COMBOIOS DE PORTUGAL

CONSOLIDATED REPORT AND ACCOUNTS OF THE CP GROUP 2017

CP. ALWAYS ON THE MOVE.

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 € 3,850,091,940 (as at the 31st December, 2017)

Design and Coordination:
Department of Planning and Activity Control
Financial Management

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The content herein is in accordance with the Portuguese Language Orthographic Agreement

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SUMMARY OF THE YEAR

Operating Indicators of the Group	2017	2016	Change	
			Amount	%
Demand				
Passengers (10^3)	122 028	114 841	7 187	6,3%
Passengers Kilometre (10^3)	4 032 713	3 802 762	229 951	6,0%
Supply				
Train-km (10^3)	29 129	29 128	1	0,0%
Human Resources				
CP	2 681	2 708	-27	-1,0%
EMEF	1 036	1 048	-12	-1,1%
Fernave	18	20	-2	-10,0%
Ecosaúde	27	21	6	28,6%
Saros	1	1	0	0,0%
Final Effective Staff	3 763	3 798	-35	-0,9%
Fleet - Active Fleet				
Railcars	239	239	0	0,0%
Locomotives	31	31	0	0,0%
Carriages	104	103	1	1,0%

Financial Indicators of the Group (Amounts in 10^3 €)	2017	2016	Change	
			Amount	%
Income Statement				
Operating Result	-33 626	-53 587	19 960	37,2%
Compensatory Allowances	0	0	0	0,0%
Net Result	-111 067	-144 000	32 933	22,9%
EBITDA (1)	25 237	6 710	18 528	276,1%
Balance Sheet				
Asset	629 186	667 693	-38 507	-5,8%
Equity	-2 246 273	-2 651 383	405 110	15,3%
Liability	2 875 460	3 319 077	-443 617	-13,4%
Loans Obtained	2 615 920	3 026 948	-411 028	-13,6%

(1) Does not include Compensation for Termination of Employment, Impairments, Provisions, Depreciations and other transactions unrelated to the Group's activity.

CP GROUP

No changes were made to the shareholdings in 2017.

The Group carries out the following activities:

COMBOIOS DE PORTUGAL

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

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

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

SIMEF

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 services regarding healthcare, 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 mediation services 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 Oporto area, as well as for establishing the common and exclusive intermodal tariff for the public means of transportation of passengers that 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 overall proposal of the aforementioned project (OTLIS, A.C.E.).

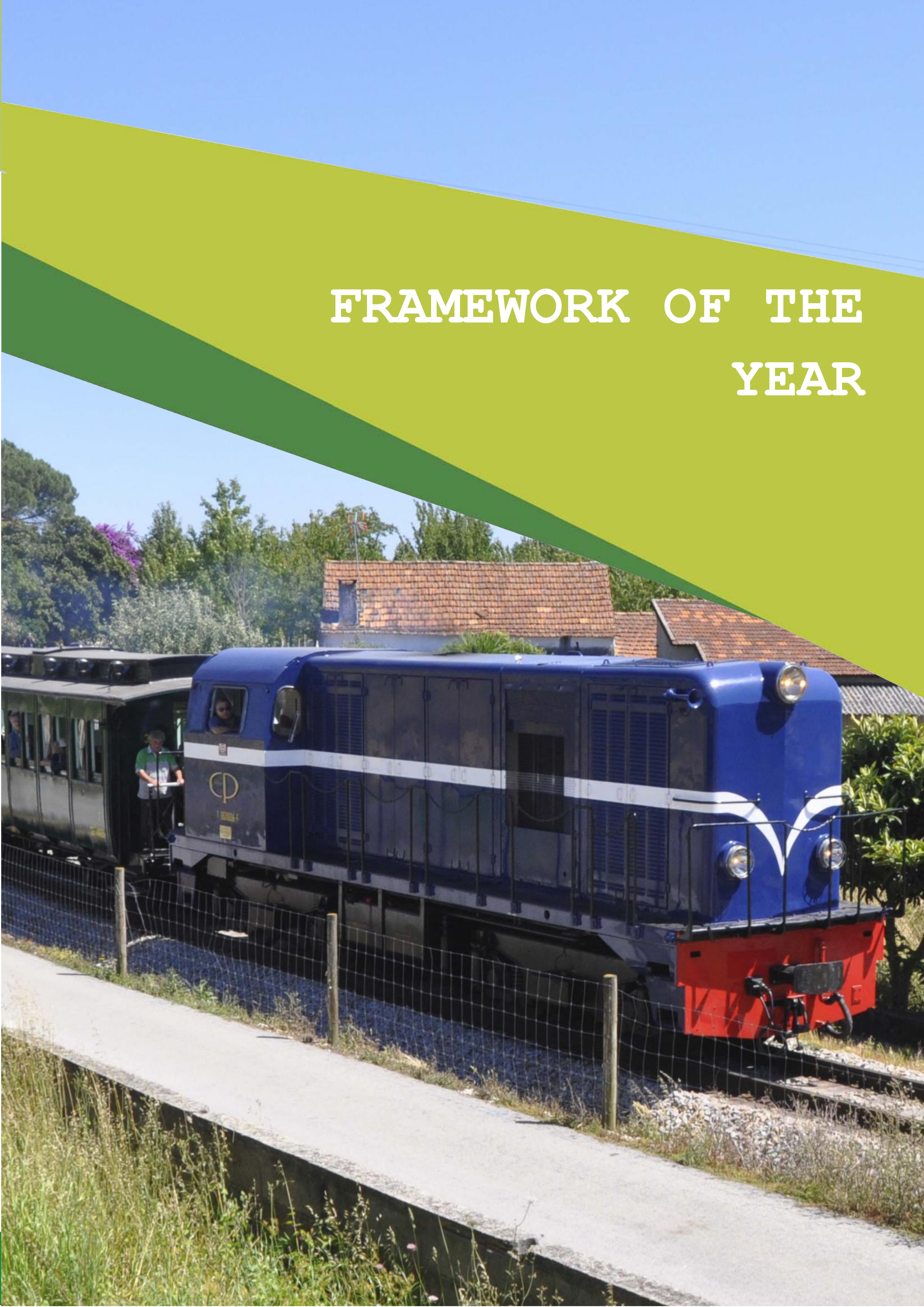
CP further has a few minority holdings based on cooperation with other Operators.

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.

Non-Financial Reporting

As to the 2017 Non-Financial Reporting, CP draws up its Sustainability Report since 2008 and publishes it in its website on a date following the publication of the Report & Accounts or Annual Management Report. In 2018, CP will act accordingly, pursuant to Article 3 of Decree-Law no. 89/2017, of the 28th of July.

Macroeconomic Framework

According to the estimates available during the preparation of this report[1], the GDP increased by 2.7% in volume during 2017, a 0.2 p.p. increase compared with the previous year. This evolution resulted from an increased contribution of internal demand, reflecting mainly an acceleration of Investment, while net external demand had the same contribution as in 2016. Tourism continued its upward trend regarding the previous year.

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[1] "Banco de Portugal" Bank – Statistical Bulletin - Jan 2018 and www.INE.pt.

The degree of household savings reached 12.2% at the end of the year, whereas indebtedness regarding both companies and individuals accounted for a reduction throughout the 4 quarters, although interest rates remained at historically low levels.

The Harmonised Index of Consumer Prices (HICP) accounted for an average rate of change of 1.6% in 2017, exceeding the 0.6% of the previous year.

The unemployment rate kept a downward trend with special relevance for demand for mobility, whose annual rate was at 8.9%, a 2.2 p.p. decrease regarding the previous year.

Governance Model

The appointment of a new Board of Directors for CP was approved by the Council of Ministers on the 29th of June 2017, the former being composed as follows:

- Dr. Carlos Gomes Nogueira – President
- Dr. Ana Maria dos Santos Malhó – Voting Member
- Eng. Sérgio Abrantes Machado – Voting Member

The Members of CP's Board of Directors hold the position of Directors in the following companies of the CP Group:

Member of the Administration Board	**Accumulation of Tasks - 2017**		
	Entity	**Function**	**Scheme (Public/Private)**
Ana Maria dos Santos Malhó	EMEF	Voting Member of the A.B. (a)	Public
	SIMEF	President of the A.B. (b)	Public
Sérgio Abrantes Machado	EMEF	President of the A.B. (a)	Public
	Nomad Tech	Manager (b)	Private

Notes: (a) From the 20th of July 2017
(b) From the 1st of August 2017

CP's Management appointed the new Sole Director for the Affiliates FERNAVE, ECOSAÚDE and SAROS on the 21st of July 2017.

PERFORMANCE OF THE YEAR

COMBOIOS DE PORTUGAL

CP – Comboios de Portugal, E.P.E.

Executive Summary

CP – Comboios de Portugal E.P.E. closed the year 2017 with a total of 122 million transported passengers and approximately 250 million euros in traffic income. There was an increase of 7.2 million Customers travelling in CP's trains, in comparison with the previous year, whilst traffic income increased by 19.6 million euros, corresponding to an improvement of 6.3% and 8.5% respectively. The growth in the number of passengers was common to all services of the company.

Notwithstanding the absence of Compensatory Allowances, CP had a positive recurrent EBITDA of 14.6 million euros, representing an improvement of 14.3 million euros compared with 2016.

The Financial Result also recorded an improvement of 11.2 million euros, mainly due to the decrease of the financial liability. The company has been counting on the financial support from the Portuguese State meant to ensure, namely, debt service and investment funding.

The Net Result showed an improvement of 23% compared with the previous year (+32.6 million euros), going from -144.6 million euros, in 2016, to -112 million euros in 2017.

CP's Activity in 2017

2017 was particularly rich in activity, whereas the following should be highlighted:

Supply / Operation

- Commissioning of the New Alfa Pendular Train – the three first refurbished units are now running.

- **New Timetables between Coimbra and Figueira –** two new trains (one per direction) have been created and the travel times of some trains operating in the Coimbra-Figueira da Foz link have been improved (Coimbra urban trains).

- New Services in the Guimarães Line – three new services have been launched on working days, during the morning rush hour.

- Raiano Train – two daily connections have been created (one for each direction) in the Eastern Line between Entroncamento and Badajoz, in Spain.

- Douro Historical Train – reached a total of 50 trips between the 3rd of June and the 29th of October (increased by 10 compared with 2016).

- MiraDouro Train – new service in the Douro Line composed of six refurbished Schindler carriages from the 1940s, with traction through a diesel locomotive from the 1960s, retaining all the features from its original period.

- Vouga Historical Train – travelled between Aveiro and Macinhata do Vouga and back, composed of narrow-gauge material with a diesel locomotive from 1964 and three wooden carriages from the early 20th century.

- Special Offers – additional travels made available for a variety of events. Other highlights include the strengthening of supply during festivities of the Centennial of the Apparitions at Fátima.

Tariff and Ticketing

- Urban Services Tariff Update – the tariffs of the Lisbon, Oporto and Coimbra urban services have been updated by 1.5% on the 1st of January 2017, as per decision of the responsible Ministry.

- Enlargement of the Andante Zoning in the Oporto Urban Trains network – geographical enlargement of the Andante intermodal network in the rail section between the Travagem and Trofa stations. A new zone has been introduced in said rail section, in the Andante zoning, in order for CP to foster such change.

Distribution

- Online Ticket Office in Responsive version – the "new" online ticket office is now running, being more user friendly in mobile devices.

- Online sale of tickets for the Oporto and Coimbra Urban Trains - The Online Ticket Office and the CP APP now enable the sale of tickets for the Oporto and Coimbra Urban Trains supplementing the Alfa Pendular and Intercity travels.

Partnerships

- MobiCascais – protocol with the Cascais local authority for launching new mobility packages with competitive prices, integrating all modes of transport, including parking and bus circuits connecting car parks and bicycle stands to the Municipality's main railway interfaces.

- Train plus Car one Click Away – partnership with the rent-a-car company Budget, according to which CP's customers have a 10% discount on the best online tariff. This discount is valid only for bookings made through CP's website.

- CP / Santander Totta Partnership – partnership aiming to promote the use of the train for University Students' commuting.

- "Travels with Books" – offer of a book to read during travel of the Braga Alfa Pendular trains, arising from the partnership between CP and Cetelem.

Communication

- "CP. Always on the Move" Campaign – aiming to promote the new image of the Alfa Pendular service and to gain competitive notoriety for the Brand.

- Alfa Pendular and Intercity Discount Campaign – with the claim "Always one Discount Away", it addressed the attributes Price and Origin/Destination for the Long-distance service, focusing on the Promo and Youth Ticket.

- International Campaign – Lusitânia, Sud Expresso and Celta – under the theme “The best choice for your vacation”, it aimed at creating interest and drive for “getaways” using the International service (Sud, Lusitânia and Celta), focusing in particular on the competitive price for each destination.

- Attending Web Summit – CP participated in the Web Summit under the theme “Travel by Train. Get Inspired". The stand reflected the inside of the new Alfa Pendular train and an LCD was placed on the window to show the campaign film of the CP Brand and a presentation of the main products, appropriate for the target in this event.

Quality

- Renewal of Quality Certification - CP renewed the certification of its Quality Management System (QMS) in accordance with the ISO standard 9001:2015.

Asset Management

- Improvement of Operating Facilities – integrated in the general improvement activities and renewal of equipment in operating facilities, the completion of the improvement works to Guarda’s operating dorm stands out.

- Electrification of the Washing Line of the Entroncamento Rolling Stock Fleet – extension of the overhead contact line and installation of a trapped key interlocking system to ensure the safety of employees in the washing operation of the Entroncamento Rolling Stock Fleet.

- Improvement of the railway in the Campolide and Entroncamento Rolling Stock Fleet – the improvement works carried out in the lines of access to the maintenance facilities of Campolide and the line of access to the pit lathe of Entroncamento were completed, including the replacement of railway material.

Social Responsibility

- Move2Learn, Learn2Move - CP joined the initiative from the European Commission, launched to celebrate the 30th anniversary of the Erasmus program, which gave approximately five thousand youths, between 16 and 19 years old, the opportunity to visit other countries within the European Union, either individually or along with their school class, travelling by public transportation.

- International Railway Film Festival – the 22nd Edition of Cinerail, International Railway Film Festival took place in Lisbon, at São Jorge Cinema, an event sponsored by UIC – International Union of Railways, in cooperation with national and international entities.

- New Rules of the Integrated Mobility Service (SIM) – the SIM Service has been restructured, extending the provision of assistance services while boarding to Customers with Special Needs (CNE) who are wheelchair users, from 63 to approximately 130 stations.

- European Heritage Days – CP co-organised the European Heritage Days, which aimed at showing the importance of heritage preservation and promoting the programmes linking building heritage and nature, in the Douro and Minho regions.

- Signing of the charter of Principles of BCSD Portugal – this document establishes the principles making up the guidelines for good business management, in accordance with ethical, social, environmental and quality standards.

Resource Management

Human Resources

CP closed 2017 with 2,709 effective staff members, i.e. 28 employees less than at the end of the previous year.

During 2017, 25 employees joined the company’s staff, including 22 by recruitment. 53 employees left the company, mainly due to termination of employment agreements by mutual consent.

The absenteeism rate and overtime work rate decreased in 2017 to 6.87% and 12.87%, respectively. These changes were mainly justified by the undertaken recruitment processes that were able to strengthen the operating permanent staff.

The Company maintained the investment in its employees during 2017, in particular through the development of a training cycle in the scope of traffic safety, regarding technical and regulatory improvements. There were 445 professional training programmes in 2017, most of them conducted by Fernave, a company belonging to the CP Group.

Fleet

At the end of 2017, the total of CP's tractive and hauled stock was composed of 795 units. Of these units, 374 were active fleet, 327 were inoperable equipment, and 94 were occasional use equipment, of 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, 24 electric locomotives, 7 diesel locomotives and 104 carriages. The active fleet had 20 diesel railcars, series 592 and 592.2, which are rented to RENFE.

The maintenance of most of the rolling stock is developed in the factories of EMEF, an affiliate company of CP. Maintenance of series 5600 locomotives is provided by SIMEF, ACE.

Demand and Supply

In 2017, 122 million passengers were transported by CP, corresponding to a 6.3% increase regarding 2016 and representing, in absolute terms, an increase of approximately 7.2 million transported passengers.

Such growth in demand was common to all CP services, such as the Long Distance Service with a growth of 6%, close to 6.4 million passengers, and the Urban Service in Lisbon with a 7.3% growth, representing an increase of 5.6 million passengers.

These results were influenced not only by the various fight against fraud and commercial programs, but also by the increase in tourism, the peaceful environment at work and the recovery of Portugal's economic indicators.

Passengers (*10³)	2017	2016	2015	2017-2016	2017 /2016
Urban Service Lisbon	83 005	77 375	75 865	5 630	7,3%
Urban Service Oporto	21 591	20 794	20 060	797	3,8%
Long-distance Service	6 388	6 025	5 508	363	6,0%
Regional Service	11 044	10 647	10 591	397	3,7%
TOTAL	122 028	114 841	112 024	7 187	6,3%

In 2017, CP's supply, assessed in Trains*Kilometre, was of 29,129 thousand Trains*Km, which is similar to the value registered in the previous year.

There were some adjustments to supply, specified in the chapter "CP's Activity in 2017".

Trains Kilometre (*10³)	2017	2016	2015	2017-2016	2017 /2016
Urban Service Lisbon	6 651	6 670	6 644	-19	-0,3%
Urban Service Oporto	4 601	4 604	4 565	-4	-0,1%
Long-distance Service	8 592	8 593	8 534	-2	0,0%
Regional Service	9 286	9 260	9 091	25	0,3%
TOTAL	29 129	29 128	28 834	1	0,0%

Income

Income from traffic came close to 250 million euros in 2017, representing an increase of 19.6 million euros regarding the previous year (+8.5%).

Income followed the growth trend of demand, being influenced by the higher relative weight of occasional tickets and of the Long Distance Service. It is also worth considering the tariff increase of the urban services of Lisbon, Oporto and Coimbra by 1.5% in January 2017.

Income Traffic (*10^3 €)	2017	2016	2015	2017-2016	2017 /2016
Urban Service Lisbon	86 322	78 396	75 058	7 926	10,1%
Urban Service Oporto	26 925	25 189	24 704	1 736	6,9%
Long-distance Service	107 085	98 616	92 725	8 469	8,6%
Regional Service	29 585	28 121	28 072	1 464	5,2%
TOTAL	249 916	230 322	220 558	19 594	8,5%

Investments

In 2017, CP invested a total of 16.3 million euros, 84% of which were assigned to rolling stock.

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.

In rolling stock, the most significant investments continue to be "Large Repairs R2+R3", amounting to 7.9 million euros, regarding scheduled maintenance interventions in several series of rolling stock, and the "half-life intervention of tilting trains (CPA)", amounting to 4.3 million euros, with delivery of the first three intervened units.

Results

(amounts in thousands of euros)

INCOME AND EXPENSES	PERIODS		Change 2017/2016	
	ACTUAL 31-12-2017	ACTUAL 31-12-2016	Amount	%
Provided sales and services	258 650	239 243	19 407	8%
Operating subsidies	21	17	4	22%
Other income	23 469	26 757	-3 288	-12%
	282 140	266 017	16 122	6%
Sold commodities and consumed materials costs	-6 243	-5 460	-783	-14%
External services and supplies	-159 350	-158 701	-649	0%
Personnel expenses (w/o Compensation and agreement on variables)	-98 514	-96 683	-1 831	-2%
Other expenses	-3 407	-4 830	1 423	29%
	-267 514	-265 674	-1 840	-1%
Operating result from transportation activity* (EBITDA)	14 626	344	14 282	4156%
Expenses/reversals of depreciation and amortisation	-56 860	-55 362	-1 498	-3%
Impairment of depreciable/amortisable investments (losses/reversals)	574	856	-282	-33%
Compensations for termination of employment	-1 360	-2 689	1 329	49%
Gains/losses attributed to subsidiaries, ass. comp. and joint ventures	6 960	3 257	3 703	114%
Inventory impairment (losses/reversals)	-412	-266	-146	-55%
Impairment of receivables (losses/reversals)	-437	-290	-147	-51%
Provisions (increases/decreases)	-144	-11 497	11 353	99%
Impairment of non-deprec. and non-amort. investments (losses/reversals)	0	1 684	-1 684	-100%
Other income (reclassification by deferred taxes)	0	11 025	-11 025	-100%
Other income (sale of basic equip./scrap)	801	0	801	s/s
Other income (sale of Praia das Maçãs)	729	0	729	s/s
Other income (recognition sale value CPCarga)	0	1 634	-1 634	-100%
Other income (inv. grants recognised in result of written-off material)	0	276	-276	-100%
Other expenses (write-off Build. Terr. Paço - Order_10759-A/2016)	0	-1 998	1 998	100%
Other expenses (other rolling stock write-offs)	0	-2 596	2 596	100%
Fair value increase/decreases	0	1 292	-1 292	-100%
Operating result	-35 523	-54 331	18 807	35%
Interest and similar income gained	467	1 048	-581	-55%
Payable interest and similar expenses	-76 571	-88 331	11 760	13%
Financial result	-76 104	-87 283	11 179	13%
Result before taxes	-111 627	-141 614	29 987	21%
Income tax for the period	-324	-2 951	2 626	89%
Net result of the period	-111 952	-144 565	32 614	23%

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

The *Net Result* of CP showed an improvement of 23% compared with the previous year (+32.6 million euros), going from -144.6 million euros, in 2016, to -122 million euros in 2017.

