This is level 1 of the fair value hierarchy as defined in the IFRS 7.

If there is no active market, which is the case for some financial assets and liabilities, valuation techniques generally accepted in the market shall be used, which are based on market assumptions. This is level 2 of the fair value hierarchy as defined in the IFRS 7, and which is used by the CP Group.

The CP Group includes unquoted financial instruments in the 2nd level of the fair value hierarchy, such as derivatives. The most frequently used valuation models are discounted cash flows models and option assessment models, which incorporate, for instance, interest rate curves as well as market volatility.

In the case of more complex derivatives, more advanced valuation models are used, which incorporate assumptions and data not directly observable in the market. This is level 3 of the fair value hierarchy as defined in the IFRS 7.

## Impairment

In accordance with the IAS 36 – Impairment of assets, every time the book value of an asset exceeds its recoverable amount, its value is reduced to the recoverable amount, and the impairment loss is recognised in the results of the financial year.

At the date of each financial reporting period, the impairment of assets is assessed and, if there is objective evidence of impairment, an impairment loss is recognised in the income statements.

In the case of financial assets presenting impairment indicators, the respective recoverable amount is determined, and the impairment losses are accounted for against results.

### ■ Inventories

In the railway transportation components, the inventories of goods, as well as of raw, auxiliary and consumable materials, are accounted for at the acquisition cost, by adopting the weighted average cost as the costing method for outgoings. When necessary, the impairment is recognised for obsolete, slow-moving and defective inventories, and it is presented as a deduction from the asset.

Concerning the railway material maintenance, inventories (raw and auxiliary materials, finished and intermediate products and ongoing products and works) are accounted for at the acquisition cost (in the case of raw and auxiliary materials) or at the production cost (in the case of intermediate and finished products and of ongoing products and works), or at the net realisable value, the lowest from the two.

The acquisition or production cost includes all purchase costs, conversion costs and other costs incurred in order to place the inventories in their location as well as in their condition of use or sale. The net realisable value is the estimated selling price during the normal course of business, less the corresponding selling costs, as provided in the IAS 2 – Inventories.

The value of the inventories is written down to their net realisable value whenever such assets are carried at amounts higher than those that would foreseeably result from their sale or use.

Concerning the recognition and measurement of inventories of ongoing products and works, as well as finished products, the CP Group also takes into account the provisions set forth in the IAS 11 - Construction contracts, regarding the costs associated with construction contracts.

## Raw, auxiliary and consumable materials

Raw, auxiliary and consumable materials are measured at the lowest value between their acquisition cost and their net realisable value. The amounts inherent to the purchase are considered as cost, as well as the conversion costs and other costs incurred in order to place the inventories in their location as well as in their condition of use or sale.

The raw, auxiliary and consumable materials are adjusted based on the goods' movement, obsolescence, nature and useful life. The amount of any adjustment in inventories to the net realisable value is recognised as expense in the period where the loss occurs. When the circumstances that previously resulted in an adjustment to the value of inventories cease to take effect, or when there is an increase in the net realisable value due to the change in the economic circumstances, the amount of the adjustments is reversed, and such reversal shall be limited to the amount of the original adjustment.

The weighted average cost shall be the adopted method for the costing of outgoings.

## Ongoing products and works

The ongoing products and works inventories are valued at the lowest amount between the production cost (which includes the cost of the incorporated materials and of the subcontracting of services, direct labour and general manufacture expenses) and the net realisable value.

The net realisable value is considered to be the estimated selling price during the normal course of the business, less the estimated completion costs and the estimated costs necessary for the sale.

## Finished products

This heading accounts for the products transferred from ongoing products and works following their completion, and such products are valued at the production cost or at the net realisable value, if the latter is lower.

## Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and other short-term investments of high liquidity, as well as bank overdrafts. Bank overdrafts are shown in the Balance Sheet, in current liability, in the heading Funding obtained.

## Loans and bank overdrafts

Loans are initially recognised in the liability through the received nominal value, which is net of expenses related with issuance. The received nominal value corresponds to the respective fair value at that date. Afterwards, the loans are measured by using the amortised cost method. Any difference between the liability component and the payable nominal amount at the maturity date is recognised as interest expenses by using the effective interest rate method.

Any amounts in debt of the funding agreements satisfying any of the following criteria are classified as current liability:

- If it is expected that such amounts shall be settled during the entity's regular operating cycle;
- If such amounts are held primarily for the purpose of being traded;
- If such amounts should be settled within twelve months following the date of the balance sheet;
- If the entity does not hold an unconditional right to defer the settlement of the liability for at least twelve months following the date of the balance sheet.

All remaining loans are classified as non-current liability.

This way, the amount in debt of the funding agreements whose contractually established maturity exceeds one year, is classified into the non-current liability heading.

## Non-current assets held for sale and discontinuing operations

Non-current assets or groups of non-current assets held for sale (groups of assets together with the corresponding liabilities, which include at least one non-current asset), are classified as held for sale when their cost is primarily recovered through sale, the assets or groups of assets are available for immediate sale and when there is a significant likeliness for their sale, in accordance with the provisions set forth in the IFRS 5.

The companies of the CP Group also classify non-current assets or groups of assets acquired only with the purpose of their subsequent sale – which are available for immediate sale and have a significant likeliness thereof – as non-current assets held for sale.

Immediately before being classified as held for sale, the measurement of all non-current assets and all assets and liabilities included in a group of assets for sale is carried out in accordance with the applicable standards. Following their classification, such assets or groups of assets are measured at the least amount between their carrying value and their fair value deducted from the selling costs.

## Foreign currency transactions

### Functional and presentation currency

The elements included in the financial statements of the companies of the CP Group are measured by using the currency of the economic environment in which the entity operates ("functional currency"). The Financial Statements are presented in Euros, which is CP's functional and presentation currency.

### Transactions and balances

All transactions in currencies other than Euro are converted into functional currency by using the exchange rates in force at the date of the transaction.

In each balance sheet date, the monetary assets and liabilities denominated in foreign currency are converted into Euros by using the exchange rates in force at that date.

The exchange differences, whether favourable or unfavourable, arising out of the differences between the exchange rates in force at the date of the transactions and those in force at the date of collection/payment, or at the balance sheet date, are accounted for as income and expenses in the income statement of the period.

Non-monetary assets and liabilities accounted for pursuant to their fair value denominated in foreign currency are translated into Euros. For such purpose, the exchange rate in force at the date when the fair value was determined shall be used.

## Revenue recognition

### Passenger transportation

Revenue generated from this activity segment is related to the provision of passenger transportation services, the sale of goods and other services linked to railway transportation, less discounts and deductions to the payable price. Revenue is recognised at its fair value.

The provided services are generally concluded within each reporting period. The income resulting from the activity is recognised in the income statement at the time in which the service is provided, which is the date of the beginning of the travel, and when it is likely that the amount of revenue and expenses is reliably measurable and, also, that the economic benefits associated therewith will revert to the entity.

By means of a legal act, the Portuguese Government deemed the railway transportation as a public service operated under a concession agreement. In this sense, annual operations subsidies are assigned for the provision of such public service.

### Maintenance of rolling stock

In the case of recognition of the revenue linked to this activity segment, the provisions set forth in the IAS 11 – Construction contracts – are the ones used. Thus, it is ascertained whether the conditions necessary for considering a reliably estimated transaction outcome are met, which shall enable the percentage of completion method to be applied.

The percentage of completion method applied to the provision of services considers the total estimated costs, an amount assessed by the operational part, by taking the work to be developed and the past experience in similar works into account.

When the conditions necessary for considering a reliably estimated transaction outcome are not met, it is assessed the extent to which the recognised expenses are recoverable. If there are no indicators showing a likeliness of recoverability of the costs incurred, the revenue is not recognised and the costs incurred are recognised as expense.

### Remaining activity segments

Revenue is measured at the fair value of the received or receivable consideration. The revenue associated with a service provision is recognised with reference to the stage of completion of the transaction at the balance sheet date, once the outcome of a transaction may be reliably estimated. The outcome of a transaction may be reliably estimated once all the following conditions are met:

- If the amount of revenue may be reliably measured;
- If it is likely that the economic benefits associated with the transaction revert to the entity;
- If the stage of completion of the transaction at the balance sheet date may be reliably measured;
- If the costs incurred with the transaction and those incurred with the completion of the transaction may be reliably measured.

Revenue comprises the sums invoiced upon the sale of products or the provision of services, net of value added taxes, abatements and discounts. When the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be lower than the nominal amount. Such difference is recognised as interest revenue.

## Recognition of Expenses and Income

Expenses and income are accounted for in the period to which they refer, regardless of their payment or reception, in accordance with the underlying assumption of the accrual basis (economic periodisation).

The prepared financial statements inform not only the past transactions involving the payment and reception of cash but also the obligations of future payment and resources representing cash to be received in the future.

The accrual-based accounting is carried out through the use of the other accounts receivable and payable heading, as well as the deferrals heading.

## Provisions

Provisions are recognised when (i) the company has a present, legal or constructive obligation arising from a past event (ii) there is a likeliness of an outflow of resources in order to settle the obligation and (iii) when a reliable estimate of the amount of such obligation may be performed.

The provided value is the amount considered to be necessary in order to deal with estimated economic losses. When the time effect of the money is material, the provision amount is shown by the current value of the expenses expected to be necessary to settle the obligation.

## Interest and similar Income gained and Interest and Similar Expenses incurred

Interest is recognised in accordance with the accruals principle. The receivable dividends are recognised at the date in which the right to their reception is established.

Considering that they are recognised in expenses and losses of the period, their recognition is carried out in accordance with the accrual basis and in accordance with the applicable effective interest rate.

## Profit Tax

CP is the parent company of a group of companies, which is taxed in accordance with the Special Taxation Scheme for Groups of Companies, as provided in article 69 of the Portuguese Corporate Income Tax Code. Apart from CP itself, such group includes the following affiliate companies: EMEF – Empresa de Manutenção de Equipamento Ferroviário, SA; CP CARGA - Logística e Transportes Ferroviários de Mercadorias, SA (until 2015); SAROS – Sociedade de Mediação de Seguros, Lda., and, since the 2014 financial year, Fernave – Formação Técnica, Psicologia Aplicada e Consultoria em Transportes e Portos, S.A., and Ecosaúde – Educação, Investigação e Consultoria em Trabalho, Saúde e Ambiente, S.A.

The CP Group does not account for deferred tax assets connected with the reporting of tax losses, impairments and temporary provisions which have not been accepted for tax purposes, because the Group considers that there are no expectations that the aforementioned group of companies – which is under the special taxation scheme – will obtain future taxable profits which enable the use of CP's accumulated tax losses. By the end of 2016, the total deductible tax losses of the CP Group amounted approximately to 450.8 million Euros, which may be used between 2016 and 2027.

Similarly, deferred tax liabilities connected with reassessed fixed tangible assets (rolling stock) have not been accounted for in previous periods, since it is considered that there is no expectation of significant changes to the form of financing of the public transportation service and to the economic conditions that may result in enough basis of assessment to create assessment and, as a result, that give rise to income tax payments.

Further concerning the income tax, CP, in 2014, joined the special scheme applicable to the deferred tax assets (Law no. 61/2014, of the 26$^{th}$ of August), which, provided certain requirements are complied with, enable the formation of an active deferred tax that may be converted into tax credit, used for the payment of income and wealth taxes or, at most, such active deferred tax may be refunded to the taxpayer. Therefore, in 2014, CP recognised a deferred tax asset based on the proceeds of the total liability relating to occupational accident pensions by the corporate income tax rate in force, plus the corresponding surtax. Due to the fact that the company's responsible entities did not approve its application to join the aforementioned special scheme, this amount was derecognised in the 2016 financial year.

The accounting result has been adjusted in order to reflect the estimated corporate tax to be paid, associated with autonomous taxation.

## Contingent assets and liabilities

### Contingent assets

A contingent asset is a possible asset resulting from past events and whose existence will only be confirmed by the occurrence, or non-occurrence, of one or more uncertain future events which are not entirely under the entity's control.

Contingent assets are not recognised in the financial statements, but are disclosed in the attachment when it is likely there will be an inflow of economic benefits.

### Contingent liabilities

A contingent liability occurs when there is:

- A possible obligation resulting from past events and whose existence will only be confirmed by the occurrence, or non-occurrence, of one or more uncertain future events which are not entirely under the entity's control; or
- A current obligation of past events but which is not recognised because (i) it is unlikely there will be a need for an outflow of resources incorporating economic benefits in order to settle the obligation; or (ii) the amount of the obligation cannot be measured with a sufficient degree of reliability.

Contingent assets are not recognised in the financial statements, though they are disclosed in the attachment to the respective statements, unless there is a remote possibility of an outflow of resources incorporating future economic benefits.

## Subsequent Events

The financial statements set forth herein reflect the subsequent events occurred until the 12th of April, 2017. The Management Board has approved such financial statements on the aforementioned date, as referred to in note 2.