This positive change was mainly due to the growth in sales and provided services associated with passenger transport, as previously analysed, and the improvement of the financial result, which is namely due to the decrease in the company’s financial liability.

In 2017, *recurrent EBITDA* was positive at 14.6 million euros, representing an improvement of 14.3 million euros comparing with the previous year.

The *Operating Result* in 2017 amounted to -35.5 million euros, which translates into an improvement of 18.8 million Euros, comparing with 2016.

The reason for this situation, apart from the increase in *Provided Sales and Services*, was the increase in *Gains attributed to Subsidiaries* by 3.7 million euros, due to the improvement in the results of affiliate companies.

Personnel Expenses (without compensation) increased by 1.8 million euros as a result of the total reversal of temporary pay cuts (during the 1st, 2nd and 3rd quarters of 2016 there was a 40%, 60% and 80% reversal, respectively, reaching 100% from the 1st of October 2016), as well as the partial restitution of progressions and the growth in other bonuses. The decrease in the effective staff should also be noted.

As to *External Services and Supplies*, the increases in the headings regarding travels and accommodation (+2.7 million euros), surveillance / safety (+0.5 million euros), use of infrastructure (+0.4 million euros) and advertising (+0.4 million euros) should be noted, even if partially offset by the decrease in traction energy expenses (-3.5 million euros), on account of the renegotiation of the energy supply agreement, according to which energy expenses shall be directly invoiced to Medway, S.A.

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

Executive Summary

EMEF closed the 2017 financial year with a positive Net Result (5.9 million euros, 2.4 million euros higher than 2016) for the fourth year in a row. EBITDA (without compensation for termination of employment) was also positive, at 9.8 million euros (72% higher than the previous year).

In 2017, the 14% increase in turnover was accompanied with a 2% increase in the total average staff and a 12% increase in variable operating expenses (billable consumption and sub-agreements). Concerning the labour productivity in the Company, it sustained a 20% increase regarding the previous year, when measured by using the GVA per capita indicator.

2017 was marked by the following events:

- In November 2017, the Competition Authority decided to close the proceedings under reference DA/2015/8, since there was no evidence of practices which restrict competition;
- Strategic models for the company's restructuring have been developed, and the corresponding economic and financial assessments have been conducted;
- The separation of the Northern Workshop Yard in two independent Organisational Units has been consolidated in December 2017: the Northern Workshop Yard, including the Contumil, Sernada do Vouga and Mirandela establishments, and the Guifões Workshop Yard, with a single establishment in Guifões, dedicated to the maintenance and repair of the Metro do Porto fleets;
- In June 2017, the company decided to reincorporate the Occupational Health and Safety services in the company's Quality and Environment Section;

- In September 2017, a credit facility agreement was entered into with Banco Popular, as a bank overdraft up to a limit of 2 million euros.

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.

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

- The permanent prevention service for emergency interventions involving rolling stock and rail line rescue operations, whenever required;
- 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 scheduled 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 or accidents 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 customers.

In early 2017, the repair plan for the Customer, CP, sustained a decrease regarding the needs planned by such customer on account of the difficulty in hiring manpower, which remained throughout the year.

The R1 intervention to CPA4000 continued, whereas the delivery of the first three modernised units took place. The fourth CPA was being subject to intervention by the end of the year.

As to repairs to tractive and hauled passenger stock, 21 Rs to the fleet of the Customer, CP, have been completed (12 in carriages, 4 in electric railcars, 1 in diesel locomotives and 4 in diesel railcars) and 2 LPs to CPA4000. 2 Rs have also been performed to railcars 592 for the Customer, RENFE.

Only 344 RSP out of 380 that have been planned in the wagon repair plan were performed to the fleet of the Customer, MEDWAY, on account of the lack of manpower. 34 RSP have also been performed to wagons of other customers.

As to the agreement entered into between EMEF and Metro do Porto for the provision of services regarding the 960,000 Km general inspection to 35 Eurotram vehicles, 23 interventions have been carried out in 2017 and 2 interventions were ongoing by the end of the year. On the 5th of December, Metro do Porto exercised its option to perform the 960,000Km General inspection to 5 additional vehicles, apart from the initial 35.

As a whole, the repair segment allowed the Company to obtain, in 2017, income amounting to 37,394 thousand euros, which is 51.9% of the amount of global income of the Company and an improvement of 33% vis-à-vis 2016.

Maintenance

This activity kept being carried out in the Workshop Yards and in the High Speed Maintenance Unit including the workshop facilities in Northern (Contumil, Guifões, Sernada do Vouga and Mirandela), Central (Entroncamento) and Southern Portugal (Barreiro, Poceirão, Vila Real de Santo António, Campolide, Santa Apolónia and Oeiras).

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.

Such programmes have generally been complied with regarding all fleets with agreed upon maintenance. The reached availability and reliability figures have been slightly lower than those of previous years, even if within the same order of magnitude, on account of the difficulties experienced in the service provision due to the lack of manpower.

At the same time, the seasonal maintenance service to historical trains of the customer, CP, continued being provided and the travels of the train of "The Presidential" project were prepared and monitored in technical terms during its two annual editions.

As a whole, the routine maintenance segment allowed the Company to obtain, in 2017, income amounting to 34,272 thousand euros, which corresponded to 47.6% of the amount of global income of the Company and a slight decrease (-1%) regarding 2016.

Reconditioning

The following projects should be highlighted in this respect:

- Completion of the project to redeploy 6 Schindler carriages as operational for tourism in the Miradouro train;
- Completion of the project for the restoration of the 9004 narrow-gauge locomotive and 3 wooden carriages allocated to the historical train of the Vouga line;
- Restoration of the E214 narrow-gauge steam locomotive for the Vouga line service.

Engineering, Innovation and Development

In 2017, the Engineering sector was very focused on the review and/or setting of specifications for the purchase of materials (nomenclatures), as well as opinions on conformity following repair and/or maintenance intervention, and the review of documents supporting the activity.

In addition, there was a continuation of the effort to make technical information available to the various production centres, thereby seeking to contribute to procedures' optimisation and standardisation.

Participation in several railway technical forums was further ensured ("Implementation of TSIs" promoted by the Portuguese Institute for Mobility and Transport (IMT) and CTE9 and CR143 meetings promoted by the APNCF (Portuguese Association for Railway Standardisation and Certification)).

As to the Metallurgy, Welding and Non-Destructive Testing sector, the qualification sessions for welders and training sessions in non-destructive testing continued to take place.

Within the scope of Internationalisation

The consolidation of the commercial management based on SAP SD (quotations) continued, being extended to all organisational sectors of the Company and most customers, which was reflected by greater effectiveness and efficiency in business management.

Human Resources

By the end of 2017 (31^{st} of December), EMEF had 1,036 staff members, which represents a 1% decrease regarding the end of 2016 (1,048).

Absenteeism was at 8.89%, having sustained a decrease of 0.07 p.p. regarding 2016. The main cause for absenteeism was disease. Overtime work increased by 0.99 p.p. vis-à-vis the previous year, which was caused by an increase in work demands.

Within the scope of professional expertise development, EMEF continued investing in the implementation of a transversal training plan, integrating workers from several bodies of the Company, having therefore relied on external training.

Income

In 2017, EMEF's Turnover has registered a growth of approximately 14.3% regarding 2016.

As to 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% of the company's sales and service provisions.

Customer	Amount in € 2017	Amount in € 2016	%
CP	44 871 754	38 907 474	62%
MEDWAY	8 683 605	13 144 619	12%
PROMETRO/METRO DO PORTO	12 002 134	5 707 789	17%
EMEF / SIEMENS ACE	3 582 254	3 192 511	5%
RENFE	1 288 257	1 187 354	2%
INFRAESTRUTURAS DE PORTUGAL	562 407	500 444	1%
Other	1 080 591	404 617	1%
Total	72 071 002	63 044 806	

In 2017, the repair segment was the most significant, having grown by 33% vis-à-vis the previous year.

Activity Segment (Amounts in €)	2017	2016	Change	
			Amount	%
Repair*	37 394 380	28 089 448	9 304 932	33%
Maintenance*	34 271 932	34 474 099	-202 167	-1%
Reconditioning*	371 944	445 598	-73 654	-17%
TOTAL	72 038 257	63 009 145	9 029 111	14%

* Sales + Provided Services + Changes in production inventories

Investments

By continuing with an investment containment policy, the investments made were limited to equipment deemed as strictly necessary for pursuing the company's activity, approximately amounting to 514 thousand euros in 2017 (24% lower than 2016).

Results

(amounts in euros)

INCOME AND EXPENSES	PERIODS		Change	
	31/12/2017	31/12/2016	Amount	%
Provided sales and services	72 071 002	63 044 806	9 026 196	14,3%
Operating subsidies	2 073	0	2 073	N.A.
Gains/losses attributed to subsidiaries, assoc. comp. and joint ventures	627 865	426 394	201 471	47,3%
Changes in production inventories	-32 745	-35 661	2 915	8,2%
Capitalised production costs	0	0	0	N.A.
Sold commodities and consumed materials costs	-20 138 665	-17 827 250	-2 311 416	-13,0%
External services and supplies	-14 970 494	-15 529 870	559 376	3,6%
Personnel expenses	-27 053 205	-25 495 239	-1 557 965	-6,1%
Inventory impairment (losses/reversals)	-775 990	-59 398	-716 592	-1206,4%
Impairment of receivables (losses/reversals)	-1 019 811	-33 514	-986 297	-2942,9%
Provisions (increases/decreases)	-19 813	30 247	-50 060	-165,5%
Other income and gains	2 320 011	2 730 503	-410 492	-15,0%
Other expenses and losses	-1 584 590	-1 846 790	262 200	14,2%
Result before depreciations, financing expenses and taxes	9 425 637	5 404 228	4 021 409	74,4%
Expenses/reversals of depreciation and amortisation	-973 800	-1 020 879	47 079	4,6%
Operating result (before financing expenses and taxes)	8 451 837	4 383 350	4 068 488	92,8%
Payable interest and similar expenses	-431 587	-476 845	45 258	9,5%
Result before taxes	8 020 250	3 906 504	4 113 746	105,3%
Income tax for the period	-2 099 349	-406 577	-1 692 771	-416,3%
Net result of the period	5 920 902	3 499 927	2 420 975	69,2%

In 2017, EMEF obtained a positive Operating Result, of 8,452 thousand euros, which represented an increase amounting to 4,068 thousand euros regarding the preceding year (+93%). 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 related to the increase in activity, specifically in the heading Sold Commodities and Consumed Materials Costs (+2.3 million euros).

Personnel Expenses increased by 1.6 million euros due to the increase in average staff, the full restitution of pay cuts and compensations for termination of employment agreements by mutual consent.

The development in Impairment Losses of Receivables should also be noted, which is mainly justified by the creation of impairment associated with the debt of Metropolitano de Lisboa, E.P.E., amounting approximately to 1 million euros.

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

Executive Summary

In 2017, Fernave celebrated its 25th anniversary, having contributed for the assessment, qualification and upgrade of the skills of professionals working in the transport sector and adjacent sectors throughout the years, through its core activity - training - and associated activities, such as recruitment, psychological assessment and consultancy (particularly in human resources).

In the framework of the implementation of a new operational model seeking to create conditions so that the company is economically and financially sustainable, a fixed expense reduction process was initiated, thereby easing the expense structure and making the activity model based on a variable expenses perspective.

In this context, in 2017, Fernave's presence in rented fixed premises in Entroncamento and Oporto was discontinued and the allocated staff has been reduced.

Still, Fernave closed the year with a negative net result amounting to 287.3 thousand euros, which is a decrease vis-à-vis the previous year, due to the decrease in activity regarding 2016, when long-term initial trainings of CP occurred.

Operation

Training

3,681 trainees from several companies – as well as individuals (mainly working in the road sector) - attended Fernave's training sessions, representing an increase of approximately 32%.

The amount of training sessions increased by 35% regarding the previous year. However, the amount of training hours was lower than that of the previous year (-48%), whereas the training volume was at

81,301 T.H (-56%), as the training sessions were largely performed on a "short-term" basis.

Psychological Assessment

742 tests have been performed in the scope of psychology (selection, periodic monitoring and psychological assessment tests), which is an amount broadly similar to that of 2015, but is lower than that of 2016, when several recruitment processes were carried out, especially in CP.

Consultancy

In 2017, the consultancy activity sustained a 33% decrease regarding 2016.

Resource Management

Staff

By the end of the 2017 financial year, Fernave had 18 employees on duty, 5 of which were under an assignment scheme, where CP is the original company. The company closed the year with two less employees, one of whom is performing municipal functions and the other has returned to their original company.

The absenteeism rate was at 14.26% due to the significant number of long-term sick leaves. In the 2017 financial year, there was no record of occupational accidents.

Income

In 2017, FERNAVE registered a significant decrease in activity vis-à-vis 2016 (-60%), when several recruitment processes and initial training of CP occurred. Such decrease was common to the various activity sectors, especially in Training.

Income	2017	2016	Change	
			Amount	%
Training	650 586	1 607 508	-956 922	-60%
Psychology	34 566	67 881	-33 315	-49%
Consultancy	10 300	66 901	-56 601	-85%
Other Services	4 786	960	3 826	399%
TOTAL	700 238	1 743 250	-1 043 012	-60%

Results

Fernave closed the 2017 financial year with a *Net Result* of -287.3 thousand euros (-58.6 thousand euros in 2016).

The *Operating Result* was negative, at 186.5 thousand euros, and EBITDA was at -162.6 thousand euros.

The coverage ratio of the main operating expenses headings (External Services and Supplies + Personnel Expenses) by turnover was at 69%, translating into a significant decrease regarding 2016 (113%), which is explained, as previously mentioned, by the substantial decrease in the volume of services provided, despite the decline in *External Services and Supplies* by 44% and in *Personnel Expenses* by 24%.

The shareholder's financing amounted to 2.6 million euros by the end of the year, an amount similar to that of 2016. The average financing cost for the year was slightly lower than that of 2016 due to the favourable fluctuations in the interest rate.

(amounts in euros)

INCOME AND EXPENSES	PERIODS		Change 2017/2016	
	31/12/2017	31/12/2016	Amount	%
Provided sales and services	700 238	1 743 250	-1 043 012	-60%
External services and supplies	-410 109	-733 088	322 979	44%
Personnel expenses	-610 051	-805 534	195 483	24%
Impairment of receivables (losses/reversals)	1 015	7 506	-6 491	-86%
Impairment of non-deprec. / non-amortisable investm. (losses/reversals)	17 166	-111 101	128 267	115%
Other income and gains	151 581	9 452	142 129	1504%
Other expenses and losses	-12 411	-36 370	23 959	66%
Result before depreciations, financing expenses and taxes	-162 571	74 115	-236 686	-319%
Expenses/reversals of depreciation and amortisation	-23 932	-24 217	285	1%
Operating result (before financing expenses and taxes)	-186 503	49 898	-236 401	-474%
Payable interest and similar expenses	-95 644	-96 738	1 094	1%
Result before taxes	-282 147	-46 840	-235 307	-502%
Income tax for the period	-5 141	-11 734	6 593	56%
Net result of the period	-287 288	-58 574	-228 714	-390%

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

Executive Summary

In 2017, ECOSAÚDE achieved a positive EBITDA, Operating Result and Net Result of the financial year for the third time in a row.

This factor was preceded by a corporate restructuring process started in 2009, through which the company has rationalised its structure of operating expenses, in External Services and Supplies and Personnel, and, simultaneously, has optimised its operational efficiency. The facilities in the two main regional hubs of the company were also renewed: Lisbon and Oporto, which allowed for a better quality in the provided services.

In 2017, the company has registered a slight decrease in turnover and level of activity, 3% and 4% lower than the previous year, respectively.

It should be mentioned that, throughout 2016, the company lost very important customers: GRUPO INFRAESTRUTURAS DE PORTUGAL, MEDWAY and CONTINENTAL TEVES. As a whole, such contracts represented a sales volume of approximately 240 thousand euros in 2016, making up 11% of sales that year. However, new businesses have been secured in 2017 that largely cover this loss.

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 its customer 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 illness mitigation. In 2017, 12,200 medical interventions were carried out, 3% less than in the previous year.

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 2017, 2,081 interventions were carried out within the scope of this subject, which represents an increase of approximately 49%, compared with 2016.

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, 10,672 control interventions were carried out throughout 2017, -11% compared to 2016, due to the loss of one large Customer (IP Group) in April 2016.

Accident Management

Within the scope of Accident Management, 768 medical interventions for 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. The Emergency Department was not active throughout 2017.

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 2017, 3,310 specialty appointments were conducted, as well as 71 nursing treatments and 1,936 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-company 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 2017, 58 Training sessions were carried out, with a total of 8,436 training hours, provided to a total of 646 Trainees.

In the scope of the partnership established between Ecosaúde and Escola Superior de Enfermagem da Cruz Vermelha Portuguesa [Higher School of Nursing of the Portuguese Red Cross], the 3rd Post-Graduate Course in Occupational Nursing began in the fourth quarter of 2017.

Summary of the Activity

Activity indicators	Year 2017	Year 2016	Year 2015	Year 2014
Occupational health (medical interventions)	12 200	12 642	13 289	11 602
Occupational safety (working conditions interventions)	2 081	1 395	1 310	1 335
Prevention and control of addictions (tests conducted in workplaces)	10 672	12 062	13 650	12 410
Medical and nursing specialties	3 381	3 888	4 171	4 410
Accidents management (appointments and treatments of OAs)	768	1 051	1 076	1 123
Training - Amount of training hours	8 436	13 169	5 905	6 883
Training - No. of training sessions	58	93	57	74
Training - No. of trainees	646	1 059	635	758

Human Resources

The company has 27 permanent employees (21 under open-ended employment agreements, 4 under fixed-term employment agreements and 2 under indeterminate duration employment agreements) as well as 60 highly qualified service providers.

The absenteeism rate was 4.5% and the overtime work rate was almost non-existent, at 0.2%. Absenteeism decreased regarding the previous year due to the return of an employee under long-term sick leave. Overtime work occurred due to missions without overnight accommodation of safety technicians for audits carried out to distant Customers.

Results

INCOME AND EXPENSES	PERIODS		Change	
	31/12/2017	31/12/2016	Amount	%
Provided sales and services	2 077 053	2 134 589	-57 536	-3%
External services and supplies	-1 296 630	-1 339 419	42 789	3%
Personnel expenses	-682 149	-698 128	15 979	2%
Impairment of receivables (losses/reversals)	-5 065	-8 928	3 863	43%
Provisions (increases/decreases)	0	0	0	0%
Other income and gains	6 030	40 826	-34 796	-85%
Other expenses and losses	-15 562	-21 646	6 084	28%
Result before depreciations, financing expenses and taxes	83 677	107 294	-23 617	-22%
Expenses/reversals of depreciation and amortisation	-66 483	-79 595	13 112	16%
Operating result (before financing expenses and taxes)	17 194	27 699	-10 505	-38%
Payable interest and similar expenses	-11 801	-15 275	3 474	23%
Result before taxes	5 393	12 424	-7 031	-57%
Income tax for the financial year	-4 725	-8 059	3 334	41%
Net result of the period	668	4 365	-3 697	-85%

In 2017, Ecosaúde accounted for a positive EBITDA amounting to 84 thousand euros, a positive Operating Result amounting to 17 thousand euros and a positive Net Result amounting to 668 euros. The volume of Services Provided decreased by 3%, as previously discussed; however, it was offset by the decrease in External Services and Supplies and Personnel Expenses.

Throughout 2017, similarly to what had already happened in the previous three years, the company was autonomous, self-sufficient and did not need additional financial support from third parties.

SAROS – Sociedade de Mediação de Seguros, Lda.

Executive Summary

In 2017, the company accounted for a 3% growth in *Provided Sales and Services* vis-à-vis the previous year and a positive EBITDA amounting to 486 thousand euros, an amount slightly higher than that of 2016 (483 thousand euros).

The company closed 2017 with a positive *Net Result* of 395 thousand euros, an amount similar to that of the previous year.

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 manages an insurance portfolio (largely composed of companies from the CP Group), being entitled to remuneration from the Insurers for its mediation services, and such remuneration (commissions on insurance premiums) is established in the corresponding Mediation Agreements.

Human Resources

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

Management is composed of two Managers, wherefore it is legally required that one of the Managers is qualified as an insurance intermediary.

Provided Sales and Services

In 2017, the *Sales and Services Provided* by SAROS amounted to 476 thousand euros, representing a 3% increase vis-à-vis the preceding year.

It should be noted that, in 2017, the amount accounted for in the *Provided Sales and Services* heading only includes mediation commissions, however, in 2016, this heading totalled 463 thousand euros, including two parts:

- Insurance mediation commissions, amounting to 458 thousand euros;
- Other services, amounting to 5 thousand euros, relating to two adjustments to insurance premiums of the Insurer Fidelidade.

The following table shows the commissions obtained per Insurance Branch:

Branches	2017	2016	Change	
			Amount	%
Health	194	203	-9	-5%
Occupational Accidents	190	162	28	18%
Civil Liability	64	66	-2	-4%
Multi-Risk Companies	20	19	1	7%
Other	8	8	0	2%
TOTAL	476	458	18	4%

As in the previous year, the Health, Occupational Accidents and Civil Liability Branches represented the largest share of earned commissions, at 94% as a whole.

As to the commissions obtained per Insurer, Fidelidade SA and Mapfre SA have jointly represented 96% of the commissions earned by the company.

Results

The company's *Net Result* amounted to 395 thousand euros, which represents an upward variation of 0.2% vis-à-vis the previous year.

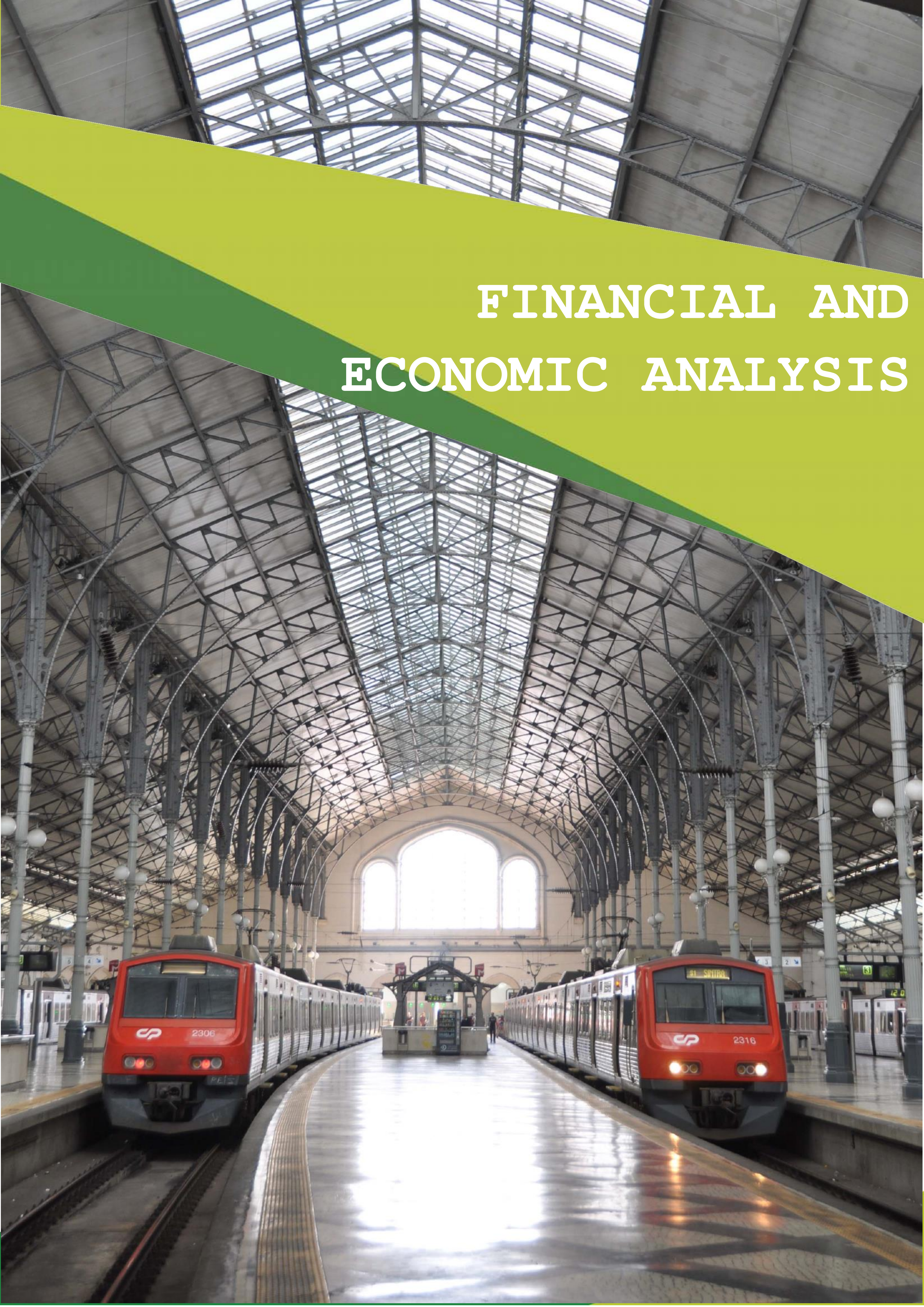
The *Provided Sales and Services* heading was the main contributor to this result, with an upward variation of 12.9 thousand euros regarding the previous year, although it was partially offset by the increase in *External Services and Supplies*, by 2 thousand euros, and in *Personnel Expenses*, by 0.4 thousand euros, as a result of the total reversal of pay cuts.

Other Income decreased by 7.1 thousand euros. It should be noted that this heading, in 2017, exclusively includes the surplus of estimated tax recognised in 2017 (estimate relating to the 2016 financial year).

(amounts in euros)

INCOME AND EXPENSES	PERIODS		Change 2017/2016	
	31/12/2017	31/12/2016	Amount	%
Provided sales and services	476 238	463 348	12 890	2,8%
External services and supplies	-11 125	-9 143	-1 982	-21,7%
Personnel expenses	-51 274	-50 854	-420	-0,8%
Other income	82 883	89 961	-7 078	-7,9%
Other expenses	-10 433	-10 180	-253	-2,5%
Result before depreciations, financing expenses and taxes	486 289	483 132	3 157	0,7%
Expenses/reversals of depreciations and amortisation	-484	0	-484	-
Operating result (before financing expenses and taxes)	485 805	483 132	2 673	0,6%
Interest and similar income gained	181	295	-114	-38,6%
Result before taxes	485 986	483 427	2 559	0,5%
Income tax for the financial year	-90 617	-88 803	-1 814	-2,0%
Net result of the period	395 369	394 624	745	0,2%

FINANCIAL AND ECONOMIC ANALYSIS



Results of the CP Group

(amounts in thousands of euros)

INCOME AND EXPENSES	PERIODS		Change 2017/2016	
	ACTUAL 31-12-2017	ACTUAL 31-12-2016	Amount	%
Provided sales and services	286 660	266 219	20 441	8%
Operating subsidies	23	17	6	34%
Capitalised production costs	12 521	8 335	4 186	50%
Other income	20 867	23 202	-2 335	-10%
	320 070	297 772	22 298	7%
Changes in production inventories	-33	-36	3	8%
Sold commodities and consumed materials costs	-26 381	-23 287	-3 095	-13%
External services and supplies	-139 059	-141 321	2 263	2%
Personnel expenses (w/o Compensation and agreement on variables)	-125 192	-121 680	-3 512	-3%
Other expenses	-4 168	-4 738	571	12%
	-294 833	-291 063	-3 770	-1%
Operating result of the core activity* (EBITDA)	25 237	6 710	18 528	276%
Expenses/reversals of depreciation and amortisation	-57 924	-56 487	-1 438	-3%
Impairment of depreciable/amortisable investments (losses/reversals)	574	856	-282	-33%
Compensations for termination of employment	-1 754	-3 094	1 340	43%
Gains/losses attributed to subsidiaries, associated companies and joint ventures	1 202	510	692	136%
Inventory impairment (losses/reversals)	-1 188	-326	-863	-265%
Impairment of receivables (losses/reversals)	-1 461	-325	-1 136	-350%
Provisions (increases/decreases)	141	-11 344	11 485	101%
Impairment of non-depreciable and non-amortisable investments (losses/reversals)	17	1 573	-1 556	-99%
Other income (reclassification by deferred taxes)		11 025	-11 025	-100%
Other income (sale of basic equip./scrap)	801		801	s/s
Other income (sale Praia das Maçãs)	729		729	s/s
Other income (recognition sale value CPCarga)		1 634	-1 634	-100%
Other income (invest. grants recognised in result of written-off material)		276	-276	-100%
Other expenses (write-off Build. Terr. Paço - Order_10759-A/2016)		-1 998	1 998	100%
Other expenses (other rolling stock write-offs)		-2 596	2 596	100%
Operating result	-33 626	-53 587	19 960	37%
Fair value increase/decreases		1 292	-1 292	-100%
Interest and similar income gained	8	180	-172	-96%
Payable interest and similar expenses	-76 650	-88 418	11 768	13%
Financial result	-76 643	-86 947	10 304	12%
Result before taxes	-110 269	-140 534	30 265	22%
Income tax for the period	-798	-3 466	2 668	77%
Net result of the period	-111 067	-144 000	32 933	23%

Net Result

The Net Result of the CP Group amounted to -111.1 million euros, which represented an improvement of 32.9 million euros (23%), comparing with the previous year (-144 million euros).

This improvement is primarily due to the growth in provided sales and services (+20.4 million euros) and the decrease in interest and similar expenses (-11.8 million euros).

Operating Result of the Core Activity (EBITDA)

In 2017, the Group's recurrent EBITDA was positive at 25.2 million euros, representing an improvement of 18.5 million euros comparing with the previous year. The headings with the most significant changes are as follows:

- Increase in *Provided Sales and Services* by 20.4 million euros, mainly arising from the growth in the provision of passenger transportation and rolling stock repair services;
- Increase in *Capitalised Production Costs* by 4.2 million euros, mainly arising from half-life large interventions – R1 – of Alfa Pendular trains (CPA 4000);
- Decrease in *External Services and Supplies* by 2.3 million euros, mainly due to the decrease in traction energy expenses, on account of the renegotiation of the energy supply agreement, according to which energy expenses shall be directly invoiced to *Medway* S.A.;
- Decrease in *Other Expenses* by 0.6 million euros, mainly due to the lower amount of expenditure corrections from previous years and of transport ticket offerings;
- Decrease in *Other Income* by 2.3 million euros, essentially as a result of the renegotiation of the traction energy supply agreement, whereas the energy expenditure started being directly invoiced by the supplier to *Medway*, S.A.;
- Increase in *Sold Commodities and Consumed Materials Costs* by 3.1 million euros, especially due to the growth in the rolling stock repair activity and, hence, in the consumption of materials and commodities needed for the repair interventions;
- Increase in *Personnel Expenses* (without compensation) by 3.5 million euros as a result of the total reversal of temporary pay cuts (during the 1st, 2nd and 3rd quarters of 2016 there was a 40%, 60% and 80% reversal, respectively, reaching 100% from the 1st of October 2016), as well as the partial restitution of progressions and the growth in other bonuses.

Operating Result

The Operating Result in 2017 amounted to -33.6 million Euros, which represents an improvement of approximately 20 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 development:

- Decrease in *Other Expenses (other rolling stock write-offs)* by 2.6 million euros. In 2016, a write-off of rolling stock was carried out, with a net impact in the Group's accounts of approximately 0.4 million euros, even though such impact was reflected in different headings in the income statement;
- Decrease in *Other expenses (write-off of the immovable property at Terreiro do Paço)* by 2 million euros, resulting from the write-off of the immovable property held by CP at Terreiro do Paço in 2016, following 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 *Compensations for Termination of Employment* by 1.3 million euros;
- Increase in *Other Income* thanks to capital gains, amounting approximately to 0.7 million euros, from the sale of the immovable property held by CP at Praia das Maçãs, and from income obtained upon the sale of scrap and basic equipment in the amount of 0.8 million euros;
- Decrease of the favourable change in *Impairment of non-depreciable and non-amortisable Investments* by 1.6 million euros, due to the fact that, following the mentioned write-off of rolling stock in 2016, impairments constituted for those assets were reverted;
- Absence of the favourable impact accounted for in 2016 in *Other Income*, amounting to 1.6 million euros, arising from the disposal of CP Carga;
- Increase in *Expenses with Depreciations* by 1.5 million euros, due to the correction of the useful life of a series of rolling stock and to the reclassification from non-current asset held for sale to fixed tangible asset of an immovable property owned by CP in Barreiro, since its disposal could not be foreseen within a short period of time. If not for these effects, depreciations would have decreased in comparison with the previous year, as a result of the end of the useful life of various assets and of the low investment carried out by the Group;
- Increase in *Impairment of Receivables* by 1.1 million euros, essentially due to the creation of impairment to address the risks of collecting the debt of a customer of EMEF currently in default regarding the contractual payment schedule.

Financial Result

The *Financial Result* in 2017 was negative at 76.6 million euros, representing an improvement of 10.3 million euros (12%), comparing with the previous year. The decrease of the Group’s financial liability largely contributed to this fact.

The decrease by 1.3 million euros of the favourable impact arising from holding derivatives compared with 2016 should also be mentioned, as a result of the termination in 2016 of the last financial risk management agreement in the Group’s portfolio.

Balance Sheet

(amounts in thousands of euros)

HEADINGS	PERIODS		Change 2017/2016	
	31/12/2017	31/12/2016	Amount	%
ASSET				
Non-Current Asset	542 517	571 583	-29 066	-5%
Current Asset	86 669	96 110	-9 441	-10%
Total Asset	629 186	667 693	-38 507	-6%
EQUITY AND LIABILITY				
Equity including:	-2 246 273	-2 651 383	405 110	15%
Net Result of the period	-111 067	-144 000	32 933	23%
Total Equity	-2 246 273	-2 651 383	405 110	15%
LIABILITY				
Non-Current Liability	2 228 203	2 640 638	-412 435	-16%
Current Liability	647 256	678 438	-31 182	-5%
Total Liability	2 875 460	3 319 077	-443 617	-13%
Total Equity + Liability	629 186	667 693	-38 507	-6%

Asset

In 2017, the Assets of the CP Group have decreased by 38.5 million euros, whereby the following impacts are the most significant:

- Decrease in *Fixed Tangible Assets* by 29.8 million euros, mainly resulting from the fact that the depreciations were not offset by a new investment;
- The balance of *State and Other Public Entities* increased by 6.1 million euros, due to the growth of *VAT receivable*, as a result of the acceptance of delayed billing regarding the use of infrastructures at the end of the year;
- The balance of *Customers and Other Accounts receivable* of the current asset decreased by 2.8 million euros;
- The heading of *Non-Current Assets Held for Sale* decreased by 11.1 million euros as a result of the sale of the immovable property in Praia das Maçãs and of the reclassification of the immovable property owned by the Group in Barreiro, to fixed tangible asset;
- The balance of *Cash and Cash Equivalents* decreased by 2.4 million euros in order to ensure the Group's short-term liabilities are met.

Equity

The capital increases carried out by the Portuguese State throughout 2017 amounted to 516.4 million euros. Such statutory capital increases have been approved by Joint Orders from the Secretary of State of Treasury and Infrastructure.

Liability

The liability of the CP Group has decreased by 443.6 million euros in 2017, whereas the following impacts are the most significant:

- Decrease in *Loans Obtained* by 411 million euros, through the use of cash relating to capital increases carried out by the State for the amortisation of financing with maturity in 2017, as well as from the conversion of matured debt service into statutory capital;
- Decrease in the balance of *Suppliers and Other Debts payable* by 19.6 million euros, mainly due to the reduction of the accrual of charges for the use of infrastructure, resulting from the acceptance and payment of the corresponding invoicing, as well as the payments resulting from the agreement entered into with Organisations Representing Employees on variable bonuses;
- Decrease in *Deferrals* by 8.3 million euros, due to the recognition of received investment grants as income for the financial year on a systematic and rational basis during the asset's useful life, in the proportion in which the corresponding depreciation is also recognised;
- *Provisions* decreased by 4 million euros, arising from the use of provisions established for the outcome of the corresponding legal proceedings.

Financing

Financing Policy

With the integration of CP in the consolidation perimeter of the State Budget in 2015, the company was able to stop relying on financing from credit institutions. This way, its financing 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 would be increased by 516.4 million euros in 2017, in order to meet the needs resulting from the historical debt service (amortisations, interest and other financial costs), investment and personnel expenses, arising from the historical agreement on variables.

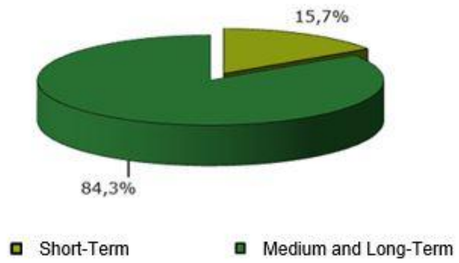
In December, the Group had to take out financing amounting to 6 million euros in order to ensure the fulfilment of its operating current liabilities.

Remunerated Debt

The remunerated debt of the CP Group decreased by approximately 411 million euros throughout 2017. At the end of the year, the debt amounted to 2,616 billion euros, with the following particulars by financing sources:

In 2017, the CP Group made amortisations amounting approximately to 411 million euros, specifically from loans from EIB and the Portuguese State.

The debt structure remained virtually unchanged; the medium and long-term debt is the most significant, as per the following chart:



State Treasury Unit Principle

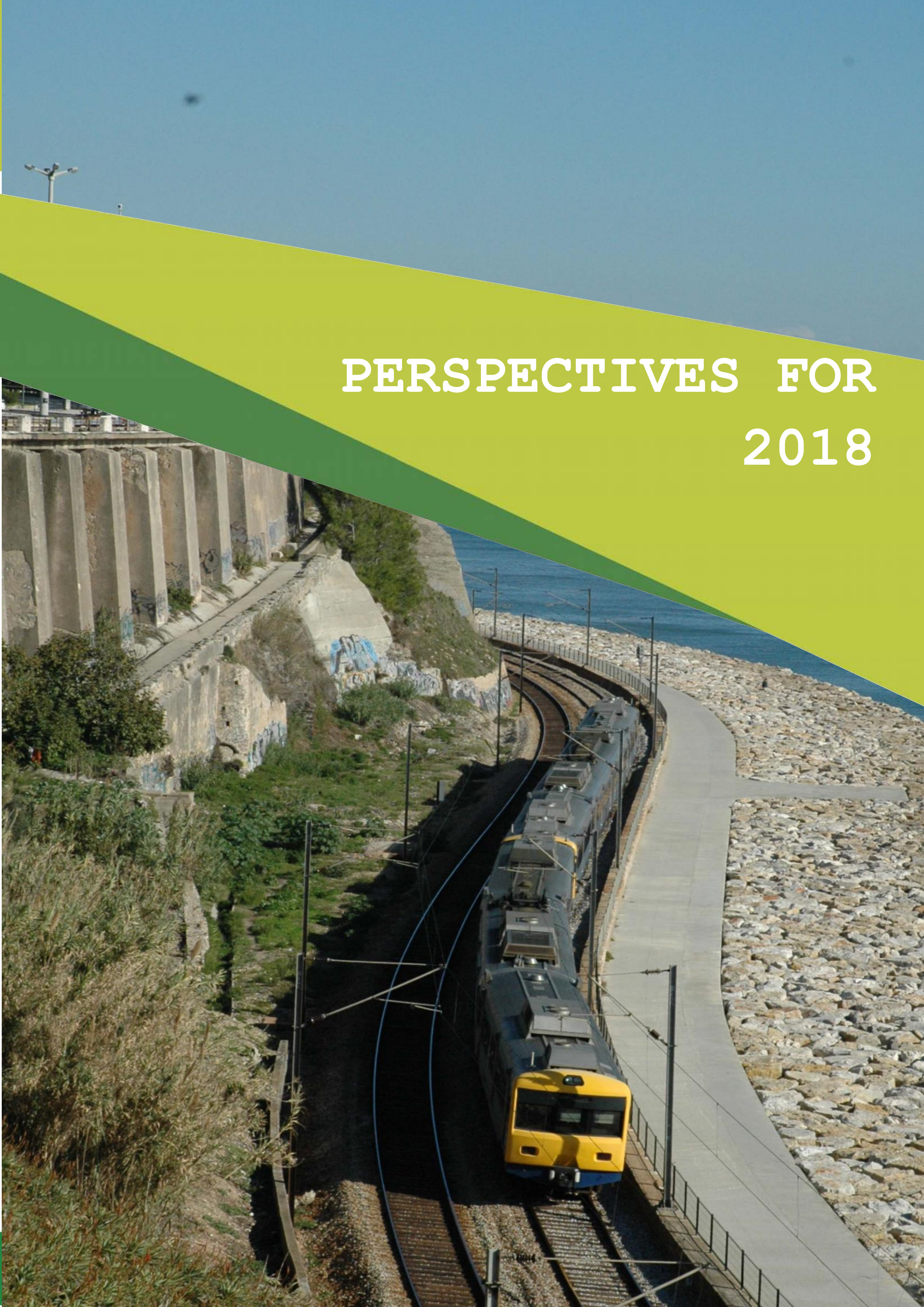
The CP Group has undertaken all efforts needed for complying with the State Treasury Unit Principle, concentrating the maximum amount of services in IGCP.