The events occurred after the balance sheet date under conditions which already existed at the balance sheet date are considered in the preparation of the financial statements. The material events after the balance sheet date which do not lead to adjustments are disclosed in note 49.

### Value Judgments

The preparation of the financial statements in accordance with the IFRS requires that the managers express their judgment in the process of application of the accounting policies.

The value judgement made in the application process of the accounting policies and which can have the greatest impact in the recognised amounts in the financial statements are the following:

- Provisions – the established provisions are accounted for by the best estimate of the expenditure required to settle the liability as at the balance sheet date;
- Recoverability of debt balances of customers and other debtors – impairment losses relating to debt balances of customers and other debtors are based on the assessment of the likeliness of recovery of balances of accounts receivable, seniority of balances, debt cancellation and other factors considered relevant. There are certain circumstances and facts that could change the estimate of impairment losses of receivable balances of the accounts vis-à-vis the considered assumptions. These changes may arise out of the economic environment, industry trends, the deterioration of the credit situation of main customers and significant non-compliances. This assessment process is subject to several estimates and judgements. The alterations of these estimates may imply the establishment of different impairment levels, thus resulting in different impacts in the results;
- Revenue recognition – in the recognition of revenue it is assessed whether the necessary conditions to consider a transaction outcome as reliably estimated are met, allowing the application of the percentage of completion method. The percentage of completion method applied to the provision of services considers the total estimated costs, an amount assessed by the operational part, by taking the work to be developed and the past experience in similar works into account. When the conditions necessary for considering a reliably estimated transaction outcome are not met, the extent to which the recognised expenses are recoverable is assessed. If there are no indicators showing a likeliness of recoverability of the costs incurred, the revenue is not recognised and the costs incurred are recognised as expense;
- Impairment losses – inventories – when determining the impairment losses of inventories, different criteria are applied depending on the state, seniority, nature/purpose of the inventories, whereas such criteria reflect the loss in value of inventories;
- Profit taxes – there are several transactions and calculations for which the determination of the final value of the tax to be paid is uncertain during the ordinary business cycle. Other interpretations and estimates could result in a different level of profit taxes, whether current or deferred, recognised in the period. In Portugal, the Tax Authorities have the assignment of reviewing the calculation of the taxable amount made, over a period of four years, in case of tax losses brought forward. This way, corrections to the taxable amount could occur, mainly resulting from differences in the interpretation of tax legislation. However, it is believed that there will be no significant corrections to profit taxes accounted for in the financial statements;
- The fair value of the financial derivatives is determined by an external entity, by using the discounted cash flows method. All calculations were made based on the income curves set forth by Reuters on the reference day of the financial statements. The valuations are made by taking into account the discounted cash flows and the variation of the holding indexing rates since their beginning until the current date. In operations involving options, it is attributed a delta of 0% or 100% to the flows, depending on whether the barrier in question was achieved. The future projection of the barriers in question is determined by using the current income curve.

## Main Assumptions Concerning the Future

The financial statements were prepared based on the going concern of operations principle.

The Board of Directors understands it is adequate to prepare the financial statements based on continuity, considering the following factors:

- The operating situation of CP and of the companies of the Group presents sustainability, and the general improvement of the results of the Group's companies should be noted, which suggests there are factors of future sustainability;

- The State has guaranteed all its support, particularly concerning the necessary support to CP's funding, aiming to ensure the debt service and the needs of operation and investment;
- It is also important to mention the importance of the service CP Group provides nowadays to the Portuguese economy, particularly regarding the transportation of passengers, which is a factor of vital importance for the functioning of the economic activity, reinforcing the need of the State to ensure, in possible adverse situations, the necessary support for the continuity of the CP Group.

## Main sources for estimate uncertainty

The preparation of the financial statements in accordance with the IFRS requires the use of a number of important accounting estimates.

The estimates are based on the best known knowledge at each time and on the actions planned to be made, which are permanently reviewed based on the available information. Alterations in the facts and circumstances may lead to the revision of the estimates. This may mean the actual future results can be different from the mentioned estimates.

The main sources for estimate uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying values of assets and liabilities during the accounting period are:

### Useful Life of Fixed Tangible Assets

The useful life of an asset is defined concerning the expected utility of the asset for the entity. The asset management policy may involve the disposal of assets after a specific period of time or after the consumption of a specified proportion of the future economic benefits incorporated into the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the asset's useful life is a matter of value judgment based in the entity's experience with similar assets.

### Fair Value of the Financial Instruments

The fair value is based on market quotations, when available. If there is no quotation, the fair value is determined in accordance with the use of recent transaction prices, which are similar and executed in market conditions, or in accordance with assessment methods based on techniques of future cash flows - which are discounted by considering market conditions, the temporal value, the yield curve and volatile factors. Such methodologies may require the use of assumptions or judgements when estimating fair value.

The fair value of the financial derivatives is determined by an external entity, by using the discounted cash flows method. All calculations were made based on yield curves set forth by Reuters at the reference day of the financial statements. Thus, the moment in which the estimates are made is the main source of uncertainty.

### Bad Debts

Impairment losses concerning doubtful credits are based on the assessment of the likelihood of recoverability of the balances of receivables, seniority of balances, debt annulments and other factors. There are certain circumstances and facts which might alter the estimation of impairment losses of balances of receivables vis-à-vis the considered assumptions, including alterations of the economic environment, of the sectorial trends, of the deterioration of the credit standing of the main customers and of significant defaults. This assessment process is subject to several estimates and judgements. The alterations of these estimates may imply the establishment of different impairment levels, thus resulting in different impacts in the results.

## Provisions

Provisions are liabilities of an uncertain amount or temporal event. By taking into account the principle of prudence, the companies of the CP Group have built provisions whenever there is an actual obligation (legal or constructive), derived from a past event, in which it is likely that an outflow of resources for settling the obligation will occur, and a reliable estimate of the mentioned obligation may be carried out. As for the establishment of provisions for legal proceedings, they require the use of judgment, based on the last known information at the time of preparation of the financial statements, namely regarding the likelihood of losing the legal proceedings and of the estimated value of such loss. The alterations of these estimates may imply impacts on the results.

## Non-Current Assets Held for Sale

Non-current assets held for sale should be recognised by the lowest value between their net book value and their fair value, deducted from selling costs, according to the IFRS 5. When determining fair value, particularly concerning the rolling stock, and bearing in consideration the absence of an active market, the value of recent transactions with similar material is considered by the CP Group as a reference, by adjusting such value to the technical features of the material and to the existing market demand. The existence and amount of the impairment to be recognised is established based on the estimated selling amount, and the actual impact will only be known at the moment of the effective sale of the assets - which may imply variations of some significance in results.

## Amendments to standards with effect as of the 1st of January 2016

The amendments to the standards with effect as of the 1st of January 2016 that may have an impact on the CP Group are as follows:

### IAS 1 - Review of disclosures

The amendment to IAS 1 stems from the review of disclosures in the IFRS, particularly concerning materiality and aggregation, presentation of subtotals, structure of the financial statements, disclosure of accounting policies and presentation of the items of other comprehensive income derived from investments measured by the equity method.

There were no significant impacts arising from the amendment to this IAS in the CP Group.

### IAS 16 and IAS 38 - Permitted depreciation and amortisation calculation methods

The amendment clarifies that the use of asset depreciation/amortisation calculation methods based on the obtained revenue are not generally considered appropriate for defining the consumption pattern of the economic benefits associated with the asset. The amendment shall be applied prospectively.

There were no impacts arising from the amendment to this IAS in the CP Group.

### IAS 19 - Employee benefits - employee contributions

The amendment relates to the accounting for employee and third party contributions for defined benefit plans granted to employees, and is intended to simplify the accounting for such contributions, in cases where they are independent of the employees' years of service.

There were no impacts arising from the amendment to this IAS in the CP Group.

### IAS 27 - Equity method in separate financial statements

The amendment allows for an entity to apply the equity method in measuring investments in subsidiaries, joint ventures and associated companies in separate financial statements. The amendment shall be applied retrospectively.

There were no impacts arising from the amendment to this IAS in the CP Group.

### IFRS 10, 12 and IAS 28 - Investment entity: application of the exemption from the consolidation obligation

The amendment clarifies that the exemption from the consolidation obligation applies to an intermediate parent company which is a subsidiary of an investment entity. It further clarifies that the option to apply the equity method is extended to an entity which is not an investment entity, but holding an interest in an associated company or joint venture constituting an investment entity.

There were no impacts arising from the amendment to these IFRS in the CP Group.

### IFRS 11 - Accounting for the acquisition of an interest in a joint venture

The amendment introduces guidelines on the accounting to be carried out upon the acquisition of an interest in a joint venture qualifying as a business, to which the principles of the IFRS 3 – Business combinations shall apply, except for the valuation of any previously held interest.

There were no impacts arising from the amendment to this IFRS in the CP Group.

## IFRS 3 - Business combinations

The improvement to the IFRS 3 clarifies that a contingent payment obligation is classified in accordance with the IAS 32 – Financial instruments: presentation, if it falls under the definition of financial instrument, as liability or an equity instrument. Contingent payments classified as liabilities are initially measured at fair value. Subsequently, fair value variations are accounted for in results of the financial year. Contingent payments classified as equity instruments are measured at fair value upon their initial recognition.

There were no impacts arising from the amendment to this IFRS in the CP Group.

## IFRS 8 - Operating segments

The improvement to the IFRS 8 requires the disclosure of the judgments made by management for the aggregation of operating segments, as well as of the corresponding quantitative information. It further requires the reconciliation between assets by segment and the total assets of the entity, where this information is reported to the person responsible for operating decision-making.

There were no impacts arising from the amendment to this IFRS in the CP Group.

## IFRS 13 - Fair value - measurement and disclosure

The improvement clarifies that the standard does not rule out the possibility of measurement of current accounts receivable and payable based on invoiced amounts, when the discount's effect is not material.

There were no impacts arising from the amendment to this IFRS in the CP Group.

## IAS 16 - Fixed tangible assets and IAS 38 - Intangible assets

The improvement clarifies the accounting treatment for gross book values and accumulated depreciations/amortisations once the entity adopts the revaluation model in the subsequent measurement of fixed tangible assets and/or intangible assets, by foreseeing two recording methods.

There were no impacts arising from the amendment to these IAS in the CP Group.

## IAS 24 - Related party disclosures

The improvement amends the definition of related party, where all entities providing management services to the reporting entity or to the parent company of the reporting entity became part of this concept.

There were no impacts arising from the amendment to these IAS in the CP Group.

## IFRS 5 - Non-current assets held for sale and discontinued operations

The improvement clarifies that an asset (or disposal group) being reclassified from held for sale to held for distribution or vice-versa is not an amendment to the sale or distribution plan.

There were no impacts arising from the amendment to these IFRS in the CP Group.

## IFRS 7 - Financial instruments: disclosures

The improvement includes additional information on the significance of continuing involvement in the transfer (derecognition) of financial assets for the purpose of disclosure.

There were no impacts arising from the amendment to these IFRS in the CP Group.

### IAS 19 - Employee benefits

The improvement clarifies that high quality bond rates denominated in the same currency in which the liabilities are calculated should be taken into account when determining the discount rate of liabilities with defined post-employment benefit plans.

There were no impacts arising from the amendment to these IAS in the CP Group.

### IAS 34 - Interim financial reporting

The improvement clarifies the meaning of information disclosed in another area of the interim financial statements and requires the information identified by cross-reference to be set forth in the main financial statements, or in other statements made available, under the same conditions and on the same date of the interim financial statements.

There were no impacts arising from the amendment to these IAS in the CP Group.

## CASH FLOW (NOTE 4)

The cash flow statement is prepared using the direct method, through which gross cash flow receivables and payments in operating activities, either from investment or from funding, are disclosed.

The Group classifies paid interest and dividends as funding activities, and received interest and dividends as investment activities.

As at December 31$^{st}$, 2016, all cash flow balances and their equivalents are available for use.

### CASH AND BANK DEPOSITS

Cash and bank deposits comprise the following balances:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Cash | 395 880 | 346 375 |
| Bank deposits | 16 518 209 | 13 963 589 |
| **Total** | **16 914 089** | **14 309 964** |
| Bank overdrafts (a) | ( 225 436) | ( 188 482) |
| **Total** | **16 688 653** | **14 121 482** |

(a) the amount of the bank overdrafts is accounted for in funding obtained

## Accounting Policies, Changes in Accounting Estimates and Errors (Note 5)

Nothing to mention.

## Result Composition by Business Segment (note 6)

The mode of business segmentation used by the CP Group is based on the nature of the services provided. This is the mode in which the Board of Directors analyses and controls its business, and it is also the mode of organising and communicating information.