However, as a result of the specificities of the Group's activity, it has been necessary to maintain the movement of some bank accounts in the National Commercial Banks, since some services needed for its functioning could not be provided by IGCP.

In this context, in compliance with the legal provisions established regarding the State Treasury Unit Principle, to which public companies are subject, the companies in the CP Group have requested exemption from it for some services on a yearly basis; such exemption has been granted for some services, specifically for amounts subject to collection, carrying and counting, meal card, bank guarantees that cannot be replaced by secured deposits, collections made through direct debit, amounts related to the service of factoring, leasing agreements and similar agreements, bank loans (in the short, medium or long-term), among others.

Therefore, the CP Group is deemed to be complying with the legislation applying in this area.

PERSPECTIVES FOR 2018



Forecasts

The prospects for the Portuguese economy over the time horizon 2018-2020 point to a constant moderate recovery of the economy and employment, wherefore a gradual acceleration of the Gross Domestic Product (GDP) is expected.

In this context, a boost in mobility needs of communities is foreseen, enhanced by the increase in tourism and the households' disposable income and by the improvement of the labour market.

As for the transportation sector, national and community policies strengthen the focus on Customer satisfaction and the commitment to the railway sector, as a defining element in the mobility of people and goods, and as an important instrument for the economy and energetic policy improvement, channelling a significant part of investment support to this sector.

CP Group – Perspectives

The Board of Directors of CP established the following strategic guidelines for 2018-2020, given the recommendations from the Sector and Financial Ministries, the economy forecasts, and the analysis of known opportunities and constraints:

- Strengthen the quality of the rendered service, contributing to a greater satisfaction of Customers and meeting their mobility needs;
- Boost organisation, by strengthening production means and promoting efficiency and productivity, namely:
  - Purchase of rolling stock and implementation of new production models, replacing the current diesel fleet, now obsolete, and eliminating the dependence from RENFE;
  - Rejuvenating the permanent staff and renegotiating the Regulation of Careers and the Company's Agreement, adjusting and incorporating professional careers, strengthening the human capital services, while generating a commitment with the Company's results;
- 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, and creating conditions to seize new business opportunities;
- 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.

Despite the absence of Public Contracting and the fact that the absence of compensatory allowances remains to be the case, CP plans to maintain the operation in all lines and services currently operating, as well as to fully meet the public service provision obligations to which it is subject.

Sustained growth – which began at the end of 2013 - is also expected to continue regarding the number of transported passengers and income from traffic. This growth is based on the maintenance of the current commercial dynamics and the availability of human and material resources.

To ensure such availability of CP’s human resources, it is essential to carry out new recruitment procedures that meet the needs of intermediate managements, which assume a fundamental role in the operating staff management, the replacement of employees who left the company due to retirement or unfitness for the corresponding tasks, and to lower the high levels found in overtime work.

As to rolling stock, CP is faced with significant growth in maintenance expenses in order to uphold its production operability and transportation safety, however, without ensuring the adequate levels of availability and reliability. Thus, and following the infrastructure investments foreseen in the FERROVIA 2020 Investment Plan, CP is willing to initiate a purchase process for rolling stock, replacing its current diesel fleet, outdated and compromised by imminent rupture of the production capacity, and strengthening its rolling stock fleet for long-distance services.

Regarding sales, the majority of CP’s commercial equipment and information systems have operating obsolescence problems. Although their replacement processes have already been initiated, we expect a growth in maintenance and repair expenses in order to ensure minimum operating levels, in the short term.

Concerning EMEF, the strategic focus remains to be the 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.

In 2018, EMEF’s service provisions are expected to sustain significant growth as a result of the planned maintenance and repair interventions to rolling stock by its primary customers. This increase shall essentially focus on workshop facilities in Central and Northern Portugal, and the full compliance with the intervention plan shall rely on the completion of a new recruitment process for workshop personnel.

As to Fernave, following the reorganisation of the company’s operating model to be implemented in 2018, the conditions needed to ensure its economic and financial sustainability are expected to be created.

In economic terms, the focus is on the loosening of the cost structure via a significant reduction in fixed expenses, specifically regarding the permanent staff, via subcontracting, where necessary, and charges incurred with facilities.

Such measures are complemented in financial terms through the recapitalisation of the company by converting existing credits into equity instruments and strengthening equities through cash contribution.

ECOSAÚDE shall continue to give priority 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.

At the same time, it shall keep management policies focusing on the rationalisation of the operating expense structure and on matching supply to the expected level of activity.

Lastly, SAROS plans to continue ensuring the activities currently undertaken, optimising its strategic position as the captive mediator of the CP Group, by combining such potential with the aim of maximising results.

RELEVANT FACTS AFTER THE END OF THE FINANCIAL YEAR

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

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 2018

The Board of Directors

President: Dr. Carlos Gomes Nogueira

Voting Member: Eng. Sérgio Abrantes Machado

Voting Member: Dr. Ana Maria dos Santos Malhó

FINANCIAL STATEMENTS

Statement of Consolidated Financial Position as at the 31st December, 2017 (amounts in euros)

HEADINGS	NOTES	PERIODS 31/12/2017	PERIODS 31/12/2016
ASSET			
Non-current asset			
Fixed tangible assets	7	512 757 959	542 527 658
Intangible assets	8	193 279	261 198
Financial holdings - equity method	9	1 541 490	802 236
Other financial investments	10	28 024 305	27 992 171
		542 517 033	571 583 263
Current asset			
Inventory	12	28 273 068	27 740 855
Customers	13	13 494 452	12 794 087
State and other public entities	14	15 257 232	9 166 458
Other receivables	15	7 868 077	11 366 842
Deferrals	16	1 363 675	1 132 150
Financial assets held for trading	17	-	4
Non-current assets held for sale	18	5 908 397	16 995 564
Cash and bank deposits	4	14 504 270	16 914 089
		86 669 171	96 110 049
Total asset		**629 186 204**	**667 693 312**
EQUITY AND LIABILITY			
Equity			
Subscribed capital	19	3 850 091 940	3 333 713 276
Legal reserves	20	24 703	24 703
Other reserves	21	1 306 650	1 306 650
Results brought forward	22	(6 078 119 710)	(5 933 918 492)
Adjustments/other changes in equity	23	91 490 008	91 490 008
Net result of the period		(111 066 936)	(143 999 549)
Total equity		**(2 246 273 345)**	**(2 651 383 404)**
Liability			
Non-current liability			
Provisions	24	13 959 460	17 969 218
Loans obtained	25	2 206 237 291	2 609 278 327
Other debts payable	26	8 006 555	13 390 899
		2 228 203 306	2 640 638 444
Current liability			
Suppliers	27	13 376 668	23 831 725
Advance payments from customers	28	374 000	574 500
State and other public entities	14	3 643 320	4 113 609
Loans obtained	25	409 682 868	417 669 625
Other debts payable	26	105 823 010	109 603 276
Deferrals	16	114 356 377	122 645 537
		647 256 243	678 438 272
Total liability		**2 875 459 549**	**3 319 076 716**
Total equity and liability		**629 186 204**	**667 693 312**

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

Certified Accountant - Dr. Ana Coelho

President - Dr. Carlos Gomes Nogueira

Voting Member - Dr. Ana Maria dos Santos Malhó

Voting Member - Eng. Sérgio Abrantes Machado

Consolidated income statement and statement of other comprehensive income
Period ended on the 31st December, 2017

(amounts in euros)

INCOME AND EXPENSES	Notes	PERIODS 31/12/2017	PERIODS 31/12/2016
Provided sales and services	29	286 659 853	266 218 886
Operating subsidies	30	22 762	16 929
Gains/losses attributed to subsidiaries, associated companies and joint ventures	31	1 202 043	509 730
Changes in production inventories	12	(32 745)	(35 661)
Capitalised production costs	32	12 520 674	8 334 943
Sold commodities and consumed materials costs	33	(26 381 446)	(23 286 771)
External services and supplies	34	(139 058 818)	(141 321 428)
Personnel expenses	35	(126 946 302)	(124 774 822)
Inventory impairment (losses/reversals)	12	(1 188 335)	(325 744)
Impairment of receivables (losses/reversals)	13,15	(1 460 963)	(324 716)
Provisions (increases/decreases)	24	140 990	(11 343 906)
Impairment of non-depreciable and non-amortisable investments (losses/reversals)	36	17 163	1 573 246
Other income	37	22 396 933	36 135 636
Other expenses	38	(4 167 564)	(9 331 995)
Result before depreciations, financing expenses and taxes		**23 724 245**	**2 044 327**
Expenses/reversals of depreciation and amortisation	40	(57 924 291)	(56 486 597)
Impairment of depreciable/amortisable investments (losses/reversals)	41	573 769	855 533
Operating result (before financing expenses and taxes)		**(33 626 277)**	**(53 586 737)**
Fair value increases/decreases	39	-	1 291 916
Interest and similar income gained	42	7 612	179 648
Payable interest and similar expenses	43	(76 650 283)	(88 418 439)
Result before taxes		**(110 268 948)**	**(140 533 612)**
Income tax of the period	11	(797 988)	(3 465 937)
Net and comprehensive result of the period		**(111 066 936)**	**(143 999 549)**

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

Certified Accountant - Dr. Ana Coelho

President - Dr. Carlos Gomes Nogueira

Voting Member - Dr. Ana Maria dos Santos Malhó

Voting Member - Eng. Sérgio Abrantes Machado

Consolidated statement of changes in equity in the 2016 period

(amounts in euros)

DESCRIPTION		NOTES	Equity granted to capital owners of the parent company: Subscribed Capital	Legal reserves	Other reserves	Results brought forward	Adjustments / Other changes in equity	Net result of the period	Total	Non-controlling interests	Total Equity
Position at the beginning of the 2016 period	1	19 to 23	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 implementation of the new accounting framework			-	-	-	-	-	-	-		-
Changes in accounting policies			-	-	-	-	-	-	-		-
Translation differences of financial statements			-	-	-	-	-	-	-		-
Realisation of revaluation surplus			-	-	-	-	-	-	-		-
Revaluation surplus			-	-	-	-	-	-	-		-
Adjustments by deferred taxes			-	-	-	-	-	-	-		-
Other changes recognised in equity			-	-	-		-	-	-		-
	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 capital owners in the period											
Capital subscriptions			654 913 276	-	-	-	-	-	-		-
Share premium subscriptions			-	-	-	-	-	-	-		-
Distributions			-	-	-	-	-	-	-		-
Down payments to cover 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 2016 period	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.

Certified Accountant - Dr. Ana Coelho

President - Dr. Carlos Gomes Nogueira

Voting Member - Dr. Ana Maria dos Santos Malhó

Voting Member - Eng. Sérgio Abrantes Machado

Consolidated statement of changes in equity in the 2017 period

(amounts in euros)

DESCRIPTION		NOTES	Equity granted to capital owners of the parent company: Subscribed Capital	Legal reserves	Other reserves	Results brought forward	Adjustments / Other changes in equity	Net result of the period	Total	Non-controlling interests	Total Equity
Position at the beginning of the 2017 period	1	19 to 23	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)
Changes in the period			-	-	-	-	-	-	-		-
First implementation of the new accounting framework			-	-	-	-	-	-	-		-
Changes in accounting policies			-	-	-	-	-	-	-		-
Translation differences of financial statements			-	-	-	-	-	-	-		-
Realisation of revaluation surplus			-	-	-	-	-	-	-		-
Revaluation surplus			-	-	-	-	-	-	-		-
Adjustments by deferred taxes			-	-	-	-	-	-	-		-
Other changes recognised in equity			-	-	-	-	-	-	-		-
	2		-	-	-	-	-	-	-		-
Net result of the period	3		-	-	-	-	-	(111 066 936)	(111 066 936)		(111 066 936)
Comprehensive result	4 = 2 + 3							(111 066 936)	(111 066 936)		(111 066 936)
Operations with capital owners in the period			-	-	-	-	-		-		-
Capital subscriptions			516 378 664	-	-	-	-	-			-
Share premium subscriptions			-	-	-	-	-	-	-		-
Distributions			-	-	-	-	-	-	-		-
Down payments to cover losses			-	-	-	-	-	-	-		-
Other operations			-	-	-	(144 201 218)	-	143 999 549	143 999 549		143 999 549
	5		516 378 664	-	-	(144 201 218)	-	143 999 549	516 176 995		516 176 995
Position at the end of the 2017 period	6 = 1+2+3+5		3 850 091 940	24 703	1 306 650	(6 078 119 710)	91 490 008	(111 066 936)	(2 246 273 345)		(2 246 273 345)

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

Certified Accountant- Dr. Ana Coelho

President - Dr. Carlos Gomes Nogueira

Voting Member - Dr. Ana Maria dos Santos Malhó

Voting Member - Eng. Sérgio Abrantes Machado

Consolidated cash flow statement
Period ended on the 31st December, 2017

(amounts in euros)

CASH FLOW STATEMENT	31-12-2017	31-12-2016
Cash flows from operating activities - direct method		
Collections from customers	317 737 826	298 638 537
Payments to suppliers	(211 712 477)	(203 177 910)
Payments to employees	(130 884 096)	(127 725 134)
Cash generated by the operations	**(24 858 747)**	**(32 264 507)**
Payment/receipt of income tax	(348 179)	(315 286)
Other receivables/payments	(4 127 781)	20 203 471
Cash flows from operating activities (1)	**(29 334 707)**	**(12 376 322)**
Cash flows from investment activities		
Payments regarding:		
Fixed tangible assets	(4 970 240)	(4 885 613)
Intangible assets	(308 176)	(55 828)
Other assets	(179 516 477)	(132 702 396)
Receivables from:		
Fixed tangible assets	1 859 758	472 567
Other assets	179 514 154	132 920 094
Investment grants	1 535 625	1 540 660
Interest and similar income	136	539 414
Dividends	460 418	351 098
Cash flows from investment activities (2)	**(1 424 802)**	**(1 820 004)**
Cash flows from financing activities		
Receivables from:		
Loans obtained	6 000 000	-
Realisations of capital and other equity instruments	98 086 724	175 898 192
Payments regarding:		
Loans obtained	(36 930 188)	(118 555 188)
Interest and similar expenses	(38 808 003)	(40 582 703)
Cash flows from financing activities (3)	**28 348 533**	**16 760 301**
Changes in cash and cash equivalents (4) = (1) + (2) + (3)	**(2 410 976)**	**2 563 975**
Effect of exchange rate differences	(66)	3 196
Cash and cash equivalents at the beginning of the period	**16 688 653**	**14 121 482**
Cash and cash equivalents at the end of the period	**14 277 611**	**16 688 653**

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

Certified Accountant - Drª Ana Coelho

President - Dr. Carlos Gomes Nogueira

Voting Member - Dr. Ana Maria dos Santos Malhó

Voting Member - Eng. Sérgio Abrantes Machado

NOTES 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 2017:

- Manufacture and reconditioning, large repair and maintenance of equipment, railway vehicles, 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 Oporto area, as well as establishing the common and exclusive intermodal tariff for public means of transportation of passengers that 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 grouping within the scope of the overall 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. (Mozambican), should also be noted.

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 financial supervision composed 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, 2017.

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 2018, 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 2017, as well as in the comparative financial information set forth in these financial statements for the period ended on the 31st of December 2016.

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 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 book value and fair value deducted from the corresponding 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 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 uncertain estimates”, 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 in the Group have carried out with third parties.

The Group and the Company

General Remarks

Throughout 2017, 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 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 2017, are as follows:

Subsidiaries

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

CP's shareholding – 100%

Subscribed 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, 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%

Subscribed Capital – 5,000 euros

The company's purpose is the insurance mediation activity.

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

CP's shareholding – 100%

Subscribed 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%

Subscribed 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 programmes, 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%

Subscribed 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 Oporto area, as well as the establishment of the common and exclusive intermodal tariff for the public means of transportation of passengers that 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%

Subscribed 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 overall 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 – 74,025,000 meticais

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%

Subscribed 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.

Medway – Operador Ferroviário e Logístico de Mercadorias, S.A. (former CP Carga)

CP's shareholding – 5%

Subscribed Capital – 121,312,810 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 2017, 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%

Capital – 7,500.000 euros

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

Metropolitano Ligeiro de Mirandela, S.A.

CP's shareholding – 10%

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%

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%

Capital – 1,064,825 euros

APOR was incorporated in 1997, and its corporate purpose is Oporto's economic modernisation, including urban development through the development of programmes 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%

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%

Capital – 2,600,000,000 CHF

Its main corporate purpose is to provide the financing 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 very competitive role in the granting of funds to shareholders.

BCC – Bureau Central de Clearing (Belgian)

CP's shareholding – 1.54%

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 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.

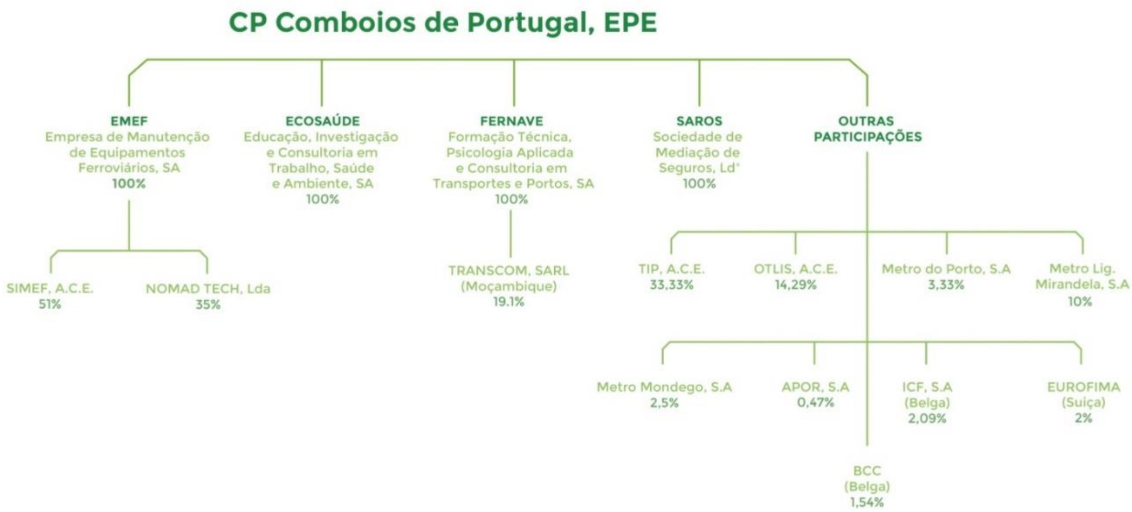
Thus, based on the specifications set forth in the IFRS 10, the financial statements have been prepared by grouping identical elements of assets, liabilities, equities, income and expenses, on a line-by-line basis.