Considering that IFRS 8 defines quantitative schemes from which the segments must be deemed as operating segments to be disclosed, the following segments to be disclosed within the scope of this note were identified:

- Suburban passenger transportation (includes suburban passenger transportation in the Lisbon and Porto areas);
- Long-distance passenger transportation (it connects the main Portuguese cities, and customers mainly have a business or leisure motivation to travel), international (passenger transportation to Spain, or the border between Spain and France) and regional (medium and short-distance service for systematic regional or local travels, transporting passengers for commuting from home to work or school, as well as for the purpose of dealing with affairs/business); and
- Maintenance, upkeep and construction of rolling stock.

Upon the aggregation performed to the operating segments, it aimed at ensuring that they had similar economic features, according to the provisions set forth in the IFRS 8.

The data regarding other non-reportable business activities and operating segments were combined and disclosed in a category called "all other segments". Such category includes segments such as the training, healthcare services and insurance mediation segments, which did not reach the quantitative levels of the IFRS 8.

The financial information of the main business segments of the Group, relating to the periods ended on the 31st of December 2015 and 2016, is detailed below:

**Operating result per business segment of the CP Group 2015**

(amounts in Euros)

| OPERATING CONSOLIDATED INCOME AND EXPENSES | Transportation of passengers in Suburban services | Transportation of passengers in long-distance, international and regional services | Rolling stock maintenance and upkeep | Remaining areas | Individual Operating Income Statement of CP Group | Intra-group Decomm. and Adjustments | Consolidated Operating Income Statement of CP Group |
|---|---|---|---|---|---|---|---|
| Provided sales and services | 99 862 337 | 124 361 480 | 58 562 230 | 20 996 329 | 303 782 376 | (39 237 166) | 264 545 210 |
| * Provided sales and services - intra-group decommitments | ( 12) | ( 129 937) | 36 688 859 | (75 796 076) | | | |
| Operating allowances | - | - | 6 649 | - | 6 649 | - | 6 649 |
| * Operating allowances - intra-group decommitments | - | - | - | - | | | |
| Gains/losses attributed to subsidiaries, associated companies and joint ventures | - | - | 453 565 | (9 685 159) | (9 231 594) | (1 936 875) | (11 168 469) |
| * Gains/losses attributed to subs., assoc. comp., joint ventures - intra-group decommitments | - | - | - | (1 936 875) | | | |
| Changes in production inventories | - | - | ( 153 043) | - | ( 153 043) | 31 512 | ( 121 531) |
| * Changes in production inventories - intra-group decommitments | - | - | ( 31 512) | 63 024 | | | |
| Capitalised production costs | - | - | 1 140 | - | 1 140 | 7 309 207 | 7 310 347 |
| * Capitalised production costs - intra-group decommitments | - | - | (7 309 208) | 14 618 415 | | | |
| Sold commodities and consumed materials costs | ( 680 925) | (4 657 967) | (16 396 296) | ( 646 301) | (22 381 489) | 450 | (22 381 039) |
| * Sold commodities and consumed materials costs - intra-group decommitments | - | - | ( 450) | 900 | | | |
| External services and supplies | (57 006 317) | (85 358 695) | (13 718 177) | (23 486 630) | (179 569 819) | 34 445 562 | (145 124 257) |
| * External services and supplies - intra-group decommitments | 5 769 316 | 298 903 | (4 174 834) | 32 552 177 | | | |
| Personnel expenses | (32 396 551) | (44 245 317) | (25 314 167) | (51 073 176) | (153 029 211) | 2 074 453 | (150 954 758) |
| * Personnel expenses - intra-group decommitments | - | 308 | ( 732 904) | 2 807 049 | | | |
| Inventory impairment (losses/rever.) | - | - | ( 418 132) | ( 255 169) | ( 673 301) | - | ( 673 301) |
| * Inventory impairment (losses/rever.) - intra-group decommitments | - | - | - | - | | | |
| Impairment of receivables (losses/reversals) | 634 306 | 38 074 | ( 7 225) | (31 951 173) | (31 286 018) | - | (31 286 018) |
| * Impairment of receivables (losses/reversals) - intra-group decommitments | - | - | - | - | | | |
| Provisions (increases/decreases) | - | - | 184 733 | 296 835 | 481 568 | 411 219 | 892 787 |
| * Provisions (increases/decreases) - intra-group decommitments | - | - | - | 411 219 | | | |
| Impairm. of non-depr./non-amort. invest. (losses/reversals) | - | - | - | (93 365 403) | (93 365 403) | - | (93 365 403) |
| * Impairm. of non-depr./non-amort. invest. (losses/reversals) - intra-group decommitments | - | - | - | - | | | |
| Other income | 9 052 174 | 4 101 069 | 1 209 395 | 59 263 548 | 73 626 186 | (4 714 862) | 68 911 324 |
| * Other income - intra-group decommitments | ( 10 001) | 120 | 215 200 | (4 920 181) | | | |
| Other expenses | (1 004 817) | (1 295 830) | (1 087 628) | (1 160 833) | (4 549 108) | 231 701 | (4 317 407) |
| * Other expenses - intra-group decommitments | - | 657 | ( 227 431) | 458 475 | | | |
| **Result before depreciations, financing expenses and taxes** | **18 460 207** | **(7 057 186)** | **3 323 044** | **(131 067 132)** | **(116 341 067)** | **(1 384 799)** | **(117 725 866)** |
| **Result before depreciations, financing expenses and taxes - intra-group decommitments** | **5 759 303** | **170 051** | **24 427 720** | **(31 741 873)** | **-** | **-** | **-** |
| Expenses/reversals of depreciation and amortisation | (29 333 536) | (18 085 075) | (1 114 171) | (11 629 928) | (60 162 710) | - | (60 162 710) |
| Impairment of depreciable/amortisable investments (losses/reversals) | - | - | - | 1 158 064 | 1 158 064 | - | 1 158 064 |
| **Operating result (before financing expenses and taxes)** | **(5 114 026)** | **(24 972 210)** | **26 636 593** | **(173 280 869)** | **(175 345 713)** | **(1 384 799)** | **(176 730 512)** |

Operating result per business segment of the CP Group 2016

(amounts in Euros)

| OPERATING CONSOLIDATED INCOME AND EXPENSES | Transportation of passengers in Suburban services | Transportation of passengers in long-distance, international and regional services | Rolling stock maintenance and upkeep | Remaining areas | Individual Operating Income Statement of CP Group | Intra-group Decomm. and Adjustments | Consolidated Operating Income Statement of CP Group |
|---|---|---|---|---|---|---|---|
| Provided sales and services | 103 684 528 | 130 093 043 | 63 044 806 | 9 807 080 | 306 629 457 | (40 410 571) | 266 218 886 |
| * Provided sales and services - intra-group decommitments | ( 363) | ( 544) | (38 181 702) | (2 227 962) | | | |
| Operating allowances | - | - | - | 16 929 | 16 929 | - | 16 929 |
| * Operating allowances - intra-group decommitments | - | - | - | - | | | |
| Gains/losses attributed to subsidiaries, associated companies and joint ventures | - | - | 426 394 | 3 256 950 | 3 683 344 | (3 173 614) | 509 730 |
| * Gains/losses attributed to subs., assoc. comp., joint ventures - intra-group decomm. | - | - | - | (3 173 614) | | | |
| Changes in production inventories | - | - | ( 35 661) | - | ( 35 661) | - | ( 35 661) |
| * Changes in production inventories - intra-group decommitments | - | - | - | - | | | |
| Capitalised production costs | - | - | - | - | - | 8 334 943 | 8 334 943 |
| * Capitalised production costs - intra-group decommitments | - | - | 8 334 943 | - | | | |
| Sold commodities and consumed materials costs | ( 840 878) | (4 214 070) | (17 827 250) | ( 404 573) | (23 286 771) | - | (23 286 771) |
| * Sold commodities and consumed materials costs - intra-group decommitments | - | - | - | - | | | |
| External services and supplies | (56 726 337) | (87 632 813) | (15 529 870) | (16 423 593) | (176 312 613) | 34 991 185 | (141 321 428) |
| * External services and supplies - intra-group decommitments | 12 528 481 | 13 948 909 | 4 454 760 | 4 059 035 | | | |
| Personnel expenses | (33 381 826) | (44 104 898) | (25 495 239) | (23 439 715) | (126 421 678) | 1 646 856 | (124 774 822) |
| * Personnel expenses - intra-group decommitments | - | - | 80 718 | 1 566 138 | | | |
| Inventory impairment (losses/rever.) | - | - | ( 59 398) | ( 266 346) | ( 325 744) | - | ( 325 744) |
| * Inventory impairment (losses/rever.) - intra-group decommitments | - | - | - | - | | | |
| Impairment of receivables (losses/reversals) | ( 25 749) | ( 295 843) | ( 33 514) | 30 390 | ( 324 716) | - | ( 324 716) |
| * Impairment of receivables (losses/reversals) - intra-group decommitments | - | - | - | - | | | |
| Provisions (increases/decreases) | - | - | 30 247 | (11 496 936) | (11 466 689) | 122 783 | (11 343 906) |
| * Provisions (increases/decreases) - intra-group decommitments | - | - | - | 122 783 | | | |
| Impairm. of non-depr./non-amort. invest. (losses/reversals) | - | - | - | 1 573 246 | 1 573 246 | - | 1 573 246 |
| * Impairm. of non-depr./non-amort. invest. (losses/reversals) - intra-group decomm. | - | - | - | - | | | |
| Other income | 9 640 006 | 4 158 946 | 2 730 503 | 26 032 043 | 42 561 498 | (6 425 862) | 36 135 636 |
| * Other income - intra-group decommitments | ( 79 384) | ( 118 973) | (1 385 886) | (4 841 619) | | | |
| Other expenses | (1 779 172) | (1 519 985) | (1 846 790) | (6 192 407) | (11 338 354) | 2 006 359 | (9 331 995) |
| * Other expenses - intra-group decommitments | 135 | 1 753 | 1 823 896 | 180 575 | | | |
| **Result before depreciations, financing expenses and taxes** | **20 570 572** | **(3 515 620)** | **5 404 228** | **(17 506 932)** | **4 952 248** | **(2 907 921)** | **2 044 327** |
| **Result before depreciations, financing expenses and taxes - intra-group decommitments** | **12 448 869** | **13 831 145** | **(24 873 271)** | **(4 314 664)** | **-** | - | **-** |
| Expenses/reversals of depreciation and amortisation | (29 630 997) | (18 028 029) | (1 020 879) | (7 806 692) | (56 486 597) | - | (56 486 597) |
| Impairment of depreciable/amortisable investments (losses/reversals) | - | ( 48 060) | - | 903 593 | 855 533 | - | 855 533 |
| **Operating result (before financing expenses and taxes)** | **3 388 444** | **(7 760 564)** | **(20 489 922)** | **(28 724 695)** | **(50 678 816)** | **(2 907 921)** | **(53 586 737)** |

The financial result is not shown per segment, since operating decisions are made based on the operating results per business segment, and it is not possible to allocate/assign the existing funding to all segments.

Assets and liabilities of such business segments show the following amounts on the 31st of December, 2015 and 2016:

Assets and liabilities per segments of the CP Group as at the 31st December, 2015 (amounts in Euros)

| | Transportation of passengers in suburban, long-distance, international and regional services | Rolling stock maintenance and upkeep | Remaining areas | Total reported by segments | Intra-group Decomm. and Adjustments | Total consolidated assets and liabilities 2015 |
|---|---|---|---|---|---|---|
| Non-current asset of the reportable segments | 640 021 970 | 7 050 751 | 775 538 | 647 848 259 | ( 29 697 545) | 618 150 714 |
| Current asset of the reportable segments | 71 031 452 | 38 355 600 | 1 319 445 | 110 706 497 | ( 3 251 240) | 107 455 257 |
| **Total asset of the reportable segments** | **711 053 422** | **45 406 351** | **2 094 983** | **758 554 756** | **( 32 948 785)** | **725 605 971** |
| Non-current liability of the reportable segments | 3 065 323 267 | 2 989 795 | - | 3 068 313 062 | ( 2 868 898) | 3 065 444 164 |
| Current liability of the reportable segments | 676 772 816 | 34 536 561 | 4 541 679 | 715 851 056 | 106 454 991 | 822 306 047 |
| **Total liability of the reportable segments** | **3 742 096 083** | **37 526 356** | **4 541 679** | **3 784 164 118** | **103 586 093** | **3 887 750 211** |

Assets and liabilities per segments of the CP Group as at the 31st December, 2016 (amounts in Euros)

| | Transportation of passengers in suburban, long-distance, international and regional services | Rolling stock maintenance and upkeep | Remaining areas | Total reported by segments | Intra-group Decomm. and Adjustments | Total consolidated assets and liabilities 2016 |
|---|---|---|---|---|---|---|
| Non-current asset of the reportable segments | 597 974 557 | 6 767 743 | 571 023 | 605 313 323 | ( 33 730 060) | 571 583 263 |
| Current asset of the reportable segments | 52 742 879 | 43 261 922 | 1 499 461 | 97 504 262 | ( 1 394 213) | 96 110 049 |
| **Total asset of the reportable segments** | **650 717 436** | **50 029 665** | **2 070 484** | **702 817 585** | **( 35 124 273)** | **667 693 312** |
| Non-current liability of the reportable segments | 2 641 545 579 | 15 084 547 | 295 824 | 2 656 925 950 | ( 16 287 506) | 2 640 638 444 |
| Current liability of the reportable segments | 538 377 885 | 23 565 195 | 4 383 555 | 566 326 635 | 112 111 637 | 678 438 272 |
| **Total liability of the reportable segments** | **3 179 923 464** | **38 649 742** | **4 679 379** | **3 223 252 585** | **95 824 131** | **3 319 076 716** |

The existing assets and liabilities are not segregated by business segment, since it is impossible to get such information for all segments, particularly with regard to passenger transportation, in which alterations to the allocation of assets to different segments are usually performed, as well as considering the fact that such information is not presented on a detailed and regular basis for decision making purposes for all segments. In fact, assets and liabilities are only reported on a regular basis per company of the Group, for decision making purposes.

# FIXED TANGIBLE ASSETS (NOTE 7)

By the end of 2016, the CP Group had fixed tangible assets organised by fixed asset categories, as shown in the following table:

(amounts in Euros)

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Gross Amount:** | | |
| Land and natural resources | 20 810 386 | 20 810 386 |
| Buildings and other constructions | 82 637 424 | 82 119 770 |
| Basic equipment | 1 392 911 086 | 1 386 792 208 |
| Transportation equipment | 2 957 989 | 3 070 346 |
| Administrative equipment | 24 019 619 | 22 444 885 |
| Other fixed tangible assets | 64 607 954 | 65 002 542 |
| Ongoing investments | 500 635 | 91 403 |
| Advance payments on account of investments | - | - |
| | **1 588 445 093** | **1 580 331 540** |
| **Accumulated depreciation and impairment** | | |
| Depreciation of the period | 56 465 759 | 60 151 152 |
| Accumulated depreciation of previous periods | 983 231 595 | 926 358 210 |
| Impairment losses of the period | 855 533 | 1 158 064 |
| Impairment losses of previous periods | 5 433 882 | 5 986 884 |
| Cancellations of the period | ( 69 334) | ( 78 354) |
| | **1 045 917 435** | **993 575 956** |
| **Net book value** | **542 527 658** | **586 755 584** |

The movements in the heading of fixed tangible assets throughout 2016 are summarised in the following table:

(amounts in Euros)

| | Opening balance | Additions | Revaluations/ Impairments | Disposals | Assets classified as held for sale | Write-offs | Transfers | Other adjustments | Closing balance |
|---|---|---|---|---|---|---|---|---|---|
| **Gross amount:** | | | | | | | | | |
| Land and natural resources | 20 810 386 | - | - | - | - | - | - | - | 20 810 386 |
| Buildings and other constructions | 82 119 770 | 36 870 | - | - | - | ( 4 602) | 485 386 | - | 82 637 424 |
| Basic equipment | 1 386 792 208 | 98 959 | - | - | 11 982 | ( 2 418 636) | 7 294 466 | 1 132 107 | 1 392 911 086 |
| Transportation equipment | 3 070 347 | 691 | - | ( 52 643) | - | ( 60 406) | - | - | 2 957 989 |
| Administrative equipment | 22 444 885 | 1 588 160 | - | ( 24 474) | - | ( 109 209) | 120 749 | ( 492) | 24 019 619 |
| Other fixed tangible assets | 65 002 541 | 559 469 | - | - | - | ( 963 173) | 9 117 | - | 64 607 954 |
| Ongoing investments | 91 403 | 9 532 365 | - | - | - | - | ( 9 123 133) | - | 500 635 |
| Advance payments on account of investments | - | - | - | - | - | - | - | - | - |
| | **1 580 331 540** | **11 816 514** | **-** | **( 77 117)** | **11 982** | **( 3 556 026)** | **( 1 213 415)** | **1 131 615** | **1 588 445 093** |
| **Accumulated depreciation and impairment** | | | | | | | | | |
| Buildings and other constructions | 35 674 717 | 2 435 250 | - | - | - | ( 4 601) | - | - | 38 105 366 |
| Basic equipment | 880 694 883 | 50 671 661 | - | - | 11 982 | ( 2 418 636) | - | - | 928 959 890 |
| Transportation equipment | 2 931 592 | 63 353 | - | ( 52 645) | - | ( 60 406) | - | - | 2 881 894 |
| Administrative equipment | 21 476 003 | 855 789 | - | ( 15 506) | - | ( 108 682) | - | ( 492) | 22 207 112 |
| Other fixed tangible assets | 45 653 814 | 2 439 706 | - | - | - | ( 619 761) | - | - | 47 473 759 |
| Fix. Tang. Assets-Acc.Impair.Losses - Basic Equip. | 7 144 947 | ( 855 533) | - | - | - | - | - | - | 6 289 414 |
| | **993 575 956** | **55 610 226** | **-** | **( 68 151)** | **11 982** | **( 3 212 086)** | **-** | **( 492)** | **1 045 917 435** |
| **Total** | **586 755 584** | | | | | | | | **542 527 658** |

Fixed tangible assets of the CP Group are measured at cost, which are depreciated on a straight-line basis, in accordance with the useful lives specified in note 3.

The most significant investments of 2016, relate essentially to periodic R2 and R3 repairs and half-life intervention for tilting trains.

The decommissioning of rolling stock, totalling a net amount of approximately 2.6 million Euros, should also be mentioned.

The renovation works performed in the Santa Apolónia waste yard and the High-Speed Maintenance Unit in Contumil should be highlighted with reference to the maintenance segment, and have had an impact on the heading buildings and other constructions.

The decommissioning of the Terreiro do Paço River terminal building, as per order no. 10759-A/2016, from the Offices of the Deputy Secretary of State of Treasury and Finance and of the Deputy Secretary of State of Infrastructure should be highlighted.

Accumulated depreciations mentioned in the additions column relate to the depreciation of assets, in accordance with their useful life, from which the depreciation of rolling stock and the impairments recognised in rolling stock arising from accidents stand out.

As at December 31st, 2016, the following fixed tangible assets were granted as loan guarantee obtained by CP from Eurofima:

(amounts in Euros)

| Description | Liability |
|---|---|
| Railcars | 210 376 213 |
| **Total** | **210 376 213** |

## INTANGIBLE ASSETS (NOTE 8)

Intangible assets of the CP Group essentially relate to the implementation of IT systems. There is no situation in which the asset has been internally developed, as per the following table:

(amounts in Euros)

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Gross Amount:** | | |
| Research and development expenses | 30 591 | 24 002 |
| Computer programmes | 1 417 380 | 1 152 686 |
| Intangible assets under construction | - | 18 750 |
| | **1 447 971** | **1 195 438** |
| **Accumulated amortisation and impairment** | | |
| Amortisation of the period | 20 838 | 11 558 |
| Accumulated amortisation of previous periods | 1 165 935 | 1 154 377 |
| | **1 186 773** | **1 165 935** |
| **Net book value** | **261 198** | **29 503** |

For amortisation purposes, the useful life of these assets is considered to be, as a rule, 3 years. However, this estimate is reviewed on an annual basis according to the expected use of the asset. Intangible assets are measured at cost and amortised by the straight-line method in twelfths starting on the date of entry into production of the asset.

The variation in the heading of intangible assets throughout 2016 is analysed as follows:

(amounts in Euros)

| | Opening balance | Additions | Reval / Impairments | Disposals | Assets held for sale | Write-offs | Transfers | Closing balance |
|---|---|---|---|---|---|---|---|---|
| **Gross amount:** | | | | | | | | |
| Research and development expenses | 24 002 | 6 589 | - | - | - | - | - | 30 591 |
| Computer programmes | 1 152 686 | 238 444 | - | - | - | - | 26 250 | 1 417 380 |
| Intangible assets under construction | 18 750 | 7 500 | - | - | - | - | (26 250) | - |
| **sub-total** | **1 195 438** | **252 533** | - | **-** | - | **-** | - | **1 447 971** |
| **Accumulated amortisation and impairment** | | | | | | | | |
| Amortisation of the period | - | 20 838 | - | - | - | - | - | 20 838 |
| Accumulated amortisation of previous periods | 1 165 935 | - | - | - | - | - | - | 1 165 935 |
| **sub-total** | **1 165 935** | **20 838** | **-** | **-** | **-** | **-** | - | **1 186 773** |
| **Total** | **29 503** | | | | | | | **261 198** |

The gross value of this heading sustained an increase vis-à-vis the previous period due to the purchase of "Oficina Digital" [Digital Workshop] software for the rolling stock maintenance segment, the purchase of SAP licenses and the completion of the document management project started in the previous year. Software licenses for the training segment were also purchased and subject to renewal.

## Financial Holdings – Equity Method (Note 9)

The particulars of the financial holdings in which the equity method applies are shown in the following table:

(amounts in Euros)

| Description | Type | 31-12-2016 | | | 31-12-2015 | | |
|---|---|---|---|---|---|---|---|
| | | Gross amount | Impairment | Net amount | Gross amount | Impairment | Net amount |
| SIMEF A.C.E. | Investment | 437 323 | - | 437 323 | 366 651 | - | 366 651 |
| NOMAD TECH, LDA. | Investment | 161 393 | - | 161 393 | 156 500 | - | 156 500 |
| OTLIS A.C.E. | Investment | 203 520 | - | 203 520 | 195 830 | | 195 830 |
| CP CARGA, SA | Investment | - | - | - | 21 080 144 | 21 080 144 | - |
| CP CARGA, SA | Loans | - | - | - | 71 272 682 | 71 272 682 | - |
| **Total** | | **802 236** | **-** | **802 236** | **93 071 807** | **92 352 826** | **718 981** |

The following movements in these financial holdings were made in 2016, as per the following table:

(amounts in Euros)

| | Opening balance | Adjustment | Addit. | Disposals | Equity Method | Other changes | Closing balance |
|---|---|---|---|---|---|---|---|
| **Gross amount** | | | | | | | |
| SIMEF A.C.E. | 366 651 | - | - | - | 437 323 | ( 366 651) | 437 323 |
| NOMAD TECH, LDA. | 156 500 | - | - | - | ( 10 929) | 15 822 | 161 393 |
| OTLIS A.C.E. | 195 830 | - | - | - | 83 336 | ( 75 646) | 203 520 |
| CP CARGA, SA | 92 352 826 | - | - | (21 000 142) | - | (71 352 684) | - |
| Sub-total | **93 071 807** | **-** | **-** | **(21 000 142)** | **509 730** | (71 779 159) | **802 236** |
| **Impairment** | 92 352 826 | - | - | - | - | (92 352 826) | - |
| **Total** | **718 981** | **-** | **-** | **(21 000 142)** | **509 730** | 20 573 667 | **802 236** |

The summarised financial information related to associated companies (amounts awaiting approval in meeting, which may not correspond to the final amounts) is as follows:

(amounts in Euros)

| Associated company | Holdings % | Reference date | Assets | Liabilities | Equity | Income | Net result |
|---|---|---|---|---|---|---|---|
| SIMEF A.C.E. | 51 | 31.12.2016 | 9 781 116 | 8 923 619 | 857 497 | | 857 497 |
| Nomad Tech Lda | 35 | 31.12.2016 | 2 097 336 | 1 636 215 | 461 121 | | ( 11 986) * |
| TIP, ACE | 33 | 31-12-2016 | 14 045 221 | 14 515 200 | ( 469 979) | 6 262 177 | 1 322 529 |
| OTLIS, ACE | 14 | 31-12-2016 | 5 966 799 | 4 539 298 | 1 427 502 | 5 098 470 | 547 670 |

* This amount concerns the Net Result of the period from 01/07/2016 to 31/12/2016,
as previously mentioned, Nomad Tech closes its financial year on the 30th of June, every year

## OTHER FINANCIAL INVESTMENTS (NOTE 10)

The CP Group holds small financial holdings in several companies which are recognised at cost less impairment losses, given the fact that the value of such holdings is not publicly traded and, therefore, there is no possibility of obtaining their fair value in a reliable manner.

At the date of each period of financial reporting, the possibility of impairment of these financial assets is assessed, whereby an impairment loss is recognised in the income statement if there is objective evidence of such impairment.