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, margins, 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 at cost, and the carrying amount is increased or decreased in order to recognise the investor's share 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 that 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 2017, 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 2017, 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 2017, are the following:

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

Other Shareholdings

Financial investments whose fair values cannot be reliably identified shall be measured at their acquisition cost, less any accumulated impairment losses.

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 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.

Subsequent expenses are recognised as fixed tangible assets only if it is likely that there will be future economic benefits therefrom for the entity. All expenses related to maintenance and routine repairs which do not increase the asset's useful life , or which do not constitute 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 joint order no. 261/99, of the 24th of March) and are assigned to 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 rebates.

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 asset's useful life shall be recognised as costs, in accordance with the accruals principle.

Maintenance and Repair Expenses

Rolling Stock for Passenger Transportation:

- Expenses incurred with routine maintenance during the useful life of the rolling stock are recognised as operating expenses;
- Expenses incurred with large and multiannual repairs that are essential to ensure the continuity of the asset's operation are recognised in 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 amount 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 derecognised; and
- 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 lengthening of its expected useful life.

Buildings and Fixed Facilities:

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

Depreciation

Land is not depreciated. 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
Transportation equipment	4 to 12
Administrative equipment and tools	3 to 18
Other fixed tangible assets	5 to 20

Fixed tangible assets belonging to the State (assets set forth in joint order no. 261/99 from March 24th) are being depreciated since 1999 at a rate of 2%, in accordance with regulating decree no. 25/2009 from September 14th.

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 regarding 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, in the same period in which the expenses are recognised.

Capitalisation of Costs with Loans and Other Directly Attributable Costs

Interest on loans directly attributable to the acquisition or construction of assets is 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 activities necessary 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 activities necessary 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 that 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.

As to 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 expected cash flows, the features of the provided public service shall be taken into account, as well as the specificities of the funding structure that has been followed until now.

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 rolling stock ceases to operate, the recoverable amount is determined, and an impairment loss is recognised whenever the net amount 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.

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 in the Group are accounted for at the acquisition cost deducted from the corresponding accumulated amortisations and impairment losses.

The companies in 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 cash flow hedging derivatives. The recognition of fair value variations in 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 their market value, when available. If it is not available, it is established by an external entity, based on valuation techniques used on the market.

Hedge Accounting

Designating a financial derivative as a hedging instrument complies with the provisions set forth in the IAS 39. 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 Group's risk management policies – are classified as financial instruments held for trading, and their corresponding variations in fair value are accounted for in results in the period when they occur.

The CP Group does not have risk management instruments in its portfolio at the moment, whereas the last agreement ended in April 2016. However, even though the financial instruments available in the Group until 2015 aimed at hedging the interest rate risk, such instruments did not fully comply with IAS 39 requirements, in order for them to be classified as financial hedging instruments. For that same reason, they were classified as financial instruments held for trading.

Other Financial Assets/Liabilities

The companies of the CP Group only recognise a financial asset, a financial liability or an equity instrument when they 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 accounts receivable; 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 trade 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, financial assets at fair value through results are valued at fair value, and their variations 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 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 estimate and assessment of losses, associated with doubtful credits on the date of the financial statements.

Impairment losses are the difference between the asset's book value and the current value of 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 recognised impairment.

Loans and Accounts Receivable

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

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. Default analysis;
ii. Default for more than 6 months;
iii. Financial difficulties of the debtor;
iv. Likelihood of the debtor’s bankruptcy.

Impairment losses are the difference between the asset's book value and the current value of 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 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 to results. Assets are carried at acquisition cost if there is no market value. However, impairment tests shall be carried out.

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 Financial Assets/Liabilities

Financial assets/liabilities are measured at cost or at amortised cost less any impairment loss, or at fair value along 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 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:

- **a)** Granted loans and accounts receivable, which are measured at amortised cost by using the effective interest method;
- **b)** Held-to-maturity investments, which are measured at amortised cost by using the effective interest method; and
- **c)** 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 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 include, for instance, interest rate curves as well as market volatility.

In the case of more complex derivatives, more advanced valuation models are used, which include 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 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 corresponding 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 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.

As to railway material maintenance, inventories (raw and auxiliary materials, finished and intermediate products and ongoing products and works) are accounted for at acquisition cost (in the case of raw and auxiliary materials) or at production cost (in the case of intermediate and finished products and of ongoing products and works), or at 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 inventories in their location as well as in 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 inventories is written down to its net realisable value whenever such assets are carried at amounts higher than those that would foreseeably result from their sale or use.

As to 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, conversion and other costs incurred in order to place the inventories in their location and condition of use or sale are considered as cost.

Raw, auxiliary and consumable materials are adjusted based on the assets' 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 when the loss takes place. 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

Ongoing products and works inventories are valued at the lowest amount between the production cost (including 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 business, less estimated completion costs and estimated costs necessary for the sale.

Finished Products

This heading accounts for products transferred from ongoing products and works following their completion, and such products are valued at production cost or at 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 Loans obtained.

Loans and Bank Overdrafts

Loans are initially recognised in the liability through the received nominal value, net of expenses related with issuance, which is the corresponding fair value at that date. Afterwards, loans are measured 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 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 trade;
- If such amounts should be settled within twelve months following the balance sheet date;
- If the entity does not hold an unconditional right to defer the settlement of the liability for at least twelve months following the balance sheet date.

All remaining loans are classified as non-current liability.

The amount in debt of the funding agreements whose contractually established maturity exceeds one year is classified as non-current liability.

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, including at least one non-current asset), are classified as held for sale when their cost is primarily recovered through sale, when 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 in the CP Group also classify non-current assets or groups of assets acquired only with the purpose of subsequent sale – being available for immediate sale and there being 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 amount 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 in 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 using the exchange rates in force at that date.

Exchange differences, whether favourable or unfavourable, arising from 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 in accordance with 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.
Income resulting from the activity is recognised in the income statement at the time when 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.

Maintenance of Rolling Stock.

In the case of recognition of 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 operating part, by taking the work to be carried out and past experience in similar works into account.

When the conditions required 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, revenue is not recognised and the costs incurred are recognised as expense.

Remaining Activity Segments

Revenue is measured at fair value of the received or receivable consideration. Revenue associated with 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, rebates 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 their relevant period, regardless of their payment or reception, in accordance with the underlying assumption of the accrual basis (economic periodisation).

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

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

The provisioned amount is the amount deemed necessary in order to address estimated economic losses. Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

Interest and Similar Income obtained and Interest and Similar Expenses Incurred

Interest is recognised in accordance with the accruals principle. Receivable dividends are recognised at the date when the right to their reception is established.

Since 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 controlling company of a group of companies, which is taxed in accordance with the Special Taxation Scheme for Groups of Companies, as provided for 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; 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, as well as temporary impairments and 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 enabling the use of CP’s accumulated tax losses. At the end of 2017, the total deductible tax losses of the CP Group amounted approximately to 508 million euros, which may be used between 2017 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 funding of the public transportation service and to the economic conditions that may result in a tax base that is enough to create assessment and, as a result, that gives rise to income tax payments.

Further, as for income tax, CP joined the special scheme applicable to 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, CP recognised a deferred tax asset based on the proceeds of the total liability relating to occupational accident pensions at 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 income tax to be paid, associated with autonomous taxation, state surtax and municipal surtax.

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 otherwise, 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 otherwise, 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 liabilities are not recognised in the financial statements, though they are disclosed in the attachment to the corresponding 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 2018. The Management Board has approved such financial statements on the aforementioned date, as referred to in note 2.

Events occurred after the balance sheet date on conditions existing at the balance sheet date are considered in the preparation of the financial statements. Material events after the balance sheet date which do not lead to adjustments are disclosed in note 47.

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 debit balances of customers and other debtors – impairment losses relating to debit balances of customers and other debtors are based on the assessment of the likeliness of recovery of balances of accounts receivable, ageing of receivables, debt cancellation and other factors deemed relevant. There are certain circumstances and facts that could change the estimate of impairment losses of receivable balances 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 defaults. This assessment process is subject to several estimates and judgements. Changes in these estimates may imply the establishment of different impairment levels, thus resulting in different impacts in results;
- Revenue recognition – upon 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 operating part, by taking the work to be carried out and 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, revenue is not recognised and costs incurred are recognised as expense;

- Impairment losses – inventories – when determining the impairment losses of inventories, different criteria are applied depending on the state, ageing, 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 amount of tax to be paid is uncertain during the ordinary business cycle. Other interpretations and estimates could result in a different level of profit taxes recognised in the period, whether current or deferred. In Portugal, the Tax Authorities are responsible for reviewing the calculation of the taxable amount, over a period of four years, in case of tax losses carried 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, 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. Valuations are made by taking into account discounted cash flows and the variation of the holding indexing rates since their beginning until the current date. A delta of 0% or 100% is assigned to the flows in operations involving options, 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 principle regarding operations.

The Board of Directors considers it appropriate to prepare the financial statements based on continuity, considering the following factors:

- The operating situation of CP and of the companies of the Group shows sustainability, 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 currently provided by the CP Group 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.

Key Sources of Estimation Uncertainty

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

Estimates are based on the knowledge existing at any given moment and on the actions planned to be carried out, which are permanently reviewed based on the available information. Changes in the facts and circumstances may lead to the revision of the estimates, hence, actual future results can be different from estimates.

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

Useful Life of Fixed Tangible Assets

The useful life of an asset is defined in terms of 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 estimated useful life of the asset is a matter of value judgment based on the entity's experience with similar assets.

Fair Value of the Financial Instruments

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 performed in market conditions, or in accordance with assessment methodologies based on techniques of future cash flows - which are discounted by considering market conditions, the time value, the yield curve and volatility factors. Such methodologies may require the use of assumptions or judgements when estimating fair value.

The fair value of financial derivatives is determined by an external entity, 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.

Doubtful Collections

Impairment losses concerning doubtful credits are based on the assessment of the likelihood of recoverability of the balances of receivables, ageing of balances, debt cancellations 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 changes in the economic environment, of 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. Changes in these estimates may imply the establishment of different impairment levels, thus resulting in different impacts in results.

Provisions

Provisions are liabilities of an uncertain amount or temporal event. By taking into account the principle of prudence, the companies in 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 to 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 the estimated value of such loss. Changes in these estimates may imply impacts on 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 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 demand. The existence and amount of impairment to be recognised is established based on the estimated selling cost, whereas the actual impact will only be known at the time of the effective sale of the assets - which may imply variations of significance in results.

Amendments to Standards with Effect as of the 1st of January 2017

The amendments to the standards with effect as of the 1st of January 2017 that may have an impact on the CP Group are as follow:

IAS 7 – Review of Disclosures

The amendment to the IAS 7 introduces an additional disclosure as to the changes in financing liabilities disaggregated between transactions resulting in cash movements and other movements, and the way such transactions reconcile with cash flows from financing activities, which are shown in the Cash Flow Statement, as disclosed in note 25.

IAS 12 – Recognition of Deferred Tax Assets

This amendment clarifies how to account for deferred tax assets associated with assets measured at fair value, how to estimate future taxable profit when there are temporary deductible differences and how to assess the recoverability of deferred tax assets when there are restrictions in the tax law.

There were no impacts arising from the amendment to this 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 funding, are disclosed.

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

By application of the IAS 7 and with reference to the 1st of January 2017, note 25 discloses the reconciliation of changes in liabilities from financing activities, including changes arising from cash flows as well as changes without cash offsetting.

As at the 31st of December 2017, all cash and cash equivalents balances are available for use.

Cash and Bank Deposits

Cash and bank deposits comprise the following balances:

(amounts in euros)

Description	31/12/2017	31/12/2016
Cash	420 868	395 880
Bank deposits	14 083 402	16 518 209
Subtotal	**14 504 270**	**16 914 089**
Bank overdrafts (a)	(226 659)	(225 436)
Total	**14 277 611**	**16 688 653**

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

Accounting Policies, Changes in Accounting Estimates and Errors (note 5)

There were no changes to report regarding accounting policies and estimates or errors with material impacts in the financial statements of the Group.

Result Composition by Business Segment (note 6)

The mode of business segmentation used by the CP Group is based on the nature of services provided. This is the mode in which the Board of Directors analyses and manages 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 Oporto areas);
- Long-distance passenger transportation (connecting the main Portuguese cities, where 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.

The aggregation performed to operating segments 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 training, healthcare services and insurance mediation, 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 2016 and 2017, is detailed below:

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 subsidies	-	-	-	16 929	16 929	-	16 929
* Operating subsidies - 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. and joint ventures - intra-group decommitments	-	-	-	(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 impaiment (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 decommitments	-	-	-	-			
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)**

Operating result per business segment of the CP group 2017

(amounts 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	113 466 610	140 031 958	72 071 002	8 405 178	333 974 748	(47 314 895)	286 659 853
* Provided sales and services - intra-group decommitments	-	84	(45 471 549)	(1 843 430)			
Operating subsidies	-	-	2 073	20 689	22 762	-	22 762
* Operating subsidies - intra-group decommitments	-	-	-	-			
Gains/losses attributed to subsidiaries, associated companies and joint ventures	-	-	627 865	6 959 833	7 587 698	(6 385 655)	1 202 043
* Gains/losses attributed to subs., assoc. comp. and joint ventures - intra-group decommitments	-	-	-	(6 385 655)			
Changes in production inventories	-	-	(32 745)	-	(32 745)	-	(32 745)
* Changes in production inventories - intra-group decommitments	-	-	-	-			
Capitalised production costs	-	-	-	-	-	12 520 674	12 520 674
* Capitalised production costs - intra-group decommitments	-	-	12 520 674	-			
Sold commodities and consumed materials costs	(1 101 098)	(4 603 108)	(20 138 665)	(538 575)	(26 381 446)	-	(26 381 446)
* Sold commodities and consumed materials costs - intra-group decommitments	-	-	-	-			
External services and supplies	(58 301 074)	(90 944 569)	(14 970 494)	(11 822 511)	(176 038 648)	36 979 830	(139 058 818)
* External services and supplies - intra-group decommitments	16 643 562	15 198 279	4 474 330	663 659			
Personnel expenses	(33 279 213)	(39 754 501)	(27 053 205)	(28 183 554)	(128 270 473)	1 324 171	(126 946 302)
* Personnel expenses - intra-group decommitments	-	-	72 364	1 251 807			
Inventory impairment (losses/rever.)	-	-	(775 990)	(412 345)	(1 188 335)	-	(1 188 335)
* Inventory impaiment (losses/rever.) - intra-group decommitments	-	-	-	-			
Impairment of receivables (losses/reversals)	(29 247)	(458 958)	(1 019 811)	47 053	(1 460 963)	-	(1 460 963)
* Impairment of receivables (losses/reversals) - intra-group decommitments	-	-	-	-			
Provisions (increases/decreases)	-	-	(19 813)	(143 856)	(163 669)	304 659	140 990
* Provisions (increases/decreases) - intra-group decommitments	-	-	-	304 659			
Impairm. of non-depr./non-amort. invest. (losses/reversals)	-	-	-	17 163	17 163	-	17 163
* Impairm. of non-depr./non-amort. invest. (losses/reversals) - intra-group decommitments	-	-	-	-			
Other income	9 714 768	3 533 708	2 320 011	11 990 681	27 559 168	(5 162 235)	22 396 933
* Other income - intra-group decommitments	(11 837)	(50 218)	(854 960)	(4 245 220)			
Other expenses	(1 337 197)	(1 479 718)	(1 584 590)	(628 371)	(5 029 876)	862 312	(4 167 564)
* Other expenses - intra-group decommitments	911	28	821 321	40 052			
Result before depreciations, financing expenses and taxes	**29 133 549**	**6 324 812**	**9 425 638**	**(14 288 615)**	**30 595 384**	**(6 871 139)**	**23 724 245**
Result before depreciations, financing expenses and taxes - intra-group decommitments	**16 632 636**	**15 148 173**	**(28 437 820)**	**(10 214 128)**	**-**	**-**	**-**
Expenses/reversals of depreciation and amortisation	(29 287 182)	(19 256 434)	(973 800)	(8 406 875)	(57 924 291)	-	(57 924 291)
Impairment of depreciable/amortisable investments (losses/reversals)	(240 529)	(278 713)	-	1 093 011	573 769	-	573 769
Operating result (before financing expenses and taxes)	**16 238 474**	**1 937 838**	**(19 985 982)**	**(31 816 607)**	**(26 755 138)**	**(6 871 139)**	**(33 626 277)**

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

Assets and liabilities of such business segments show the following amounts on the 31st of December 2016 and 2017:

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**

Assets and liabilities per segments of the CP Group as at the 31st December, 2017 (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	573 946 029	6 530 446	523 353	580 999 828	(38 482 795)	542 517 033
Current asset of the reportable segments	43 887 589	48 634 797	1 194 343	93 716 729	(7 047 558)	86 669 171
Total asset of the reportable segments	**617 833 618**	**55 165 243**	**1 717 696**	**674 716 557**	**(45 530 353)**	**629 186 204**
Non-current liability of the reportable segments	2 230 270 286	12 979 361	285 480	2 243 535 127	(15 331 821)	2 228 203 306
Current liability of the reportable segments	520 784 791	24 885 058	4 238 582	549 908 431	97 347 812	647 256 243
Total liability of the reportable segments	**2 751 055 077**	**37 864 419**	**4 524 062**	**2 793 443 558**	**82 015 991**	**2 875 459 549**

The existing assets and liabilities are not segregated by business segment, since it is impossible to obtain such information for all segments, particularly with regard to passenger transportation, in which changes to the allocation of assets to different segments are usually performed, and 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 2017, the CP Group had fixed tangible assets organised by fixed asset categories, as shown in the following table:

(amounts in euros)

Description	31/12/2017	31/12/2016
Gross Amount:		
Land and natural resources	21 571 871	20 810 386
Buildings and other constructions	95 522 219	82 637 424
Basic equipment	1 408 183 733	1 392 911 086
Transportation equipment	2 976 434	2 957 989
Administrative equipment	24 556 982	24 019 619
Other fixed tangible assets	65 412 912	64 607 954
Ongoing investments	581 047	500 635
Advance payments on account of investments	22 859	-
Subtotal	**1 618 828 057**	**1 588 445 093**
Accumulated depreciation and impairment:		
Depreciation of the period	57 823 619	56 465 759
Accumulated depreciation of previous periods	1 042 610 451	983 231 595
Impairment losses of the period	(573 768)	855 533
Impairment losses of previous periods	6 289 415	5 433 882
Cancellations of the period	(79 619)	(69 334)
Subtotal	**1 106 070 098**	**1 045 917 435**
Net book value	**512 757 959**	**542 527 658**

The movements in the fixed tangible assets heading throughout 2017 are summarised in the following table:

(amounts in euros)

Description	Opening balance	Additions	Disposals	Assets classified as held for sale	Write-offs	Transfers	Other settlements	Closing balance
Gross amount:								
Land and natural resources	20 810 386	-	-	761 485	-	-	-	21 571 871
Buildings and other constructions	82 637 424	16 921	-	11 903 329	-	964 545	-	95 522 219
Basic equipment	1 392 911 086	736 403	(41 345)	658 336	(71 359)	11 797 596	2 193 016	1 408 183 733
Transportation equipment	2 957 989	18 446	(1)	-	-	-	-	2 976 434
Administrative equipment	24 019 619	832 695	(55 787)	-	(340 743)	100 706	492	24 556 982
Other fixed tangible assets	64 607 954	476 787	-	-	(6 510)	334 681	-	65 412 912
Ongoing investments	500 635	8 548 172	-	-	-	(8 467 760)	-	581 047
Advance payments on account of investments	-	22 859	-	-	-	-	-	22 859
	1 588 445 093	10 652 283	(97 133)	13 323 150	(418 612)	4 729 768	2 193 508	1 618 828 057
Accumulated depreciation and impairment:								
Buildings and other constructions	38 105 366	4 044 943	-	2 853 322	-	-	-	45 003 631
Basic equipment	928 959 890	50 405 660	(41 345)	658 336	(71 359)	-	(93 612)	979 817 570
Transportation equipment	2 881 894	39 057	-	-	-	-	-	2 920 951
Administrative equipment	22 207 112	930 937	(55 788)	-	(340 724)	-	492	22 742 029
Other fixed tangible assets	47 473 759	2 403 022	-	-	(6 510)	-	-	49 870 271
Fix. Tang. Assets-Acc. Impair. Losses - Basic Equip.	6 289 414	(573 768)	-	-	-	-	-	5 715 646
	1 045 917 435	57 249 851	(97 133)	3 511 658	(418 593)	-	(93 120)	1 106 070 098
Total	542 527 658							512 757 959

The 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 performed in the financial year of 2017 relate essentially to occasional R2 and R3 repairs and the half-life intervention of tilting trains (CPA).

As to write-offs, the most significant heading is associated with administrative equipment, as a result of write-off of equipment, with a book value of virtually zero.

Accumulated depreciations mentioned in the additions column are associated with the depreciation of assets, in accordance with their useful life, from which the depreciation of rolling stock stands out due to its weight.

The change in the heading of land and natural resources and buildings and other constructions is worth highlighting vis-à-vis the previous year, resulting from the reclassification of the immovable property called River Terminal of Barreiro from non-current assets held for sale to fixed tangible asset, since its disposal cannot be foreseen in a near future.

As at the 31st of December 2017, the following fixed tangible assets were granted as loan guarantee obtained by CP from Eurofima:

(amounts in euros)

Description	Book value
Railcars	197 565 780
Total	**197 565 780**

Intangible Assets (note 8)

Intangible assets of the CP Group relate essentially 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)

Description	31/12/2017	31/12/2016
Gross Amount:		
Research and development expenses	41 876	30 591
Computer programmes	1 426 577	1 417 380
Intangible assets under construction	12 270	-
Subtotal	1 480 723	1 447 971
Accumulated amortisation and impairment:		
Amortisation of the period	100 671	20 838
Reversals of the period	-	-
Accumulated amortisation of previous periods	1 186 773	1 165 935
Subtotal	1 287 444	1 186 773
Net book value	193 279	261 198

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 2017 is analysed as follows:

(amounts in euros)

Description	Opening balance	Additions	Reval / Impairments	Disposals	Assets held for sale	Write-offs	Transfers	Closing balance
Gross Amount:								
Research and development expenses	30 591	11 285	-	-	-	-	-	41 876
Computer programmes	1 417 380	9 197	-	-	-	-	-	1 426 577
Intangible assets under construction	-	12 270	-	-	-	-	-	12 270
	1 447 971	32 752	-	-	-	-	-	1 480 723
Accumulated amortisation and impairment:								
Amortisation of the period	-	100 671	-	-	-	-	-	100 671
Accumulated amortisation of previous periods	1 186 773	-	-	-	-	-	-	1 186 773
	1 186 773	100 671	-	-	-	-	-	1 287 444
Total	261 198							193 279

The additions occurred in the period result from the purchase of software for remote management and installation of programmes on computers for the training segment and online management platforms.

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	31-12-2017			31-12-2016		
		Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
SIMEF A.C.E.	Investment	455 238	-	455 238	437 323	-	437 323
NOMAD TECH, LDA.	Investment	334 019	-	334 019	161 393	-	161 393
OTLIS, ACE	Investment	242 222	-	242 222	-	-	-
TIP, ACE	Investment	510 011	-	510 011	203 520	-	203 520
Total		1 541 490	-	1 541 490	802 236	-	802 236

The following movements in these financial holdings were made in 2017, as per the following table:

(amounts in euros)

	Opening balance	Additions	Disposals	Equity Method	Other changes	Closing balance
Gross amount						
SIMEF A.C.E.	437 323	-	-	455 238	(437 323)	455 238
NOMAD TECH, LDA.	161 393	-	-	172 626	-	334 019
OTLIS A.C.E.	203 520	-	-	64 167	(25 465)	242 222
TIP, ACE	-	-	-	510 011	-	510 011
Subtotal	802 236	-	-	1 202 042	(462 788)	1 541 490
Impairment	-		-	-	-	-
Subtotal	-	-	-	-	-	-
Total	802 236	-	-	1 202 042	(462 788)	1 541 490

The increase of TIP's financial holding during 2017 should be noted, presenting positive equities in the financial statements of 2017, contrary to 2016.

The summarised financial information concerning associated companies (values awaiting approval in meeting) is presented as follows:

(amounts in euros)

Associated company	Holding %	Reference date	Assets	Liabilities	Equity	Income	Net result
SIMEF A.C.E.	51	31.12.2017	7 873 539	6 980 914	892 625	-	892 625
Nomad Tech Lda	35	31.12.2017	2 786 805	1 832 464	954 341	-	22 190 *
TIP, ACE	33	31-12-2017	17 930 155	16 384 669	1 545 486	7 425 255	1 184 645
OTLIS, ACE	14	31-12-2017	5 996 221	4 300 666	1 695 555	6 569 056	515 723

* This amount is the Net Result of the period from 01/07/2017 to 31/12/2017,
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	31-12-2017			31-12-2016		
		Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
CP Carga, SA	Acquisition cost	80 000	(80 000)	-	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	(161 224)	227 056	388 280	(178 390)	209 890
Bonds CONSOLIDATED 1942	Acquisition cost	662	-	662	662	-	662
Work Compensation Fund		25 853	-	25 853	10 885	-	10 885
		28 944 362	(920 057)	28 024 305	28 929 394	(937 223)	27 992 171

The movement of these financial holdings in 2017 is analysed in the following table:

(amounts in euros)

	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	14 968	-	-	-	25 853
	28 929 394	14 968	-	-	-	28 944 362
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.	(178 390)		-	-	17 166	(161 224)
	(937 223)	-	-	-	17 166	(920 057)
Total	27 992 171	14 968	-	-	17 166	28 024 305

Income Tax (note 11)

CP is the controlling company of a group of companies, which is taxed in accordance with the Special Taxation Scheme for Groups of Companies, as provided for 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; 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, as well as temporary impairments and 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 enabling the use of CP’s accumulated tax losses. At the end of 2017, the total deductible tax losses of the CP Group amounted approximately to 508 million euros, which may be used between 2017 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 that may result in a tax base that is enough to create assessment and, as a result, that gives rise to income tax payments.

Further, as for income tax, CP joined the special scheme applicable to 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 accounting result has been adjusted in order to reflect the estimated corporate income tax to be paid, associated with autonomous taxation, state surtax and municipal surtax, as per the following table:

(amounts in euros)

Company	31/12/2017	31/12/2016
CP - Auton. Taxation	(324 359)	(396 506)
CP - Deferred tax	-	(2 554 258)
CP - Total	**(324 359)**	**(2 950 764)**
Fernave	(5 141)	(11 734)
Ecosaúde	(5 494)	(8 059)
Emef	(456 953)	(406 577)
Saros	(6 041)	(88 803)
Total	**(797 988)**	**(3 465 937)**

Inventories (note 12)

As at the 31st of December 2017, the CP Group has the following amounts of inventory, detailed by classification:

(amounts in euros)

Description	31/12/2017	31/12/2016
Gross Amount:		
Raw, auxiliary and consumable materials	42 045 664	40 224 774
Finished and intermediate products	908 708	941 453
Advance payments for purchasing purposes	230 647	298 244
	43 185 019	**41 464 471**
Accumulated impairments		
Impairments of the period	(1 188 335)	(325 744)
Impairments of previous periods	(13 723 616)	(13 397 872)
	(14 911 951)	**(13 723 616)**
Net book value	**28 273 068**	**27 740 855**

The increase in the raw, auxiliary and consumable materials heading was mainly due to the purchase of materials needed for three ongoing projects: half-life intervention of the CPA 4000 fleet, whose end is expected to occur in mid-2019, and 960,000 km intervention of Metro do Porto's fleet, expected to end by the end of 2018. At the same time, there was a gap between the operating activity and the annual planning, specifically due to delays in scheduled interventions and changes in the consistency of some interventions, with the resulting impact on consumption and increase in materials on stock.

As previously mentioned, 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 shall be settled as the corresponding supplies occur. Out of all advance payments for purchasing purposes, 62.1% relate to 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	(13 249 200)	-	(1 177 811)	2 364	(14 424 647)
Finished and intermediate products	(474 416)	-	(32 630)	19 742	(487 304)
Total	**(13 723 616)**	**-**	**(1 210 441)**	**22 106**	**(14 911 951)**

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

For the calculation of impairment of inventories assigned to the passenger transportation segment, it is verified on a half-yearly basis whether the realisable value of inventory is lower than the amount for which they are recognised in the 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-movement for over 5 years, applied to all inventory in storage. Since the 2012 financial year, 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 enabled the identification of the actual obsolete materials and of those without use. The criterion of non-movement for over 5 years was maintained for the remaining materials.

The total inventory impairments recognised in 2017 also results from the weight of the maintenance and repair segment.

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 material consumption/movement perspectives. 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.

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

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

- 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 by the Logistics Department, 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 by the Logistics Department, purchased over 2 years ago and that indicated consumption in the last 9 years, but whose consumption perspectives, vis-à-vis the available information, are residual and subject to an 80% impairment loss on their value.

- Inventories classified as Obsolete

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

- Inventories classified as Strategic and without consumption in the last 9 years

  Inventories classified as Strategic by the Logistics Department 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 assets 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 from other customers, will be recognised based on average consumption and estimates of needs for the next 3 years, due to the fact that they are not associated with any specific agreement and due to their nature. 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 purchased over 2 years ago and has not indicated any consumption, a 95% impairment shall be applied.

As for the changes in Production Inventories, the CP Group had the following amounts in 2017 and 2016:

(amounts in euros)

Description	2017	2016
Changes in Production inventories		
Finished and intermediate products	(32 745)	(35 661)
Total	**(32 745)**	**(35 661)**

Customers (note 13)

As at the 31st of December 2017, the heading of customers had the following amounts:

(amounts in euros)

Description	31/12/2017	31/12/2016
Gross Amount:		
Customers current account		
General	13 493 248	12 779 747
Customers - doubtful collection	2 656 890	2 178 603
Subtotal	**16 150 138**	**14 958 350**
Accumulated impairment		
Impairment losses of the period	(491 423)	(316 289)
Impairment losses of previous periods	(2 164 263)	(1 847 974)
Subtotal	**(2 655 686)**	**(2 164 263)**
Net book value	**13 494 452**	**12 794 087**

The movements of impairment losses are analysed as follows:

(amounts in euros)

Description	Opening balance	Losses	Reversals	Closing balance
Impairment losses				
General customers	(2 164 263)	(506 270)	14 847	(2 655 686)
Total	**(2 164 263)**	**(506 270)**	**14 847**	**(2 655 686)**

State and Other Public Entities (note 14)

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

(amounts in euros)

Description	31/12/2017	31/12/2016
Asset		
Income tax	1 291 158	1 243 146
VAT	13 931 834	7 910 836
VAT receivable	13 547 268	6 534 362
VAT requested refunds	384 566	1 376 474
Soc. Sec. Contributions National Pensions Centre	34 240	12 476
Total	**15 257 232**	**9 166 458**
Liability		
Income tax	659 394	888 375
Income tax withheld	296 404	315 628
VAT payable	2 141 560	2 384 895
Social Security Contribution	545 058	522 066
Other taxes	904	2 645
Total	**3 643 320**	**4 113 609**

The main change is essentially due to the increase of the heading of VAT receivable, as a result of the acceptance, at the end of IP’s invoicing year regarding the charges for the use of the infrastructure.

Other Accounts Receivable (note 15)

The heading Other accounts receivable is analysed as follows:

(amounts in euros)

Description	31/12/2017	31/12/2016
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	182 070	215 950
Other Debtors - personnel	101 111	76 095
Sundry Debtors - current account	8 868 520	9 420 494
Debtors by income accruals	2 742 611	4 710 998
Subtotal	**12 024 823**	**14 554 048**
Accumulated impairment		
Impairment of the period - Other debts from third parties	(969 540)	32 932 527
Impairment of previous periods - O. Deb. from third parties	(3 187 206)	(36 119 733)
Subtotal	**(4 156 746)**	**(3 187 206)**
Net book value	**7 868 077**	**11 366 842**

The decrease vis-à-vis 2016 is mainly found in the heading of debtors by accrual of income. This decrease is due to the issuance of regular invoicing of 2017 to Medway, S.A. regarding the leasing of locomotives, and others, but also due to the termination of the traction electricity re-invoicing agreement with this entity.

The movements of impairment losses are analysed as follows:

(amounts in euros)

Description	Opening balance	Losses	Use	Reversals	Closing balance
Impairment losses					
Other debts from third parties	(3 187 206)	(1 100 359)	-	130 819	(4 156 746)
Total	**(3 187 206)**	**(1 100 359)**	**-**	**130 819**	**(4 156 746)**

Deferrals (note 16)

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

(amounts in euros)

Description	31/12/2017	31/12/2016
Asset		
Expenses to be recognised		
Defer. - exp. to be recogn. - other - miscellaneous	921 891	704 866
Defer. - exp. to be recogn. - insurance	429 509	415 069
Defer. - exp. to be recogn. - rents	12 275	12 215
Total	**1 363 675**	**1 132 150**
Liability		
Income to be recognised		
Defer. - inc. to be recogn. - invest. grants	114 006 126	122 448 574
Def. - inc. to be reco. - invo. on acc. - work to be und.	236 647	185 383
Def. - inc. to be reco. - other def. - inc. to be recog.	113 604	11 580
Total	**114 356 377**	**122 645 537**

The decrease in the liability deferrals heading mainly arises from the recognition of part of the received investment grants as income for the financial year, on a systematic and rational basis during the asset’s 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	31/12/2017	31/12/2016
59300004 Reserves Grants - Rolling Stock	433 343	495 395
59300100 FEDER-Sub Proj 12UQE	4 091 726	4 965 660
59300700 PIDDAC-Sub Proj 12+4UQE	3 822 482	4 169 978
59300800 FEDER-Sub Proj 12+4UQE	10 447 351	11 397 095
59301001 PIDDAC-Sub Proj 34UQE/UTE	2 540 202	2 857 727
59301002 PIDDAC-Sub Proj 19UDD	382 625	433 493
59301003 PIDDAC-Sub Proj 21ALLAN	661 934	702 904
59301004 PIDDAC-Sub Proj 42UQE	342 904	382 808
59301005 PIDDAC-Sub Proj 34UME	16 753 970	17 841 400
59301006 PIDDAC-Sub Proj 57UTE Silicon	14 038 418	14 878 163
59301009 PIDDAC-Sub Proj 57CORRAIL	468 786	532 646
59301010 PIDDAC-Sub Proj 12Locomotives	390 009	390 009
59301013 PIDDAC-Sub Proj Contactless ticket	172 860	920 931
59301014 PIDDAC-Improv Interface Branch Line Lousã	162 680	190 568
59301024 PIDDAC-SubProj Change Max Veloc 45 Modern. Carriag.	50 383	77 727
59301025 PIDDAC-Repl. Wheelset Transmission Boxes UDD's450	384 919	422 829
59301027 PIDDAC-Modernisation of 4 railcars 3500	995 313	1 100 313
59301028 PIDDAC-Large Repair R2 - 453	-	8 297
59301029 PIDDAC-Large Repair R2 - 2334	294 630	322 037
59301030 PIDDAC-Large Repair R2 - 2340	290 062	317 469
59301031 PIDDAC-Large Repair R2 - 2326	222 146	242 341
59301032 PIDDAC-Large Repair R3 - 9635	32 662	54 437
59301033 PIDDAC-Large Repair R2 - 464	-	22 377
59301034 PIDDAC-Large Repair R2 - 2197010	67 997	86 972
59301035 PIDDAC-Large Repair R2 - 2403	181 412	197 780
59301036 PIDDAC-Large Repair R2 - 2404	417 244	454 060
59301037 PIDDAC-Large Repair R2 - 360	26 227	48 707
59301039 PIDDAC-Large Repair R2 - 2405	292 578	317 130
59301040 PIDDAC-Large Repair R2 - 468	8 296	33 186
59301041 PIDDAC-Large Repair R2 - 2197025	117 540	133 753
59301042 PIDDAC-Large Repair R2 - 463	33 518	58 656
59301043 PIDDAC-Large Repair -Gr R-R2 461	83 794	146 640
59301044 PIDDAC-Large Repair R2 469	53 419	91 126
59301045 PIDDAC-Large Repair R2 2197012	89 283	99 997
59301046 PIDDAC-Large Repair R2 2197034	115 574	129 443
59301047 PIDDAC-Large Repair R2 2197011	70 038	78 360
59301048 PIDDAC-Large Repair R2 2197020	115 574	129 443
59301049 PIDDAC-Large Repair R2 8597004	46 892	52 000
59301050 PIDDAC-Large Repair R2 8597007	69 642	77 999
59301051 PIDDAC-Large Repair R2 1415	150 953	162 715
59301052 PIDDAC-Large Repair R2 2197028	116 730	130 599
59301053 PIDDAC-Large Repair R2 1997008	57 785	64 650
59301054 PIDDAC-Large Repair R2 2197019	132 911	146 780
59301055 PIDDAC-Large Repair R2 0451	94 268	131 976
59301056 PIDDAC-Large Repair R2 2197027	132 911	146 780
59301057 PIDDAC-Large Repair R2 1997002	139 203	150 265
59301058 PIDDAC-Large Repair R2 3154	330 624	354 816
59301059 PIDDAC-Large Repair R2 9634	98 966	120 958
59301060 PIDDAC-Large Repair R2 2197007	132 911	146 780
59301061 PIDDAC-Large Repair R2 3266	262 047	280 877
59301062 PIDDAC-Large Repair R2 0458	205 208	-
59301063 PIDDAC-Large Repair R2 0457	77 874	-
59301064 PIDDAC-Large Repair R2 1997004	89 471	-
59301065 PIDDAC-Large Repair R2 1997009	58 166	-
59301066 PIDDAC-Large Repair R2 2197015	87 559	-
59301067 PIDDAC-Large Repair R2 2197016	59 423	-
59301068 PIDDAC-Large Repair R2 2197001	88 482	-
59301069 PIDDAC-Large Repair R2 1413	111 745	-
59301070 PIDDAC-Large Repair R2 3260	56 502	-
59301071 PIDDAC-R1 CPA´s 4000	596 471	-
59301101 FEDER-Sub Proj 19UDD	790 925	896 076
59301102 FEDER-Sub Proj 21ALLAN	1 293 103	1 373 141
59301103 FEDER-Sub Proj 34UME	29 845 204	31 779 552
59301104 FEDER-Sub Proj 57UTE Silicon	18 000 718	19 113 387
59301107 FEDER-Sub Proj 57CORRAIL	939 987	1 068 037
59301108 FEDER-Sub Proj 12Locomotives	903 370	903 370
59301700 FEDER-Improv Interfaces Branch Line Lousã	348 588	414 264
59301800 FEDER-Contactless ticket-CPLX	35 588	201 696
Total	**114 006 126**	**122 448 574**

Financial Assets Held for Trading (note 17)

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

(amounts in euros)

Description	31-12-2017	31-12-2016
Financial assets	-	4
Total	-	4

At the reference date for the presentation of these Financial Statements, the Group has no amounts accounted for in the heading of financial assets held for trading.

The only existing amount as at the 31st of December 2016 was the value from shares belonging to Millennium BCP, transferred from the company Fergráfica, S.A. following the liquidation of the latter company, which were disposed of during 2017.

Non-Current Assets Held for Sale (note 18)

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, top management is committed to the development 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, it is believed they must remain in this heading of asset since their amount can be recovered, not through usage, but through sale, and the top management is strongly committed to the development of efforts for that purpose.

Assets classified as held for sale are valued at the lowest amount between their book value and their expected sale value.

On a half-yearly basis, the occurrence of impairments in these assets is assessed and, whenever necessary, adjustments of amounts which have already been recognised are performed.

After the establishment of these impairments, 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 the 31st of December 2017:

(amounts in euros)

Description	Book value (1)	Grants 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	31/12/2017	31/12/2016
Assets		
Land and natural resources	84 796	1 744 117
Buildings and other constructions	139 204	9 567 050
Basic equipment	5 684 397	5 684 397
Total	5 908 397	16 995 564

The change accounted for in 2017, in comparison with the previous year, is originated in the heading of land and natural resources and buildings and other constructions, resulting from the reclassification of the immovable property called River Terminal of Barreiro to fixed tangible asset, since its disposal cannot be foreseen in a near future. An agreement with Transtejo for the use of this immovable property is under negotiation.

Concerning the building still classified as non-current asset held for sale, it is also worth mentioning that the Group did not identify any proof of existing impairment compared with that which has been previously recognised, remaining strongly committed to the sale of this asset.