The particulars of this heading are shown in the following table:

(amounts in Euros)

| Description | Method | 31-12-2016 | | | 31-12-2015 | | |
|---|---|---|---|---|---|---|---|
| | | Gross amount | Impairment | Net amount | Gross amount | Impairment | Net amount |
| CP Carga, SA | Acquisition cost | 80 000 | ( 80 000) | - | | | |
| MLM, SA | Acquisition cost | 12 721 | ( 12 721) | - | 12 721 | ( 12 721) | - |
| METRO DO PORTO, SA | Acquisition cost | 249 399 | ( 249 399) | - | 249 399 | ( 249 399) | - |
| METRO-MONDEGO, SA | Acquisition cost | 3 595 | - | 3 595 | 3 595 | - | 3 595 |
| ICF | Acquisition cost | 382 269 | ( 382 269) | - | 382 269 | ( 382 269) | - |
| EUROFIMA | Acquisition cost | 27 760 679 | - | 27 760 679 | 27 760 679 | - | 27 760 679 |
| BCC | Acquisition cost | 1 460 | - | 1 460 | 1 460 | - | 1 460 |
| APOR | Acquisition cost | 5 000 | - | 5 000 | 5 000 | - | 5 000 |
| FUNDAÇÃO MUSEU NAC. FERROVIÁRIO | Acquisition cost | 31 944 | ( 31 944) | - | 31 944 | ( 31 944) | - |
| INEGI | Acquisition cost | 2 500 | ( 2 500) | - | 2 500 | ( 2 500) | - |
| TRANSCOM, S.A. | Acquisition cost | 388 280 | ( 178 390) | 209 890 | 388 280 | ( 67 288) | 320 992 |
| Bonds CONSOLIDATED 1942 | Acquisition cost | 662 | - | 662 | 662 | - | 662 |
| Work Compensation Fund | | 10 885 | - | 10 885 | - | - | - |
| | | **28 929 394** | **( 937 223)** | **27 992 171** | **28 838 509** | **( 746 121)** | **28 092 388** |

The movement of these financial holdings in 2016 is analysed in the following table:

(amounts in Euros)

| Description | Opening balance | Additions | Disposals | Fair value | Other changes | Closing balance |
|---|---|---|---|---|---|---|
| **Gross amount** | | | | | | |
| CP Carga, SA | - | 80 000 | - | - | - | 80 000 |
| MLM, SA | 12 721 | - | - | - | - | 12 721 |
| METRO DO PORTO, SA | 249 399 | - | - | - | - | 249 399 |
| METRO-MONDEGO, SA | 3 595 | - | - | - | - | 3 595 |
| ICF | 382 269 | - | - | - | - | 382 269 |
| EUROFIMA | 27 760 679 | - | - | - | - | 27 760 679 |
| BCC | 1 460 | - | - | - | - | 1 460 |
| APOR | 5 000 | - | - | - | - | 5 000 |
| FUNDAÇÃO MUSEU NAC. FERROVIÁRIO | 31 944 | - | - | - | - | 31 944 |
| INEGI | 2 500 | - | - | - | - | 2 500 |
| TRANSCOM, S.A. | 388 280 | - | - | - | - | 388 280 |
| Bonds CONSOLIDATED 1942 | 662 | - | - | - | - | 662 |
| Work Compensation Fund | - | 10 885 | - | - | - | 10 885 |
| | **28 838 509** | 90 885 | - | - | - | **28 929 394** |
| **Impairment** | | | | | | |
| CP Carga, SA | - | ( 80 000) | - | - | - | ( 80 000) |
| MLM, SA | ( 12 721) | - | - | - | - | ( 12 721) |
| METRO DO PORTO, SA | ( 249 399) | - | - | - | - | ( 249 399) |
| ICF | ( 382 269) | - | - | - | - | ( 382 269) |
| FUNDAÇÃO MUSEU NAC. FERROVIÁRIO | ( 31 944) | - | - | - | | ( 31 944) |
| INEGI | ( 2 500) | - | - | - | | ( 2 500) |
| TRANSCOM, S.A. | ( 67 288) | | - | - | ( 111 102) | ( 178 390) |
| | **( 746 121)** | ( 80 000) | - | - | ( 111 102) | **( 937 223)** |
| | **28 092 388** | 10 885 | - | - | **( 111 102)** | **27 992 171** |

## DEFERRED TAX ASSETS (NOTE 11)

The particulars of this heading are analysed as follows:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Deferred Tax Assets | - | 2 554 258 |
| | **-** | **2 554 258** |

As per note 13, related to income taxes, as a result of the adherence to Law no. 61/2014 of August 26th, which approved the special scheme applicable to deferred tax assets, CP began to recognise deferred tax assets in 2014, having waited for the order from the Finance and Sector Ministries to confirm such adherence.

Since this authorisation was not concluded within the established deadlines, CP was not able to join the special scheme applicable to deferred tax assets, hence, the amount accounted for in this heading was derecognised in 2016.

## INCOME TAX (NOTE 12)

CP is the parent company of a group of companies, which is taxed in accordance with the Special Taxation Scheme for Groups of Companies, as provided in article 69 of the Portuguese Corporate Income Tax Code. Apart from CP itself, such group includes the following affiliate companies: EMEF – Empresa de Manutenção de Equipamento Ferroviário, SA; CP CARGA - Logística e Transportes Ferroviários de Mercadorias, SA (until 2015); SAROS – Sociedade de Mediação de Seguros, Lda., and, since the 2014 financial year, Fernave – Formação Técnica, Psicologia Aplicada e Consultoria em Transportes e Portos, S.A., and Ecosaúde – Educação, Investigação e Consultoria em Trabalho, Saúde e Ambiente, S.A.

The CP Group did not account for deferred tax assets associated with the reporting of tax losses, impairments and temporary provisions which have not been accepted for tax purposes, because the Group considers that there are no expectations that the aforementioned group of companies – which is under the special taxation scheme – will obtain future taxable profits which enable the use of CP's accumulated tax losses. By the end of 2015, the total deductible tax losses of the CP Group amounted approximately to 450.8 million Euros, which may be used between 2016 and 2027.

Similarly, deferred tax liabilities related to reassessed fixed tangible assets (rolling stock) have not been accounted for in previous periods, since it is considered that there is no expectation of significant changes to the form of funding of the public transportation service and to the economic conditions, in a way that may result in the generation of enough basis of assessment to originate assessment and, subsequently, the payment of income taxes.

Further, as for income tax, CP joined the special scheme applicable to the deferred tax assets in 2014 (Law no. 61/2014, of August 26th), which, provided certain requirements are met, enables the formation of an active deferred tax that may be converted into tax credit, used for the payment of income and wealth taxes or, at most, such active deferred tax may be refunded to the taxpayer. Therefore, in 2014, the company recognised a deferred tax asset based on the proceeds of the total liability of occupational accident pensions by the Corporate Income Tax rate in force, plus the corresponding surtax. Due to the fact that the company's responsible entities did not approve its application to join the aforementioned special scheme, this amount was derecognised in the 2016 financial year.

The consolidated accounting result has been adjusted in order to reflect the estimated Corporate Income Tax to be paid, as well as the 2016 autonomous taxation, as detailed in the table below:

(amounts in Euros)

| Company | Income Tax | |
|---|---|---|
| | 2016 | 2015 |
| CP - Auton. Taxation | ( 396 506) | ( 286 242) |
| CP - Deferred Tax | (2 554 258) | 65 528 |
| **CP - Total** | (2 950 764) | ( 220 714) |
| Fernave | ( 11 734) | ( 3 434) |
| Ecosaúde | ( 8 059) | ( 7 738) |
| Emef | ( 406 577) | ( 122 900) |
| Saros | ( 88 803) | ( 6 314) |
| | **(3 465 937)** | **( 361 100)** |

## INVENTORIES (NOTE 13)

As at December 31st, 2016, the CP Group has the following amounts of inventory, detailed by classification:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Gross Amount:** | | |
| Raw, auxiliary and consumable materials | 40 224 774 | 35 567 842 |
| Finished and intermediate products | 941 453 | 977 114 |
| Advance payments for purchasing purposes | 298 244 | - |
| | **41 464 471** | **36 544 956** |
| **Accumulated impairments** | | |
| Impairments of the period | ( 325 744) | 238 231 |
| Impairments of previous periods | (13 397 872) | (13 636 103) |
| | **(13 723 616)** | **(13 397 872)** |
| **Net book value** | **27 740 855** | **23 147 084** |

The significant increase in the heading of raw, auxiliary and consumable materials was mainly due to the purchase of materials needed for three currently ongoing projects: the half-life intervention of CPAs 4000, the 960,000 Km (960k) intervention in 40 vehicles of the Eurotram fleet, entered into with Metro do Porto, and the routine maintenance to Metro do Porto's fleet.

The agreement for the half-life intervention of CPAs 4000 shall be in force until mid-2019, therefore, certain purchases of material have been negotiated based on advance payments for purchasing purposes. Such advance payments are settled as the material for the 10 trains comprising the intervention is delivered. From the advance payments amount shown, 63.3% make up such purchases.

The recognition of inventory impairments had the following variations:

(amounts in Euros)

| Description | Opening balance | Uses | Losses | Reversal | Closing balance |
|---|---|---|---|---|---|
| **Inventory impairment** | | | | | |
| Raw, auxiliary and consumable materials | (12 990 659) | - | 381 255 | 122 714 | (13 249 200) |
| Finished and intermediate products | ( 407 213) | - | 70 215 | 3 012 | ( 474 416) |
| | **(13 397 872)** | **-** | **451 470** | **125 726** | **(13 723 616)** |

Impairment losses related to raw, subsidiary and consumable materials and to finished and intermediate products arise essentially from the passenger transportation segment and of rolling stock maintenance and repair.

For the calculation of impairment of inventories related to the passenger transportation segment, CP verifies on a half-yearly basis whether the realisable value of inventory is lower than the amount for which they are recognised in the company's accounts. If the amount by which the inventory is recognised is higher than the net realisable value, an impairment loss is recognised by the difference between those two variables.

Until 2011, the basic criterion for assessing the impairment of such materials was the non-rotation for more than 5 years, applied to all inventory in storage. Since the financial year of 2012, and by considering the durability of most of the parts used for repairs of rolling stock, the company opted to assess the impairment of this set of assets more thoroughly. In order to do so, the impairment of storage parts of rolling stock was calculated in accordance with the estimated useful life of the series of material with which the parts were associated, which allowed for the identification of the actual obsolete materials and of those without use. The criterion of non-rotation for over 5 years was kept for the remaining materials.

The total inventory impairments recognised in 2016 further arises from the contribution of the maintenance and repair segment, with the decommissioning of material classified as obsolete and without use, due to the decommissioning of the corresponding series of material, the replacement of equipment, or due to technical deterioration (nonconformity for use).

The following criteria were used for the calculation of impairment in the maintenance and repair segment:

The calculation of impairment losses of inventories in the maintenance and repair segment is indexed to the duration of each service agreement entered into with each customer, and the amounts are calculated based on the number of years left for the agreements to expire, as well as the consumption/movement perspectives of material. The criteria used are as follows:

- Inventories belonging to active series or equipment with consumption in the last 9 years

All material assigned to active series or equipment and also with strategic classification is deemed ordinary, and therefore not subject to any impairment, except for the surplus resulting from the expected average consumption until the expiry date of the corresponding agreement. A 75% impairment is taken into account on such surplus. Impairment is not applied to materials that have been purchased over the past two years.

- Inventories belonging to active series or equipment without consumption in the last 9 years.

  Materials which, despite belonging to active series, have been purchased more than two years ago and have not indicated consumption in the last 9 years are subject to an 80% impairment on their value. Impairment is not applied to materials that have been purchased over the past two years.

- Inventories belonging to inactive series or equipment with and without consumption in the last 9 years

  Materials classified as belonging to inactive material series and equipment are subject to a 95% impairment on their value.

- Inventories classified as Slow-Moving and Non-moving without consumption in the last 9 years

  Inventories classified as Slow-moving or Non-moving, which have not indicated any consumption in the last 9 years are subject to a 95% impairment loss on their value.

- Inventories classified as Slow-Moving and Non-moving with consumption in the last 9 years

  Inventories classified as Slow-moving or Non-moving, purchased over 2 years ago and that indicated consumption in the last 9 years, but with residual consumption perspectives, vis-à-vis the available information, are subject to an 80% impairment loss on their value.

- Inventories classified as Obsolete

  Inventories classified as Obsolete are subject to a 95% impairment loss on their value.

- Inventories classified as Strategic

  Inventories classified as Strategic and which have not indicated consumption in the last 9 years are subject to an impairment loss at a constant rate, calculated on 75% of their value depending on the number of years left until the expiry date of the agreement. On the last year, the goods will have a net realisable value of 25%.

- Inventories without identification

  Impairment losses related to inventories – which mainly comprise material for upkeep (painting products, industrial cleaning, electric and electronic material, bearings, joint/attachment elements...), some of which with possible use in equipment of other customers, due to not being related to the mentioned framework agreement and due to their nature – will be recognised based on average consumption and estimates for the next 3 years.

  If the average consumption is maintained, in case the inventory is not over in 3 years, an impairment of 95% shall be applied to the surplus.

  In case it has been acquired more than 2 years ago and has not indicated any consumption, a 95% impairment shall be applied.