Subscribed Capital (note 19)

In accordance with article 3 of Decree-law no. 59/2012 of March 14th which defines CP's Statutes, the statutory capital of the company is 3,850,091,940 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 the 31st of December 2017.

In 2015 and 2016, joint orders from the Sector and Financial Ministries determined an increase to the statutory capital of CP, EPE, by 683,483 million euros (in 2015) and by 654,913 million euros (in 2016), having been subscribed during the corresponding years, which allowed the company to cover the payments resulting from historic debt (amortisations and financial costs) as well as investment.

During 2017, and in accordance with the law in force, it was equally determined that the statutory capital of CP, EPE, would be increased by 516.4 million euros following the joint orders from the Sector and Financial Ministries, to be subscribed by the State as follows:

- March/April – 29.3 million euros in cash;
- June/July – 12.4 million euros in cash;
- July/September – 28.6 million euros in cash;
- October – 16.8 million euros in cash;
- November – 418.3 million euros, by conversion of credits;
- December – 11 million euros in cash.

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

The Subscribed capital heading therefore shows, in accumulated terms, an increase of 516.4 million euros in 2017, corresponding to the capital amount subscribed by the State during the period.

Thus, at the end of 2017, the company has a subscribed capital of 3,850,091,940 euros.

Legal Reserves (note 20)

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 CP's Statutes, the company must have 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, legal reserves were not strengthened, nor were they used for hedging losses.

Other Reserves (note 21)

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

The Amortisation and Renovation of Rolling Stock Fund was meant for the renovation of rolling stock, as foreseen in article 16 of the Concession Contract of 1951 between the State and "Companhia dos Caminhos de Ferro Portugueses", and it concerned the surplus of revenues from the Fund on investments funded thereby.

Results Brought Forward (note 22)

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 2017		-6 078 119 710
Results brought forward in 2016	-5 933 918 492	
+ Net result of the 2016 period	-143 999 549	-6 077 918 041
Movements of 2017 directly into Results brought forward:		**-201 669**

Identification:

The reason for this variation is the Net impact of several operations in results brought forward, which are related to the cancellation of balances and intercompany transactions.

Adjustments/Other Variations in Equity (note 23)

The particulars of this heading are analysed as follows:

(amounts in euros)

Description	31/12/2017	31/12/2016
Financial repair	91 357 368	91 357 368
Transitional adjustments	132 640	132 640
Total	**91 490 008**	**91 490 008**

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

Provisions (note 24)

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	4 341 606	54 207	(3 080 000)	(15 188)	1 300 625
Railway accidents	1 792 051	-	-	(68 814)	1 723 237
Occupational accidents and illnesses, and other provisions	11 680 467	43 899	(788 768)	-	10 935 598
Financial investments	155 094	-	-	(155 094)	-
Total	**17 969 218**	**98 106**	**(3 868 768)**	**(239 096)**	**13 959 460**

The change in the heading of provisions is mainly due to the transfer of the liability value determined in accordance with the agreement entered into with the Organisations Representing Employees regarding the incorporation of variable bonuses in the concept of remuneration used for the calculation of holiday compensation and holiday allowances, which is no longer considered as a provision of legal proceeding and is transferred to the heading of other debts payable.

Liabilities for occupational accidents and illnesses were calculated based on the actuarial assessment of the liabilities of the Group as at the 31st of December 2017, with pensions for occupational accidents occurred until December 31st, 1999. This calculation was carried out by a third party (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 financial and actuarial assumptions of the assessment of liabilities are the following:

Calculation method: For the valuation of liabilities regarding retired staff with occupational 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 occupational accident pensions: life annuities.

Effective date of the calculations: December 31st, 2017.

Loans Obtained (note 25)

At the end of the period of 2017, the heading of loans obtained had the following particulars:

(amounts in euros)

Description	31-12-2017	31-12-2016
Non-current		
Credit institutions and financial companies		
Bank loans	115 149 167	144 091 375
Debenture loans	700 000 000	700 000 000
Applic. of Effective Rate Debenture Loans	(6 453 876)	(6 869 048)
Other funders	1 397 542 000	1 772 056 000
Total	**2 206 237 291**	**2 609 278 327**
Current		
Credit institutions and financial companies		
Bank loans	28 942 209	36 930 189
Bank overdrafts	226 659	225 436
Other funders	380 514 000	380 514 000
Total	**409 682 868**	**417 669 625**

As per note 19, the capital increases allowed the Group to cover the payments resulting from historic debt (amortisations and financial costs), representing a decrease in the loans obtained heading.

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

(amounts in euros)

Description	31/12/2017	31/12/2016
Credit institutions and financial companies		
Bank loans		
Up to 1 year	28 942 209	36 930 189
From 1 to 5 years	106 282 500	111 558 042
Over 5 years	8 866 667	32 533 333
Bank overdrafts		
Up to 1 year	226 659	225 436
Debenture loans		
From 1 to 5 years	500 000 000	500 000 000
Applic. of Effective Rate Debenture Loans	(313 588)	(429 855)
Over 5 years	200 000 000	200 000 000
Applic. of Effective Rate Debenture Loans	(6 140 288)	(6 439 193)
Other funders		
Up to 1 year	380 514 000	380 514 000
From 1 to 5 years	1 345 542 000	1 622 056 000
Over 5 years	52 000 000	150 000 000
Total	2 615 920 159	3 026 947 952

In accordance with IAS 7 and with reference to the 1st of January 2017, the reconciliation of changes in liabilities from financing activities, including changes arising from cash flows as well as changes without cash offsetting is shown below:

(amounts in euros)

Financing	Bank loans	Debenture loans	Other funders	Bank overdrafts	Total
Balance on the 31st of December, 2016	181 021 564	693 130 952	2 152 570 000	225 436	3 026 947 952
Cash flows:					
Amortisations in cash 2017	(36 930 188)	-	-	-	(36 930 188)
New Financing 2017	-	-	6 000 000	-	6 000 000
Amortisations in kind 2017	-	-	(380 514 000)	-	(380 514 000)
Application of effective rate	-	415 172		-	415 172
Other changes	-	-	-	1 223	1 223
Balance on the 31st of December, 2017	144 091 376	693 546 124	1 778 056 000	226 659	2 615 920 159

Other Debts Payable (note 26)

The heading of other accounts payable is analysed as follows:

(amounts in euros)

Description	31/12/2017	31/12/2016
Non-current		
Creditors by expenditure accruals	8 006 555	13 390 899
Total	**8 006 555**	**13 390 899**
Current		
Investment providers	912 839	311 500
Creditors by outstanding subscriptions	35 477 347	38 665 181
Other debtors and creditors	7 972 495	4 647 625
Creditors by expenditure accruals	61 460 329	65 978 970
Total	**105 823 010**	**109 603 276**

Regarding non-current liability, in 2017, the recognition of liability concerning the settlement of historic debt arising from the integration of variable bonuses in the calculation of holiday allowances and holidays still remains, following the agreement entered into 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.

The reduction in current liability is essentially due to the reduction of accrued interest payable as a result of the amortisation of some financing. This reduction of financing was achieved mainly through capital increases granted by the Portuguese State. It is also worth noting the decrease in the need for accrual of expenses associated with external services and supplies, since invoicing was registered in 2017. For the reduction of current liability, the change in exchange rates of Swiss francs is noted, which is the currency of valuation of shares subscribed and not paid-up of Eurofima, which decreased the value of said shares as at 31.12.2017 upon conversion.

Suppliers (note 27)

The heading of suppliers shows the following particulars:

(amounts in euros)

Description	31/12/2017	31/12/2016
Suppliers current account		
General	12 528 536	22 699 491
Invoices received and pending approval	848 132	1 132 234
	13 376 668	**23 831 725**

In 2017, there was an overall decrease of outstanding balances to general suppliers, such as the decrease of the average time for payment, and the decrease of the debt to Infraestruturas de Portugal, S.A. stands out as a contribution to such fact.

Advance Payments from Customers (note 28)

This heading has the following amounts:

(amounts in euros)

Description	31/12/2017	31/12/2016
Advance payments from customers		
CP Customers	-	200 500
Fernave Customers	374 000	374 000
	374 000	**574 500**

The disposal certificate of the immovable property Praia das Maçãs was carried out in 2017 and the advance payment received in 2016 was settled.

The promissory agreement of purchase and sale entered into in 2014 regarding a building in Mozambique held by Fernave is still in effect, for which a down payment amounting to 374 thousand euros was received.

Provided Sales and Services (note 29)

Provided sales and services have the following particulars:

(amounts in euros)

Description	2017	2016
Provided services		
Passengers	257 691 742	233 776 664
Other	28 968 111	32 442 222
Total	**286 659 853**	**266 218 886**

The heading of provided sales and services increased by approximately 20.4 million euros, as a result of the growth in passenger services, namely in one-way ticket sales, presenting an accumulated growth of 13.6 million euros, vis-à-vis the same period in the previous year.

Operating Subsidies (note 30)

Operating subsidies recognised as income in the financial years of 2017 and 2016 are identified in the following table:

(amounts in euros)

Description	2017	2016
Operating subsidies:		
IEFP Training	-	16 929
Energy Efficiency Fund	10 000	-
Shift2Rail–IMPACT Project	3 578	-
Shift2Rail–IMPACT2 Project	2 073	
Shift2Rail-PIVOT Project	7 111	-
Total	**22 762**	**16 929**

It is also worth mentioning that the amounts granted to CP by the State in 2017 correspond exclusively to the State’s contribution for passes and the intermodal system Andante, and CP did not receive any additional compensation for the provision of its public service.

Gains/losses Attributed to Subsidiaries, Associated Companies and Joint Ventures (note 31)

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

(amounts in euros)

Description	2017	2016
Losses		
Application of the equity method	-	(10 929)
Gains		
Application of the equity method	1 202 043	520 659
Total	**1 202 043**	**509 730**

The increase in gains allocated to subsidiaries, associated companies and joint ventures, is due to the improvement in the results of the companies of the Group, namely TIP, Otlis, SIMEF and Nomad Tech.

Capitalised Production Costs (note 32)

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	2017	2016
Passenger transportation		
Fixed tangible assets	12 520 674	8 334 943
Total	**12 520 674**	**8 334 943**

Capitalised production costs relate to rolling stock maintenance and repair, whereas its increase vis-à-vis the previous year is due to the half-life interventions performed in Alfa Pendular trains.

Sold Commodities and Consumed Materials Costs (note 33)

Sold commodities and consumed materials costs are as follows:

(amounts in euros)

Description	2017	2016
Goods	-	-
Raw, auxiliary and consumable materials	26 381 446	23 286 771
Total	**26 381 446**	**23 286 771**

The increase in this heading is mainly associated with the growth in the rolling stock repair activity, specifically due to the half-life interventions - R1 – of Alfa Pendular (CPA 4000) trains, and the 960,000 Km general inspection to vehicles comprising the Eurotram Fleet.

External Services and Supplies (note 34)

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

(amounts in euros)

Description	2017	2016
Sub-agreements	26 456 314	25 639 645
Specialised and other services	83 938 427	86 177 105
(Including infrastructure usage fee)	56 175 213	55 789 977
Materials	643 019	685 852
Energy and fluids	24 057 437	27 550 083
Travels, accommodation and transportation	3 963 621	1 268 743
Total	**139 058 818**	**141 321 428**

As a result of the effort to contain expenses, in 2017, external services and supplies decreased by approximately 2.3 million euros.

There was an increase in expenses with travels, to which the agreements concluded by CP with trade unions in mid-2016 were instrumental, where a transport bonus is now awarded to the operating personnel from the commercial and traction career, in certain circumstances. It should be noted that, in 2016, such bonus was only awarded half-year, by taking the dates of conclusion of the agreements into account.

There was also an increase in the subcontracting of services, specifically regarding maintenance sub-agreements.

Such increases were largely offset by the decrease in traction energy expenses, on account of the renegotiation of the energy supply agreement, according to which energy expenses shall be directly invoiced to *Medway* S.A..

Personnel Expenses (note 35)

The heading of personnel expenses has the following particulars:

(amounts in euros)

Description	2017	2016
Remuneration of governing bodies	416 529	387 249
Remuneration of personnel	98 872 813	95 975 569
Compensations	1 754 018	3 094 424
Charges on remuneration	21 989 773	21 318 380
Insurance for occupational accidents and illnesses	3 041 474	3 138 965
Social action expenses	384 008	319 034
Other personnel expenses	487 687	541 201
Total	**126 946 302**	**124 774 822**

The increase in this heading vis-à-vis 2016 was a result of the total reversal of temporary pay cuts, which began in January 2016, reaching 100% from the 1st of October 2016), as well as the publication of the Decree-Law for the 2017 State Budget Implementation – DL no. 25/2017, according to which the increase in the wage bill was allowed, arising from the unfreezing of seniority bonuses and career progressions, restitution of progressions and the increase in other bonuses.

Impairment of Non-Depreciable and Non-Amortisable Investments (note 36)

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

(amounts in euros)

Description	2017	2016
Losses		
In financial investments	(3)	(111 112)
Reversals		
From financial investments	17 166	-
Non-current assets held for sale	-	1 684 358
Total	17 163	1 573 246

In contrast to 2016, in 2017 there was no need to adjust impairments with non-current assets held for sale. In 2016, the reversal was due to the write-off of rolling stock.

Other Income (note 37)

The heading of other income has the following particulars:

(amounts in euros)

Description	2017	2016
Supplementary income	6 278 674	9 194 761
Prompt payment discounts received	1 647	1 279
Inventory gains	69 307	44 117
Remaining financial assets	3 461 517	3 620 550
Non-financial investments	781 205	37 831
Other	11 804 583	23 237 098
Total	22 396 933	36 135 636

There was a decrease in the heading of other income in 2017, mainly due to the following elements:

- End of the energy invoicing to Medway, S.A. (former CP Carga) arising from the conclusion of a new agreement which foresees the issuance of invoicing from the energy supplier directly to the mentioned company (as per note 34);
- The heading of other, includes in 2016 the reclassification of the liability with occupational accidents and 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.

Other Expenses (note 38)

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

(amounts in euros)

Description	2017	2016
Taxes	183 469	180 643
Bad debts	-	7 998
Inventory losses	41 945	108 001
Non-financial investments	19	4 594 182
Other	3 942 131	4 441 171
Total	**4 167 564**	**9 331 995**

There was a reduction in the heading of other expenses in 2017, mainly due to the following elements:

- Write-off of the Terreiro do Paço Terminal in 2016, 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 company's accounts;
- Write-off of rolling stock carried out in 2016, with a negative impact in the accounts from that year of approximately 2.6 million euros.

The Other expenses heading essentially encompasses the recognition of losses resulting from the non-recognition of the entire State contribution associated with sold subsidised transport cards, since it exceeds the assigned amounts, expenses with electronic terminals and indemnities of various kinds, namely contractual indemnities and indemnities for train delays.

Fair Value Increases/Decreases (note 39)

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

(amounts in euros)

Description	2017	2016
Gains		
Financial instruments	-	1 291 916
Total	**-**	**1 291 916**

The CP Group has no financial derivatives at the end of 2017.

The fair value gain recognised in 2016 was caused by the expiration of the last release procedure regarding the portfolio of derivatives, in April 2016, upon the expiration of the last financial risk management instrument held in CP’s portfolio, along with the amortisation of the Eurofima loan that served as base for said derivative. The assessment of these derivatives was ensured by a third party.

Expenses/Reversal of Depreciation and Amortisation (note 40)

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

(amounts in euros)

Description	2017	2016
Expenses		
Fixed tangible assets	57 964 873	56 465 759
Intangible assets	100 671	20 838
Reversals		
Fixed tangible assets	141 253	-
Total	**57 924 291**	**56 486 597**

Expenses that were accounted for are the result of depreciation/amortisation of assets in accordance with their determined useful lives and particulars presented in note 3. The expected useful lives of assets are revised annually, in order to verify their accuracy. The registered reversal is due to an adjustment made to the useful life of rolling stock in 2017.

The increase in amortisation of intangible assets in the 2017 period is directly associated with the purchases made in December 2016.

Impairment of Depreciable and Amortisable Investments (note 41)

The heading of impairment of depreciable and amortisable investments has the following amounts:

(amounts in euros)

Description	2017	2016
Losses		
Fixed tangible assets	(455 819)	-
Reversals		
Fixed tangible assets	1 029 588	855 533
Total	**573 769**	**855 533**

The change in the heading of impairment reversals is due to the completion of the repairs of damaged rolling stock. The change in the heading of impairment losses is due to the impairment accounted for in rolling stock repairs.

Interest and Similar Income Gained (note 42)

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

(amounts in euros)

Description	2017	2016
Interest gained	7 612	179 648
Total	**7 612**	**179 648**

This heading essentially accounts for interest associated with the agreement entered into with Metro Ligeiro de Mirandela.

Payable Interest and Similar Expenses (note 43)

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

(amounts in euros)

Description	2017	2016
Interest charges	73 047 555	82 718 467
Other expenses and losses	3 602 728	5 699 972
Total	**76 650 283**	**88 418 439**

During the financial year of 2017, the heading of payable interest and similar expenses decreased by approximately 11.8 million euros mainly due to the amortisation of financing held by the company, arising from capital increases granted by the State for that purpose.

Contingent Liabilities (note 44)

Not applicable.

Guarantees and Sureties (note 45)

(amounts in euros)

Guarantees and sureties provided to the CP Group:	Amount	
- By the State	642 778 876	
- By bank entities in favour of third parties	1 531 401	*
Guarantees and bank sureties provided by the CP Group in favour of third parties	1 256 568	

* includes escrow account at IGCP amounting to 150.000€

Remuneration of the Certified Public Accountant (note 46)

The company Oliveira, Reis & Associados - SROC, Lda. has 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. has annual fees, within the scope of the audit 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 47)

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

COMBOIOS DE PORTUGAL

CONSOLIDATED REPORT AND ACCOUNTS OF THE CP GROUP 2017

AUDIT REPORT ISSUED UNDER THE TERMS OF ARTICLE 245, ITEM 1, PARAGRAPH B) OF THE SECURITIES CODE

CONSOLIDATED FINANCIAL STATEMENTS AUDIT REPORT

Opinion

We have audited the attached consolidated financial statements of CP – Comboios de Portugal, E.P.E. and its subsidiaries (the Group), comprising the statement of the consolidated financial position as at 31st of December, 2017, (showing a total of 629,186,204 Euros and a total negative equity of 2,246,273,345 Euros, including a net loss of 111,066,936 Euros), the consolidated income statement and the statement of other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows of the year that ended on that date, and the attachments to the consolidated financial statements, including a summary of the relevant accounting policies.

In our opinion, the attached consolidated financial statements truly and appropriately present, in all material aspects, the consolidated financial position of the Group as at 31st of December, 2017, and its consolidated financial performance and cash flows regarding the year that ended on that date, in accordance with the International Financial Reporting Standards (IFRS), as adopted in the European Union.

Opinion Foundation

Our audit was carried out in accordance with the International Standards on Auditing (ISA) and further technical and ethical provisions and guidelines of the Portuguese Certified Public Accountant Association. Our responsibilities under said provisions are specified in the "Responsibilities of the auditor regarding the consolidated financial statements audit" section below. We are independent from the Entities in the Group in accordance with the law and comply with all further ethical requirements foreseen in the ethics code of the Portuguese Certified Public Accountant Association.

We are certain that the audit evidence we obtained serves as sufficient and appropriate foundation for our opinion.

Emphasis

The Group has been accumulating consecutive net losses of significant amounts (particularly, the net loss of the years ended on the 31st of December, 2015 and 2016, whose Report and Accounts have not yet been approved by the Sector and Financial responsible Ministries), presenting, on the 31st of December, 2017, a total negative equity of 2,246,273,345 Euros.

Additionally, we note that there was a significant decrease of funding in the analysed year, in the amount of 411,027,793 Euros, of which 410,154,015 Euros were converted into capital. Nevertheless, the Group still has a high degree of indebtedness, with net assets mostly financed by the Sector and Financial responsible Ministries.

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Since the Group renders a public service, the financing of its activity still depends on the financial support of the Portuguese Government, who holds the total capital of the Group.

Our opinion is not altered on this matter.

Key Audit Matters

Key audit matters are those of greater importance in the audit of the consolidated financial statements for the current year according to our own professional judgement. Said matters were considered as a whole within the audit of the consolidated financial statements, and we did not issue a separate opinion regarding them.