As for the variation of Production Inventories, the CP Group had the following amounts in 2016 and 2015:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| **Changes in production inventories** | | |
| Finished and intermediate products | ( 35 661) | ( 121 531) |
| | **( 35 661)** | **( 121 531)** |

## CUSTOMERS (NOTE 14)

As at December 31st, 2016 the heading of customers had the following amounts:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Gross Amount:** | | |
| Customers current account | | |
| General | 12 779 747 | 11 808 639 |
| Customers - bad debt | 2 178 603 | 1 869 178 |
| | **14 958 350** | **13 677 817** |
| **Accumulated impairment** | | |
| Impairment losses of the period | ( 316 289) | 141 971 |
| Impairment losses of previous periods | (1 847 974) | (1 989 945) |
| | **(2 164 263)** | **(1 847 974)** |
| **Net book value** | **12 794 087** | **11 829 843** |

The increase in the balance of customers is due to the contribution of the rolling stock repair and maintenance segment, mainly arising from an increase in the number of invoices in this heading in the last two months of 2016, vis-à-vis the last two months of 2015.

There was a decrease in this heading as for the passenger transportation segment, thereby confirming the trend which already occurred in the previous year, arising from an improvement of the average collection deadlines.

The movements of impairment losses are analysed as follows:

(amounts in Euros)

| Description | Opening balance | Losses | Use | Reversals | Closing balance |
|---|---|---|---|---|---|
| **Impairment losses** | | | | | |
| General customers | 1 847 974 | 328 861 | - | ( 12 572) | 2 164 263 |
| | **1 847 974** | **328 861** | **-** | **( 12 572)** | **2 164 263** |

## STATE AND OTHER PUBLIC ENTITIES (NOTE 15)

The heading State and other public entities is analysed as follows:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Asset** | | |
| Income tax | 1 243 146 | 1 253 701 |
| **VAT** | **7 910 836** | **8 113 466** |
| VAT to recover | 6 534 362 | 5 783 004 |
| VAT requested refunds | 1 376 474 | 2 330 462 |
| Other Taxes | - | - |
| Contributions from Soc. Sec. National Pensions Centre | 12 476 | 55 597 |
| | **9 166 458** | **9 422 764** |
| **Liability** | | |
| Income tax | 888 375 | 400 567 |
| Withholding income tax | 315 628 | 309 395 |
| VAT payable | 2 384 895 | 2 562 739 |
| Contribution to Social Security | 522 066 | 522 616 |
| | 2 645 | - |
| | **4 113 609** | **3 795 317** |

## OTHER RECEIVABLES (NOTE 16)

The heading Other receivables is analysed as follows:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Gross Amount:** | | |
| Advance payments to suppliers: | | |
| SISCOG-Sistemas Cognitivos, LDA. | 128 391 | 128 391 |
| IP - Infraestruturas de Portugal, S.A. | 2 120 | 2 120 |
| Other | 215 950 | 71 640 |
| Other Debtors - personnel | 76 095 | 108 586 |
| Sundry Debtors - current account | 9 420 494 | 60 706 574 |
| Debtors from accrual of revenue | 4 710 998 | 3 096 940 |
| | **14 554 048** | **64 114 251** |
| Accumulated impairment | | |
| Impairment of the period - Other debts to third parties | 32 932 527 | (31 135 756) |
| Impairment of previous periods - Other debts to third parties | (36 119 733) | (4 983 977) |
| | (3 187 206) | (36 119 733) |
| **Net book value** | **11 366 842** | **27 994 518** |

The reduction vis-à-vis 2015 is mainly found in the headings of sundry debtors, by reason of the debt settlement of CP Carga, as a result of the application of the terms foreseen in the sale agreement of this company, as well as the subsequent regular payment from Medway of the invoicing issued.

The settlement of the invoicing issued within the scope of a rolling stock sales agreement should also be mentioned, arising from the termination of the agreement due to non-compliance of the buyer. This transaction had no impact in results since it was offset by the annulment of a liability of the same amount.

The movements of impairment losses are analysed as follows:

(amounts in Euros)

| Description | Opening balance | Losses | Use | Reversals | Closing balance |
|---|---|---|---|---|---|
| **Impairment losses** | | | | | |
| Other debts to third parties | 36 119 733 | 8 427 | (32 940 954) | - | 3 187 206 |
| **Total** | **36 119 733** | **8 427** | **(32 940 954)** | **-** | **3 187 206** |

## DEFERRALS (NOTE 17)

The following table shows the amounts accounted for in the heading of deferrals:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Asset** | | |
| **Expenses to be recognised** | | |
| Defer. - exp. to be recogn. - other - miscellaneous | 704 866 | 767 282 |
| Defer. - exp. to be recogn. - insurance | 415 069 | 410 157 |
| Defer. - exp. to be recogn. - rents | 12 215 | 12 181 |
| | **1 132 150** | **1 189 620** |
| **Liability** | | |
| **Income to be recognised** | | |
| Defer. - inc. to be recogn. - invest. grants | 122 448 574 | 130 960 399 |
| Defer. - inc. to be recogn. - invo. on acc. - work to be und. | 185 383 | ( 138 346) |
| Defer. - inc. to be recog. - other def. - inc. to be recog. | 11 580 | 4 897 948 |
| | **122 645 537** | **135 720 001** |

The decrease in the liability deferrals heading mainly arises from:

- The settlement of invoicing issued within the scope of a rolling stock sales agreement, by reason of the termination of the agreement due to non-compliance of the buyer. This transaction had no impact in results since it was offset by the annulment of an asset of the same amount;
- The recognition of part of the received investment grants as income for the financial year, on a systematic and rational basis during the assets' useful life, in the proportion in which its depreciation is also recognised.

The particulars of the heading of allowances are shown in the following table:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| 59300004 Reserves Grants - Rolling Stock | 495 395 | 832 735 |
| 59300100 FEDER-Sub Proj 12UQE | 4 965 660 | 5 839 594 |
| 59300700 PIDDAC-Sub Proj 12+4UQE | 4 169 978 | 4 517 474 |
| 59300800 FEDER-Sub Proj 12+4UQE | 11 397 095 | 12 346 840 |
| 59301001 PIDDAC-Sub Proj 34UQE/UTE | 2 857 727 | 3 175 253 |
| 59301002 PIDDAC-Sub Proj 19UDD | 433 493 | 484 361 |
| 59301003 PIDDAC-Sub Proj 21ALLAN | 702 904 | 743 875 |
| 59301004 PIDDAC-Sub Proj 42UQE | 382 808 | 422 712 |
| 59301005 PIDDAC-Sub Proj 34UME | 17 841 400 | 18 928 830 |
| 59301006 PIDDAC-Sub Proj 57UTE Silicon | 14 878 163 | 15 717 908 |
| 59301009 PIDDAC-Sub Proj 57CORRAIL | 532 646 | 596 507 |
| 59301010 PIDDAC-Sub Proj 12Locomotives | 390 009 | 390 009 |
| 59301012 PIDDAC-Sub Proj Acq 15 Loc 4700 | - | ( 162 556) |
| 59301013 PIDDAC-Sub Proj Contactless Ticket | 920 931 | 1 794 303 |
| 59301014 PIDDAC-Improv Interface Branch Line Lousã | 190 568 | 218 455 |
| 59301015 PIDDAC-Sub Proj. Acq. 10 Locs 4700 | - | ( 21 053) |
| 59301024 PIDDAC-SubProj Change Max Veloc 45 Modern Carriag. | 77 727 | 105 071 |
| 59301025 PIDDAC-Repl. Wheelset Transmission Boxes UDD's450 | 422 829 | 460 740 |
| 59301027 PIDDAC-Modernisation of 4 railcars 3500 | 1 100 313 | 1 205 313 |
| 59301028 PIDDAC-Large Repair R2 - 453 | 8 297 | 33 186 |
| 59301029 PIDDAC-Large Repair R2 - 2334 | 322 037 | 349 444 |
| 59301030 PIDDAC-Large Repair R2 - 2340 | 317 469 | 344 876 |
| 59301031 PIDDAC-Large Repair R2 - 2326 | 242 341 | 262 536 |
| 59301032 PIDDAC-Large Repair R3 - 9635 | 54 437 | 76 211 |
| 59301033 PIDDAC-Large Repair R2 - 464 | 22 377 | 60 738 |
| 59301034 PIDDAC-Large Repair R2 - 2197010 | 86 972 | 105 948 |
| 59301035 PIDDAC-Large Repair R2 - 2403 | 197 780 | 214 148 |
| 59301036 PIDDAC-Large Repair R2 - 2404 | 454 060 | 490 875 |
| 59301037 PIDDAC-Large Repair R2 - 360 | 48 707 | 71 187 |
| 59301039 PIDDAC-Large Repair R2 - 2405 | 317 130 | 341 682 |
| 59301040 PIDDAC-Large Repair R2 - 468 | 33 186 | 58 075 |
| 59301041 PIDDAC-Large Repair R2 - 2197025 | 133 753 | 149 965 |
| 59301042 PIDDAC-Large Repair R2 - 463 | 58 656 | 83 794 |
| 59301043 PIDDAC-Large Repair -Gr R-R2 461 | 146 640 | 209 485 |
| 59301044 PIDDAC-Large Repair R2 469 | 91 126 | 128 833 |
| 59301045 PIDDAC-Large Repair R2 2197012 | 99 997 | 110 711 |
| 59301046 PIDDAC-Large Repair R2 2197034 | 129 443 | 143 312 |
| 59301047 PIDDAC-Large Repair R2 2197011 | 78 360 | 86 681 |
| 59301048 PIDDAC-Large Repair R2 2197020 | 129 443 | 143 312 |
| 59301049 PIDDAC-Large Repair R2 8597004 | 52 000 | 57 571 |
| 59301050 PIDDAC-Large Repair R2 8597007 | 77 999 | 86 357 |
| 59301051 PIDDAC-Large Repair R2 1415 | 162 715 | 174 478 |
| 59301052 PIDDAC-Large Repair R2 2197028 | 130 599 | 144 468 |
| 59301053 PIDDAC-Large Repair R2 1997008 | 64 650 | 67 308 |
| 59301054 PIDDAC-Large Repair R2 2197019 | 146 780 | - |
| 59301055 PIDDAC-Large Repair R2 0451 | 131 976 | - |
| 59301056 PIDDAC-Large Repair R2 2197027 | 146 780 | - |
| 59301057 PIDDAC-Large Repair R2 1997002 | 150 265 | - |
| 59301058 PIDDAC-Large Repair R2 3154 | 354 816 | - |
| 59301059 PIDDAC-Large Repair R2 9634 | 120 958 | - |
| 59301060 PIDDAC-Large Repair R2 2197007 | 146 780 | - |
| 59301061 PIDDAC-Large Repair R2 3266 | 280 877 | - |
| 59301101 FEDER-Sub Proj 19UDD | 896 076 | 1 001 227 |
| 59301102 FEDER-Sub Proj 21ALLAN | 1 373 141 | 1 453 178 |
| 59301103 FEDER-Sub Proj 34UME | 31 779 552 | 33 713 899 |
| 59301104 FEDER-Sub Proj 57UTE Silicon | 19 113 387 | 20 226 056 |
| 59301107 FEDER-Sub Proj 57CORRAIL | 1 068 037 | 1 196 088 |
| 59301108 FEDER-Sub Proj 12Locomotives | 903 370 | 903 370 |
| 59301700 FEDER-Improv Interfaces Branch Line Lousã | 414 264 | 474 888 |
| 59301800 FEDER-Contactless Ticket-CPLX | 201 696 | 400 141 |
| **Total** | **122 448 574** | **130 960 399** |

## FINANCIAL ASSETS HELD FOR TRADING (NOTE 18)

The heading financial assets held for trading is analysed as follows:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Asset** | | |
| Financial assets | 4 | 16 |
| | 4 | **16** |

At the reference accounting date, the Group only accounted as financial assets held for trading the shares of Millenium BCP transferred from the company Fergráfica, S.A., in the scope of its liquidation. These shares are recognised at fair value.

## NON-CURRENT ASSETS HELD FOR SALE (NOTE 19)

One of the goals of the Group is to dispose of assets unnecessary to its activity. These assets mainly include buildings and rolling stock. In that sense, the top management is committed to the developing of actions which allow the conclusion of those disposals through the prospection of eventual stakeholders, either in the domestic market or in the foreign market.

Despite some of these assets being classified as fixed assets held for sale for over a year, the CP Group understands they must remain in this heading of assets, due to the reason that their amount can be recoverable not by usage but by sale and, also, the top management is strongly committed to the development of efforts in that sense.

The assets classified as held for sale are valued by the least value between their accounting value and their expected selling value.

On a half-yearly basis, the Group assesses the occurrence of impairments in these assets and, whenever necessary, it performs adjustments of amounts which have already been recognised.

As for rolling stock in particular, by taking into account the period since the classification of the assets of this category and, although the Group remains strongly committed to their sale, it decided, in 2015, to adjust its value to the possible market value which was the scrap value, since there were no interested customers and the Group did not expect to recover the investment undertaken through the commissioning of the material to the transportation activity. This adjustment had a negative impact of €1.4 million in the Group's 2015 accounts and influenced rolling stock series of higher value since the remaining series already had an accounting value lower than the scrap value.

After the establishment of these impairments, the rolling stock classified in the non-current assets held for sale category got a value equal to zero as per the particulars below reported as at December 31st, 2016:

(amounts in Euros)

| Description | Book value (1) | Allowances to be recognised (2) | Scrap value (3) | Impairment (4) | (1)-(2)-(3)-(4) |
|---|---|---|---|---|---|
| Several series | 14 375 691 | 3 041 141 | 2 643 256 | 8 691 294 | - |

The following table summarises, by class of fixed asset, the non-current assets held for sale:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Assets** | | |
| Land and natural resources | 1 744 117 | 1 744 117 |
| Buildings and other constructions (a) | 9 567 050 | 11 564 741 |
| Basic equipment (b) | 5 684 397 | 6 252 590 |
| **Total** | **16 995 564** | **19 561 448** |

(a) In the financial year of 2016, this heading suffered a decrease amounting to 1,997,691€
(b) In the financial year of 2016, this heading suffered a decrease amounting to 2,252,552€
and an impairment reversal amounting to 1,684,359€

The variation accounted for in 2016, comparing to the previous year, originated in the heading for buildings and other constructions, and is a result of the write-off of the building in the Terreiro do Paço River Terminal, following order no. 10759-A/2016, from the Office of the Deputy Secretary of State of Treasury and Finance and of the Secretary of State of Infrastructure.

As for buildings classified as non-current assets held for sale, it is also worth mentioning that no proof of existing impairment was identified, compared with the previously recognised impairment, and the top management remains strongly committed to the sale of these assets, and said efforts led to the signing of a Promissory Agreement of Purchase and Sale regarding the immovable property entitled "Praia das Maçãs".

## SUBSCRIBED CAPITAL (NOTE 20)

In accordance with article 3 of Decree-law no. 50/2012 of March 14th which defines CP's Statutes, the statutory capital of the company is of 1,995,317,000 Euros, which is entirely held by the Portuguese State and is meant to meet the company's permanent needs. This amount is entirely subscribed as at December 31st, 2016.

In 2015, it was determined by joint orders of the Sector and Financial Ministries to increase the statutory capital of CP, EPE, by 683,483 million Euros, having been subscribed during the year, which allowed the company to cover the payments resulting from historic debt (amortisations and financial costs) as well as investment.

Also in 2016, and in accordance with the law in force, it was equally determined that the statutory capital of CP, EPE, would be increased by 654,913 million Euros following the joint orders from the Sector and Financial Ministries, to be paid up by the State as follows:

- March / April – 113 million Euros in cash;
- July / September – 303,824 million Euros, from which 266,824 million Euros were the result of the conversion of credits held by the State/Directorate-General of Treasury and Finance and 37 million Euros in cash;
- October – 25,898 million Euros in cash;
- November – 212,191 million Euros, by conversion of credits held by the State/Directorate-General of Treasury and Finance.

These amounts were meant to cover the needs arising from the debt service (amortisations, interest and other costs), of investment and personnel expenses related to the historical agreement on variables.

The heading of Subscribed Capital therefore presents, in accumulated terms, an increase of 654,913 million Euros in 2016, corresponding to the capital amount subscribed by the State during the period.

Thus, at the end of 2016, the Group has a subscribed capital of 3,333,713,276 Euros.

## LEGAL RESERVES (NOTE 21)

In accordance with article 295 of the Portuguese Commercial Companies Code and in accordance with article 30 of Decree-law no. 137-A/2009 from June 12th, amended by Decree-law no. 59/2012 from March 14th that defines the CP Statutes, the company must have legal reserves and funds deemed necessary, and the constitution of legal reserve in the amount of 5% of the profits of each financial year is mandatory. The legal reserve may be used in the hedging of losses of the financial year.

During the period, the legal reserves have not been strengthened, nor have they been used for hedging losses.

## OTHER RESERVES (NOTE 22)

This heading accounts for the statutory reserve corresponding to the amount of the Amortisation and Renovation of Rolling Stock Fund from December 31st, 1974.

The Amortisation and Renovation Fund of Rolling Stock was meant for the renovation of rolling stock, according to the provisions foreseen in 16 of the Concession Agreement of 1951 between the State and the "Companhia dos Caminhos de Ferro Portugueses", and it was related to the surplus of revenues from the Fund on investments funded by it.

## RESULTS BROUGHT FORWARD (NOTE 23)

The variation in results brought forward is mainly related to the inclusion of the net result from the previous period. However, the movements set forth in the following table also contribute to this variation:

(amounts in Euros)

| Reconciliation of the consolidated result brought forward | | |
|---|---|---|
| Results brought forward in 2016 | | -5 933 918 492 |
| Results brought forward in 2015 | -5 655 108 293 | |
| + Net result of the period of 2015 | -278 657 308 | -5 933 765 601 |
| **Movements of 2016 directly into Results brought forward:** | | **-152 891** |
| **Identification:**<br>The reason for this variation is the Net Impact of several operations in results brought forward, which are related to the cancellation of balances, as well as to intercompany transactions. | | |

## ADJUSTMENTS/OTHER VARIATIONS IN EQUITY (NOTE 24)

The particulars of this heading are analysed as follows:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Financial recovery | 91 357 368 | 91 357 368 |
| Transition adjustments | 132 640 | 132 640 |
| **Total** | **91 490 008** | **91 490 008** |

The heading financial repair reflects the liability assumed by the State in accordance with the Protocol from August 24th, 1993, concerning the debts to the Tax Authority, to the General Directorate of Treasury and to the National Banking System of 97,975,959 Euros and the usage in the settlement of the remaining amount in debt by the State of 6,618,591 Euros, as a result of the financial repair carried out within the scope of Decree-law no. 361/85.

## PROVISIONS (NOTE 25)

The movement in the heading of provisions is analysed as follows:

(Amounts in Euros

| Description | Opening balance | Additions | Uses | Reversals | Closing balance |
|---|---|---|---|---|---|
| Ongoing legal actions | 4 343 554 | 83 538 | - | 85 486 | 4 341 606 |
| Railway accidents | 1 325 182 | 466 869 | - | - | 1 792 051 |
| Occupational accid. and diseases, and other provisions | 1 010 111 | 11 396 274 | 725 918 | - | 11 680 467 |
| Financial investments | 672 385 | - | - | 517 291 | 155 094 |
| | **7 351 232** | **11 946 681** | **725 918** | **602 777** | **17 969 218** |

Variations in the heading of Provisions are mainly due to the restitution of the provision for liabilities with work accidents and occupational illnesses, established in 2016, following the decision of the Sector and Financial Ministries for the non-acceptance of CP's application to join the special scheme applicable to deferred tax assets, which involved derecognising the value of the heading other accounts payable, where it was accounted for in 2015.

The liabilities for work accidents and occupational illnesses were calculated based on the actuarial assessment of liabilities as at December 31st 2016 with pensions for work accidents occurred until December 31st, 1999. This calculation was performed by an external entity (CGD PENSÕES).

The increases or decreases in liabilities arising from changes to the granted benefits are recognised as losses or gains in the financial year in which they occur. The methodology and the financial and actuarial assumptions of the assessment of liabilities are the following:

**Calculation method:** For the valuation of the liabilities regarding retired staff with work accident pensions, the current value of immediate lifetime income annuities was calculated.

**Discount rate:** 1,75%.

**Pensions' growth rate:** 1,0%.

**Mortality tables:** the French table TV 88/90 was used.

**Period for payment of the work accident pensions:** life annuities.

**Effective date of the calculations:** December 31st, 2016.

## FUNDING OBTAINED (NOTE 26)

At the end of the period of 2016, the heading of funding obtained had the following particulars:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Non-current** | | |
| Credit institutions and financial companies | | |
| Bank loans | 144 091 375 | 181 021 563 |
| Finance leases | - | - |
| Debenture loans | 700 000 000 | 700 000 000 |
| Applic. of effective rate deben. loans | ( 6 869 048) | ( 7 425 023) |
| Other funders | 1 772 056 000 | 2 152 570 000 |
| | **2 609 278 327** | **3 026 166 540** |
| **Current** | | |
| Credit institutions and financial companies | | |
| Bank loans | 36 930 189 | 43 555 187 |
| Bank overdrafts | 225 436 | 188 482 |
| Finance leases | - | - |
| Other funders | 380 514 000 | 455 514 000 |
| | **417 669 625** | **499 257 669** |
| | **3 026 947 952** | **3 525 424 209** |

The decrease in debt of the CP Group by approximately 498.5 million euros resulted from the capital injections carried out by the State for the amortisation of CP's fundings maturing in 2016, as well as the effort made by the companies of the Group in order to ensure their operating activity through cash flow generated therefrom.

As for the debt structure, the predominance of medium and long term debt (approximately 86.2%) remained, as was already the case by the end of 2015. The medium and long term loan entered into between CP and the Portuguese State in the last quarter of 2014 is the primary reason for such situation.

The heading of funding obtained, by maturity, is analysed as follows:

(amounts in Euros)

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Credit institutions and financial companies | | |
| Bank loans | | |
| Up to 1 year | 36 930 189 | 43 559 858 |
| 1 to 5 years | 111 558 042 | 124 688 230 |
| More than 5 years | 32 533 333 | 56 333 333 |
| Bank overdrafts | | |
| Up to 1 year | 225 436 | 183 811 |
| Debenture loans | | |
| 1 to 5 years | 500 000 000 | 500 000 000 |
| Applic. of effective rate debenture loans | ( 429 855) | ( 621 447) |
| More than 5 years | 200 000 000 | 200 000 000 |
| Applic. of effective rate debenture loans | ( 6 439 193) | ( 6 803 576) |
| Other funders | | |
| Up to 1 year | 380 514 000 | 455 514 000 |
| 1 to 5 years | 1 622 056 000 | 1 622 056 000 |
| More than 5 years | 150 000 000 | 530 514 000 |
| | **3 026 947 952** | **3 525 424 209** |

## OTHER DEBTS PAYABLE (NOTE 27)

The heading of other accounts payable is analysed as follows:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| **Non-current** | | |
| Creditors by expenditure accruals | 13 390 899 | 31 926 392 |
| | **13 390 899** | **31 926 392** |
| **Current** | | |
| Shareholders/Members | - | 124 729 |
| Investment fund providers | 311 500 | 257 218 |
| Creditors by outstanding subscriptions | 38 665 181 | 38 321 962 |
| Other debtors and creditors | 4 647 625 | 5 120 496 |
| Creditors by expenditure accruals | 65 978 970 | 111 839 514 |
| | **109 603 276** | **155 663 919** |

As for non-current liability, the most significant variation compared with the financial year of 2015 is accounted for in the heading of creditors by expenditure accruals as a result of the reclassification of the liability with work accidents and occupational illnesses, in the amount of approximately 11.5 million Euros, which was again deemed as provision due to the non-acceptance from the sector and financial Ministries regarding CP's application to join the special scheme for deferred tax assets.

In the non-current liability, in 2016, the recognition of the liability concerning the settlement of historic debt arising from the integration of variable bonuses for the calculation of holiday allowances and holidays still remains, following the agreement concluded with the Organisations Representing Employees, which shall be paid until the financial year of 2019. The amounts payable in the subsequent year are transferred to current asset in accordance with the signed agreements.

There was a significant reduction in current liability, essentially due to the reduction of accrued interest payable as a result of the amortisation of some funding. This reduction of funding was achieved mainly through capital injections granted by the Portuguese State. The decrease in the need for accrual of expenses associated with external services and supplies, due to the invoicing having been accounted for in 2016, should also be noted.

## SUPPLIERS (NOTE 28)

The heading of suppliers shows the following particulars:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Suppliers current account | | |
| General | 22 699 491 | 23 576 942 |
| Invoices received and pending approval | 1 132 234 | 810 813 |
| | **23 831 725** | **24 387 755** |

In 2016, there was an overall decrease in outstanding balances to general suppliers, such as the decrease in the average time for payment by 13 days, and the decrease in the debt to Infraestruturas de Portugal, SA, by 5.4 million Euros, standing out as contribution to such fact. The decrease in the average times for payment of the rolling stock maintenance and repair segment by 12 days should also be mentioned.

## ADVANCE PAYMENTS FROM CUSTOMERS (NOTE 29)

The heading of advance payments from customers has the following particulars:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Advance payments from customers | | |
| CP Customers | 200 500 | 1 815 470 |
| Fernave Customers | 374 000 | 374 000 |
| | **574 500** | **2 189 470** |

The variation accounted for vis-à-vis 2015 arises from the settlement as income of the advance payment provided by Mediterranean Shipping Company Rail (Portugal) – Operadores Ferroviários, S.A., within the scope of the signing of the reference sale agreement of CP Carga.

The promissory agreement of purchase and sale entered into in 2014 regarding a building in Mozambique should also be mentioned, for which a down payment amounting to 374,000€ was received.

## FINANCIAL LIABILITIES HELD FOR TRADING (NOTE 30)

The heading of financial liabilities held for trading has the following amounts:

(amounts in Euros)

| Description | 31/12/2016 | 31/12/2015 |
|---|---|---|
| Potentially unfavourable derivatives | - | 1 291 916 |
| | **-** | **1 291 916** |

As at the 31st of December, 2016, the CP Group has no financial derivatives (interest rate hedging swaps).

The valuation as at 31.12.2015, was carried out by an external entity (IMF – Informação de Mercados Financeiros, S.A.), and concerns the fair value of the only existing swap in 2015, with maturity until April, 2016, when the portfolio was closed.

## PROVIDED SALES AND SERVICES (NOTE 31)

Provided sales and services have the following particulars:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| **Service provisions** | | |
| Passengers | 233 776 664 | 224 093 868 |
| Other | 32 442 222 | 40 451 342 |
| **Total** | **266 218 886** | **264 545 210** |

Provided sales and services have increased by approximately 1.7 million Euros, as a result of the increase in the rolling stock maintenance activity segment, which grew by 4.5 million Euros, and the provision of passenger services, particularly regarding tickets, which sustained a cumulative growth of 10.2 million Euros, vis-à-vis the same period of the previous year.

The effect of such increases was partly offset due to the decrease in the provision of rolling stock leasing services to former CP Carga (Medway).

## OPERATING ALLOWANCES (NOTE 32)

The operating allowances recognised as income in the financial years of 2015 and 2016 are identified in the following table:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| Operating allowances: | | |
| IEFP Training | 16 929 | - |
| IEFP Allowances - employment internships under ordinance no. 204-B/2013 | - | 6 649 |
| **Total** | **16 929** | **6 649** |

## GAINS/LOSSES ATTRIBUTED TO SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES (NOTE 33)

The gains/losses attributed to subsidiaries, associated companies and joint ventures show the following particulars:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| **Losses** | | |
| Application of the equity method | ( 10 929) | (11 706 062) |
| **Gains** | | |
| Application of the equity method | 520 659 | 537 593 |
| Other | - | - |
| **Total** | **509 730** | **(11 168 469)** |

The favourable variation in gains attributed to subsidiaries, associated companies and joint ventures arises from the disposal of CP-Carga. The amounts of gains recognised in 2016 are a result of the application of the equity method to SIMEF's, Nomad Tech's and OTLIS's results.

## CAPITALISED PRODUCTION COSTS (NOTE 34)

The heading Capitalised production costs accounts for works carried out by the rolling stock maintenance component and is analysed as follows:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| **Passenger transportation** | | |
| Fixed tangible assets | 8 334 943 | 7 309 207 |
| **Other** | - | 1 140 |
| **Total** | **8 334 943** | **7 310 347** |

## SOLD COMMODITIES AND CONSUMED MATERIALS COSTS (NOTE 35)

Sold commodities and consumed materials costs are as follows:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| Raw, auxiliary and consumable materials | 23 286 771 | 22 381 039 |
| | **23 286 771** | **22 381 039** |

The sold commodities and consumed materials cost has increased by approximately 0.9 million Euros, such increase being directly associated with the growth in the rolling stock maintenance and repair activity segment, mainly for Medway and Metro do Porto.

The expense with fuel consumption, as raw material for the provision of passenger railway transportation services, represents 79% of the total amount of the heading of raw, auxiliary and consumable materials. The expense with fuel decreased in 2016 following the reduction in fuel price.

## EXTERNAL SERVICES AND SUPPLIES (NOTE 36)

The heading of external services and supplies has the following particulars:

(amounts in Euros)

| Account | Description | 2016 | 2015 |
|---|---|---|---|
| 621 | Sub-agreements | 25 639 645 | 25 845 840 |
| 622/626 | Specialised works and other | 86 177 105 | 87 261 078 |
| | (Including the infrastructure usage fee) | 55 789 977 | 55 697 077 |
| 623 | Materials | 685 852 | 558 063 |
| 624 | Energy and fluids | 27 550 083 | 30 777 949 |
| 625 | Travels, stays and transportation | 1 268 743 | 681 327 |
| | | **141 321 428** | **145 124 257** |

In 2016 the CP Group continued its effort to decrease incurred expenses, by renegotiating the agreements in force. However, the significant reductions already achieved in previous years have limited the ability to decrease the agreed upon amounts.

The decrease in rolling stock maintenance and repair expenses due to the transfer of rolling stock to former CP Carga in 2015 should also be mentioned.

# PERSONNEL EXPENSES (NOTE 37)

The heading of personnel expenses has the following particulars:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| Remuneration of governing bodies | 387 249 | 413 767 |
| Remuneration of personnel | 95 975 569 | 95 331 016 |
| Indemnities | 3 094 424 | 2 678 082 |
| Agreement on variables | - | 22 017 368 |
| Charges on remuneration | 21 318 380 | 21 285 616 |
| Charges on variables | - | 5 229 125 |
| Insurance for work accidents and occupational illnesses | 3 138 965 | 2 062 079 |
| Social action expenses | 319 034 | 382 174 |
| Other personnel costs | 541 201 | 1 555 531 |
| | **124 774 822** | **150 954 758** |

The decrease accounted for in this heading is a result of no negative impacts in 2015 from the recognition in personnel expenses of the liability arising from the agreement entered into with Organisations Representing Employees regarding the inclusion of variable bonuses in the concept of remuneration used for the calculation of holiday compensation and holiday allowances. The impact of this agreement amounted to 27.2 million Euros in 2015.

# IMPAIRMENT OF NON-DEPRECIABLE AND NON-AMORTISABLE INVESTMENTS (NOTE 38)

The particulars of this heading are shown in the following table:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| **Losses** | | |
| In financial investments | ( 111 112) | (92 420 154) |
| Non-current assets held for sale | - | (1 405 688) |
| **Reversals** | | |
| Of financial investments | - | 87 110 |
| Non-current assets held for sale | 1 684 358 | 373 329 |
| | **1 573 246** | **(93 365 403)** |

In 2016, there was a significant decrease of impairments with financial investments, as a result of the disposal of the equity investment in CP Carga, SA, carried out in January 20th, 2016, the impact of which was accounted for in the 2015 accounts.

Similarly, no impairments associated with non-current assets held for sale have been accounted for in 2016; conversely, some of the impairments accounted for in previous years have been reversed by virtue of the decommissioning of rolling stock classified in this class of assets.

## OTHER INCOME (NOTE 39)

The heading of other income has the following particulars:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| Supplementary income | 9 194 761 | 12 708 727 |
| Discounts obtained for prompt payment | 1 279 | 1 399 |
| Inventory gains | 44 117 | 15 260 |
| Remaining financial assets | 3 620 550 | 2 846 087 |
| Non-financial investments | 37 831 | 20 208 049 |
| Other | 23 237 098 | 33 131 802 |
| | **36 135 636** | **68 911 324** |

The decrease occurred in the heading of other income and gains mainly arises from the fact that in 2016 there were no positive impacts that occurred in 2015, related with the transaction of capital increase in kind carried out in CP Carga, which caused the recognition of capital gains of approximately 19.3 million Euros, and of income from investment grants of approximately 20.9 million Euros.

## OTHER EXPENSES (NOTE 40)

The heading of other expenses and losses has the following particulars:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| Taxes | 180 643 | 255 717 |
| Discounts granted for prompt payment | - | - |
| Bad debts | 7 998 | 286 283 |
| Inventory losses | 108 001 | 243 791 |
| Non-financial investments | 4 594 182 | 530 713 |
| Other | 4 441 171 | 3 000 903 |
| | **9 331 995** | **4 317 407** |

There was an increase in the heading of other expenses in 2016, mainly due to the following elements:

- Decommissioning of the Terreiro do Paço Terminal, following the publication of Order no. 10759-A/2016, from the Offices of the Deputy Secretary of State of Treasury and Finance and of the Deputy Secretary of State of Infrastructure, with a negative impact of approximately 2 million Euros in the Group's accounts;
- Decommissioning of rolling stock with a negative impact in the Group's accounts of approximately 2.6 million Euros.

## FAIR VALUE INCREASES/DECREASES (NOTE 41)

The heading of fair value increases/decreases is analysed as follows:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| **Gains** | | |
| Financial instruments | 1 291 916 | 2 411 650 |
| | **1 291 916** | **2 411 650** |

The gain recognised in 2016 related to the fair value of derivative financial instruments was caused by the release of the portfolio of derivatives, in April 2016, with the expiration of the last financial risk management instrument that the Group held in its portfolio, along with the amortisation of the Eurofima loan that served as a base for said derivative. Until such date, the assessment of these derivatives was ensured by an external entity. As previously mentioned, at the end of 2016, the Group no longer has derivative financial instruments, so this movement results from the expiration of the last transaction.

## EXPENSES/REVERSAL OF DEPRECIATIONS AND AMORTISATION (NOTE 42)

The heading expenses/reversal of depreciations has the following amounts:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| **Expenses** | | |
| Fixed tangible assets | 56 465 759 | 60 151 167 |
| Intangible assets | 20 838 | 11 558 |
| **Reversals** | | |
| Fixed tangible assets | - | 15 |
| | **56 486 597** | **60 162 710** |

The expenses that were accounted for are the result of depreciations/amortisation of the assets in accordance with their established useful lives and particulars presented in note 3. The expected useful lives of the assets are revised annually, in order to verify if they are adjusted to reality.

In 2016, there was a decrease in the value of depreciations, vis-à-vis 2015, by approximately 3.7 million Euros, due to the decommissioning or termination of the assets' depreciation period, not having been offset by the investment performed throughout the period.

## IMPAIRMENT OF DEPRECIABLE AND AMORTISABLE INVESTMENTS (NOTE 43)

The heading of Impairment of depreciable and amortisable investments, recognised in the period, essentially concerns the heading of Basic equipment and is the outcome of the fact that its net value exceeds its recoverable amount, showing the following amounts:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| **Losses** | | |
| Fixed tangible assets | - | ( 260 427) |
| **Reversals** | | |
| Fixed tangible assets | 855 533 | 1 418 491 |
| **Total** | **855 533** | **1 158 064** |

The variation in the heading of impairment reversions is due to the conclusion of repairs of damaged rolling stock.

## Interest and Similar Income Gained (Note 44)

The heading of interest and similar income gained is analysed as follows:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| | | |
| Interest gained | 179 648 | 3 651 990 |
| | **179 648** | **3 651 990** |

The variation in this heading is due to the fact that the 2015 amounts showed the impact of CP Carga's exclusion from the full consolidation method, having such impact ceased to exist in 2016 as a result of the company's disposal.

## Payable Interest and Similar Expenses (Note 45)

The heading of payable interest and similar expenses shows the following amounts:

(amounts in Euros)

| Description | 2016 | 2015 |
|---|---|---|
| | | |
| Payable interest | 82 718 467 | 96 655 462 |
| Other expenses and losses | 5 699 972 | 10 973 874 |
| | **88 418 439** | **107 629 336** |

In the financial year of 2016, there was a decrease of approximately 19.2 million Euros in the heading of payable interest and similar expenses following the decrease of the Group's financial debt and financing interest rates, still at historically low levels.

## CONTINGENT LIABILITIES (NOTE 46)

Not applicable.

## GUARANTEES AND SURETIES (NOTE 47)

Guarantees provided in favour of the CP Group:

(amounts in Euros)

| | |
|---|---|
| Guarantees and sureties provided to the CP Group: | |
| - By the State | 678 834 063 |
| - By bank entities in favour of third parties | 1 282 960 |
| Guarantees and bank sureties provided by the CP Group in favour of third parties | 1 457 725 |

## REMUNERATION OF THE CERTIFIED PUBLIC ACCOUNTANT (NOTE 48)

The company Oliveira, Reis & Associados – SROC, Lda. provides information on its annual fees, within the scope of the revision and legal certification of the individual and consolidated accounts of CP, amounting to 21,500 Euros, plus VAT at the legal rate in force.

The company Ribeiro, Rigueira, Marques, Roseiro & Associados, SROC, Lda. provides information on its annual fees, within the scope of the revision and legal certification of the individual and consolidated accounts of CP, amounting to 11,750 Euros, plus VAT at the legal rate in force.

## RELEVANT EVENTS AFTER THE BALANCE SHEET DATE (NOTE 49)

There were no relevant events after the balance sheet date to report.

President – Eng. Manuel Tomás Cortez Rodrigues Queiró

Certified Accountant – Dr. Ana Coelho

Voting Member – Dr. Nuno Serra Sanches Osório

Voting Member – Dr. Maria João Semedo Carmelo Rosa Calado Lopes