Most important risks of material misstatement	**Summary of solutions applied to the most important risks of material misstatement**
Revenue Recognition As at 31st of December, 2017, the revenue from the services rendered by the Group, which essentially include the transportation of passengers and the maintenance and repair of rolling stock, increased to 286,659,883 Euros, as per note 29. The risk of revenue recognition is related to the high number of records in the ticketing system and their incorporation into accounting, and to the level of judgement of the Board of Directors in determining the state of completion of the ongoing services as at the date of the balance sheet, for which we considered it a key audit matter.	We undertook the following auditing procedures, among others: a) Surveying and analysing the relevant controls identified in the revenue cycle; b) Testing the operability of controls used in the incorporation of revenue into accounting, with the assistance of an auditor specialised in computer auditing, qualified in information technologies; c) Analysing the assumptions considered in the recognition of works in progress; d) Analysing revenue adjustments at the end of the year; and e) Identifying and analysing the main variations in the revenue heading.
Impairment of fixed tangible assets As at 31st of December, 2017, the impairment of fixed tangible amounts to 5,715,646 Euros, as per note 7. The impairment tests carried out by the Group are based on validations conducted by the responsible operating officers regarding rolling stock, which are associated with the movement level of the rolling stock and with the expectation of disposal of the obsolete material, and by independent experts regarding immovable properties, leading us to consider this topic as a key audit matter.	We undertook the following auditing procedures, among others: a) Analysing the criteria defined by the Group for the identification of slow-moving or obsolete rolling stock; b) Analysing the support for the recognised impairments' calculation, including the corresponding adopted criteria and independent evaluations of immovable properties; c) Analysing the main impairment movements registered in the year; d) Inquiring the Group's management; and e) Verifying the suitability of the impairment disclosures presented in the attached notes.

Provisions	
Provisions present a balance of 13,959,460 Euros as at 31st of December, 2017, as per note 24. This heading essentially includes the provisions for ongoing legal actions, occupational accidents, work-related diseases, and railway accidents. The liability associated with occupational accidents and work-related diseases is supported by an actuarial study prepared by an independent expert. The transactions accounted for in these provisions are covered in the opinions from the legal secretaries of the Group. Provisions are considered a key audit matter due to the high level of judgement and uncertainty associated with them.	We undertook the following auditing procedures, among others: a) Breaking down the balance of the Provisions' heading and analysing the main transactions of the year; b) Obtaining a list of ongoing legal actions through external confirmation procedures with the attorneys, and analysing the replies; and c) Inquiring the management; d) Obtaining and analysing the actuarial study which supports the current value of the liabilities with occupational accidents and work-related diseases; and e) Verifying the suitability of the disclosures presented in the attached notes.
Inventory impairment	
Inventories – which amounted to 28,273,068 Euros as at the 31st December, 2017 – are accounted for at the lower of their cost and the net realisable value. Due to the responsibilities taken vis-à-vis its customers, the Group holds inventories for long periods of time. Therefore, in view of the amount of inventories and the high level of judgement by the Board in estimating impairment losses (as per note 12), we considered it a key audit matter.	We undertook the following auditing procedures, among others: a) Analysing the accounting policies on this matter; b) Providing assistance in physical inventory counts carried out by the Group; c) Testing the underlying assumptions to the calculation of the estimated impairment losses in inventories; d) Corroborating the underlying assumptions with the Group's technical teams; e) Analysing the main transactions of the year; f) Assessing the consistency of criteria with those used in the preceding year; and g) Verifying the suitability of the impairment disclosures presented in the attached notes.

Responsibilities of the Management Board and of the Supervisory Board for the consolidated financial statements

The management board is responsible for:

- Preparation of the consolidated financial statements that truthfully and appropriately present the financial position, financial performance, and cash flows of the Group, in accordance with the International Financial Reporting Standards (IFRS), as adopted in the European Union;

- Preparation of the management report, including the Corporate Governance Report, under the applicable legal and regulatory terms;

- Development and maintenance of an internal control system suitable for the preparation of financial statements with no material misstatements due to fraud or error;

- Implementation of accounting policies and principles appropriate for the circumstances; and

- Assessment of the Group's ability to continue as a going concern, disclosing, when applicable, any matters that may cast significant doubt regarding said continuity.

The supervisory board is responsible for the supervision of the process concerning the preparation and disclosure of the Group's financial information.

Responsibilities of the auditor regarding the consolidated financial statements audit

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise our professional judgment and maintain professional scepticism throughout the audit, as well as:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Understand internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board;

- Conclude on the appropriateness of the management board's use of the assumptions of continuity and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we shall be required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The conclusions are based on the audit evidence obtained up to the date of the report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Obtain sufficient appropriate audit evidence regarding the financial information of the Entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

- Communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during the audit;

- From the matters we communicate to those charged with governance, including the supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter;

- We provide a statement to the supervisory board regarding the compliance with the relevant ethical requirements on independence, and communicate with them all relationships and other matters that may be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility further includes the verification regarding the compliance of the information of the management report with the consolidated financial statements, and the verifications foreseen in items 4 and 5 of article 451 of the Portuguese Commercial Companies Code.

OTHER LEGAL AND REGULATORY REQUIREMENTS REPORT

Management Report

In compliance with article 451, item 3, paragraph e) of the Portuguese Commercial Companies Code, we believe that the management report was prepared in accordance with the applicable legal and regulatory requirements in force, that the information provided therein complies with the audited consolidated financial statements and, considering the knowledge and assessment of the Group, we did not identify any material misstatement.

Consolidated non-financial information foreseen in article 508 – G of the Portuguese Commercial Companies Code

In compliance with article 451, item 6 of the Portuguese Commercial Companies Code, we inform that the Group mentioned in its management report that it will prepare a report separate from the management report, which shall include the consolidated non-financial information, in accordance with article 508 – G of the Portuguese Commercial Companies Code and shall be published in its website within the legal deadline.

Corporate Governance Report

In compliance with article 451, item 4 of the Portuguese Commercial Companies Code, we believe that the corporate governance report, presented in the individual accounting, includes the elements required of the Group under article 245-A of the Securities Code, and no material misstatements were identified in the information disclosed therein, complying with paragraphs c), d), f), h), i) and m) of said article.

Additional elements foreseen in article 10 of the European Union Regulation no. 537/2014

In compliance with article 10 of the European Union Regulation no. 537/2014 of the European Parliament and of the Council, from April 16th, 2014, and in addition to the aforementioned key audit matters, we also report that:

- We were appointed/elected auditors of CP – Comboios de Portugal, E.P.E. for the first time in the meeting of the Board of Directors held on the 10th of July, 2014, for a term of office from 2014 to 2016. We were appointed/elected auditors of CP – Comboios de Portugal, E.P.E. in the meeting of the Board of Directors held on the 13th of May, 2017, for a term of office from 2017 to 2019.

- The Management Board confirmed that they have no knowledge of any fraud or suspected fraud with material effect on the financial statements. In the planning and execution of our audit according to the ISAs, we maintained our professional scepticism and designed auditing procedures that address the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work, we did not identify any material misstatement in the consolidated financial statements due to fraud.

- We further declare that we did not render any services prohibited under article 77, item 8, of the Statute for the Portuguese Certified Public Accountant Association and that we preserved our independence from the Group during the audit.

- We hereby inform that we did not provide other services to the Group other than the audit.

Lisbon, on the 13th of April, 2018.

RIBEIRO, RIGUEIRA, MARQUES, ROSEIRO & ASSOCIADOS, SROC, LDA.

Represented by:

[Signature]

Joaquim Eduardo Pinto Ribeiro, Certified Public Accountant no. 1015.
Registered in CMVM under no. 20160630

[Logo]

OLIVEIRA, REIS & ASSOCIADOS, SROC [Certified Public Accountants], Lda.

FERNANDO MARQUES OLIVEIRA
JOAQUIM OLIVEIRA DE JESUS
CARLOS MANUEL GRENHA
JOÃO CARLOS CRUZEIRO
PEDRO MIGUEL MANSO
MARIA BALBINA CRAVO
OCTÁVIO CARVALHO VILAÇA

LEGAL CERTIFICATION OF ACCOUNTS

CONSOLIDATED FINANCIAL STATEMENTS AUDIT REPORT

Opinion

We have audited the attached consolidated financial statements of CP – COMBOIOS DE PORTUGAL, E.P.E. (the Group), comprising the consolidated statement of financial position as at 31st of December, 2017, (showing a total of 629,186,204 Euros and a total negative equity of 2,246,273,345 Euros, including a Net loss of 111,066,936 Euros), the consolidated income statement, the statement of other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows of the year that ended on that date, and the Attachments to the consolidated financial statements, including a summary of the relevant accounting policies.

In our opinion, the attached consolidated financial statements truly and appropriately present, in all material aspects, the financial position of the Group as at 31st of December 2017, and its financial performance and consolidated cash flows regarding the year that ended on that date, in accordance with the International Financial Reporting Standards (IFRS), as adopted in the European Union.

Opinion Foundation

Our audit was carried out in accordance with the International Standards on Auditing (ISA) and further technical and ethical provisions and guidelines of the Portuguese Certified Public Accountant Association. Our responsibilities under said provisions are specified in the "Responsibilities of the auditor regarding the financial statement audit" section below. We are independent from the Entities in the Group in accordance with the law and comply with all further ethical requirements foreseen in the ethics code of the Portuguese Certified Public Accountant Association.

We are certain that the audit evidence we obtained serves as sufficient and appropriate foundation for our opinion.

Emphasis

We point out that the Reports and Accounts of the Group for the financial years of 2015 and 2016 have not yet been formally approved by the responsible Ministries. We also point out that the Group has been accumulating consecutive net losses of significant amounts, presenting as at 31st of December 2017, a total negative equity of 2,246,273,345 Euros. Although there was a decrease of 411,027,793 Euros in funding, including a debt-to-equity swap of 410,154,015 Euros, the Group still has a high degree of indebtedness. Since the Group renders a public service with relevant obligations, the activity funding essentially depends on the financial support of the Portuguese Government.

Our opinion is not altered on this matter.

Key Audit Matters

Key audit matters are those of greater importance in the audit of the consolidated financial statements for the current year according to our own professional judgement. Said matters were considered as a whole within the audit of the consolidated financial statements, and we did not issue a separate opinion regarding them.

Key audit matter	Solution of the Auditor
Impairment of fixed tangible assets	
As at 31st December 2017, the book value of fixed tangible assets amounted to 512,757,959 Euros. As disclosed in note 3, the Group recognises impairment losses when the recoverable amount of a certain asset is inferior to its book value. The impairment tests carried out by the Group are based on validations prepared by the responsible operating officers who are based on several assumptions and criteria defined by the Group, particularly the rolling stock movement and the expected remaining useful life related to the operation, leading us to consider this topic as a key audit matter. Following its analysis process, the Group presents, in its financial statements as at 31st of December 2017, accumulated impairment losses of 5,715,646 Euros, regarding the fixed tangible assets (Note 7).	We undertook the following procedures regarding this matter: i) Analysing the criteria defined by the Group for the identification of slow-moving or obsolete rolling stock, as well as the adjustment criteria defined to reduce the asset value to its realisable value; ii) Obtaining the support to the impairment calculation conducted by the management, assessing if its recoverable amount is superior to its book value; iii) Reviewing the movements occurred in the year in the impairment losses of fixed tangible assets heading; iv) Inquiring the management; v) Verifying the suitability of the disclosures presented in the attached notes.

Key audit matter	Solution of the Auditor
Revenue Recognition	

The revenue from the services rendered by the Group as at 31st of December 2017 increased to 286,659,853 Euros. Said revenue is essentially due to passenger ticket sales. The disclosures related to this matter are presented in note 29 of the attached notes. The materiality of the value and the high number of records in the ticketing system and their incorporation into accounting is considered a key audit matter.	We undertook the following procedures regarding this matter: i) Surveying and analysing the process design and implementation and relevant controls identified in the revenue cycle; ii) Conducting several analytical procedures, including the analysis of monthly developments by service type and the comparison with values of previous financial years; iii) Performing specific procedures of validation of the correct cut-off operations, particularly through the analysis of the current accounts where the invoiced and collected revenue is recorded.

Key audit matter	**Solution of the Auditor**
Provisions Valuation	
The provisions heading presents a balance of 13,959,460 Euros as at 31st of December 2017, of which 3,023,862 Euros correspond to ongoing legal actions and railway accidents, 10,935,598 Euros to occupational accidents, work-related diseases, among others. The liability associated with occupational accidents and work-related diseases is supported by an actuarial study prepared by independent actuarial experts hired by the Group. Given the materiality of the value and the judgement complexity regarding the assumptions used in the assessment of the liability amount and the possible outcome of the ongoing legal actions, as well as used in the establishment of the liabilities related to occupational accidents and work-related diseases (actuarial study prepared by independent experts), we decided to consider this topic as a key audit matter.	We undertook the following procedures regarding this matter: i) Breaking down the balance of the Provisions heading; ii) Obtaining and analysing lists of ongoing legal actions in which the Group is involved through external confirmation procedures with the attorneys of the Group; iii) Inquiring the legal department of the Group iv) Inquiring the management. v) Obtaining and analysing the study prepared by the independent experts to measure the current value of the liabilities with occupational accidents and work-related diseases; vi) Assessing the reasonableness actuarial assumptions used to measure the current value of the liabilities with occupational accidents; vii) Verifying the suitability of the disclosures presented in the attached notes.

Key audit matter	**Solution of the Auditor**
Inventory impairment	

Inventories – which amounted to 28,773,068 Euros as at the 31st December, 2016 – are accounted for in the financial statements at the lower of their cost and the net realisable value. Within the scope of the development activity, the Group is required to hold inventories for long periods of time, with the purpose of meeting the needs arising out of its responsibilities. Therefore, in view of the amount of inventories and the high level of judgement by the Board in estimating impairment losses (as per note 12), we considered it a key audit matter.	We undertook the following auditing procedures: i) Analysing the accounting policies on this matter; ii) Providing assistance in physical inventory counts carried out by the Group; iii) Testing the underlying assumptions to the calculation of the estimated impairment losses in inventories, indexed to the consumption/movement perspective of materials; iv) Corroborating the underlying assumptions with the Group's technical teams; v) Analysing the main transactions of the year; and vi) Assessing the consistency of criteria with those used in the preceding year.

Responsibilities of the Management Board and of the Supervisory Board for the consolidated financial statements

The management board is responsible for:

- Preparation of consolidated financial statements that truthfully and appropriately present the financial position, financial performance, and cash flows of the Group, in accordance with the International Financial Reporting Standards (IFRS), as adopted in the European Union;

- Preparation of the management report, including the corporate governance report, under the applicable legal and regulatory terms;

- Development and maintenance of an internal control system suitable for the preparation of financial statements with no material misstatement due to fraud or error;

- Implementation of accounting policies and principles appropriate for the circumstances; and

- Assessment of the Group's ability to continue as a going concern, disclosing, when applicable, any matters that may cast significant doubt regarding said continuity.

The supervisory board is responsible for the supervision of the process concerning the preparation and disclosure of the Group's financial information.

Responsibilities of the auditor regarding the consolidated financial statements audit

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise our professional judgment and maintain professional scepticism throughout the audit, as well as:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Understand internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board;

- Conclude on the appropriateness of the management board's use of the assumptions of continuity and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we shall be required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The conclusions are based on the audit evidence obtained up to the date of the report. However, future events or conditions may cause the Group to cease to continue its activities;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Obtain sufficient and appropriate audit evidence regarding the financial information of the Entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

- Communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during the audit;

- From the matters we communicate to those charged with governance, including the supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter;

- We provide a statement to the supervisory board regarding the compliance with the relevant ethical requirements on independence, and communicate with them all relationships and other matters that may be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility further includes the verification regarding the compliance of the information of the management report with the consolidated financial statements, and the verifications foreseen in items 4 and 5 of article 451 of the Portuguese Commercial Companies Code.

OTHER LEGAL AND REGULATORY REQUIREMENTS REPORT

Management Report

In compliance with article 451, item 3, paragraph e) and article 508 – D, item 3 of the Portuguese Commercial Companies Code, we believe that the management report was prepared in accordance with the applicable legal and regulatory requirements in force, that the information provided therein complies with the audited consolidated financial statements and, considering the knowledge and assessment of the Group, we did not identify any material misstatement.

Consolidated non-financial information foreseen in article 508-G of the Portuguese Commercial Companies Code

In compliance with article 451, item 6 of the Portuguese Commercial Companies Code, we inform that CP – COMBOIOS DE PORTUGAL, E.P.E. mentioned in its management report that it will prepare a report separate from the management report, which shall include the consolidated non-financial information, in accordance with article 508-G of the Portuguese Commercial Companies Code and shall be published in its website within the legal deadline.

Corporate Governance Report

In compliance with article 451, item 4 of the Portuguese Commercial Companies Code, we believe that the corporate governance report – presented upon the individual accounting process – includes the elements required of CP – COMBOIOS DE PORTUGAL, E.P.E., under article 245-A of the Securities Code, and no material misstatements were identified in the information disclosed therein, complying with paragraphs c), d), f), h), i) and m) of said article.

Additional elements foreseen in article 10 of the European Union Regulation no. 537/2014

In compliance with article 10 of the European Union Regulation no. 537/2014 of the European Parliament and of the Council, from April 16th, 2014, and in addition to the aforementioned key audit matters, we also report that:

- We were appointed auditors of CP – COMBOIOS DE PORTUGAL, E.P.E. for the first time by order of 16.05.2014 for a term of office between 2013 and 2015, remaining in office for the financial year of 2016 and 2017 in the absence of a new appointment;

- The Management Board confirmed that they have no knowledge of any fraud or suspected fraud with material effect on the financial statements. In the planning and execution of our audit according to the ISAs, we maintained our professional scepticism and designed auditing procedures that address the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work, we did not identify any material misstatement in the consolidated financial statements due to fraud;

- We confirm that the audit opinion we issued is consistent with the additional report we prepared and submitted to the supervisory board of the Group on the 13th of April, 2018;

- We declare that we did not render any services prohibited under article 77, item 8, of the Statute for the Portuguese Certified Public Accountant Association and that we preserved our independence from the Group during the audit;

- We hereby inform that we did not provide other services to the Group other than the audit.

Lisbon, 13th of April, 2018
OLIVEIRA, REIS & ASSOCIADOS, SROC Lda.
Represented by
[Signature]
Joaquim Oliveira de Jesus, Certified Public Accountant no. 1056

SUPERVISORY BOARD REPORT AND OPINION

2017 CONSOLIDATED ACCOUNTS OF CP – COMBOIOS DE PORTUGAL, E.P.E.

1. INTRODUCTION

In the scope of legal and statutory provisions, namely paragraph d), item 2, Article 15, from CP Articles of Association[1] and articles 420 and 452 from Portuguese Commercial Companies Code[2] (CSC), the Supervisory Board is tasked with presenting the report of its supervisory action and expressing opinions regarding the management report and the consolidated financial statements of CP – Comboios de Portugal, E.P.E., hereinafter referred to as CP or CP Group, documents regarding accounting of the financial year, which ended on the 31st of December, 2017.

This Report and Opinion takes into account the legal certification of accounts issued by the Certified Public Accountant, and the information contained in the Additional Audit Report[3]. Furthermore, the conclusions in the Audit Report of the External Auditors on the CP's consolidated financial statements regarding such period have also been considered, which are consistent with the conclusions of the legal review conducted to the accounts of the CP Group.

It should be noted, for information and context purposes, that:

- The provisions foreseen in Decree-Law no. 133/2013, from October 3rd – which approved the Corporate Public Sector Legal System, hereinafter referred to as RJSPE – apply to CP, as a public company, and to its affiliates;
- On the 31st of December 2017, CP, as the parent company, held securities admitted to trading on a regulated market, and therefore its consolidated accounts must be presented in accordance with the international financial reporting standards, pursuant to the laws in force;
- Therefore, the consolidated financial statements of the CP Group, approved by the company's Board of Directors[4], were prepared from accounting records of the companies included in the consolidation perimeter, in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union and in force on the 31st of December, 2017;
- Pursuant to the European Union Regulations, within the scope of the second[5] notification of 2014 regarding the Excessive Deficit Procedure and the revision of the European System of National and Regional Accounts[6], significant changes were introduced to the criteria subject to verification upon classification of public institutional units.

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[1] Approved by Decree-Law no. 137-A/2009, from June 12th, modified and republished by Decree-Law no. 59/2012, from March 14th.

[2] According to Decree-Law no. 133/2013, Article 60, item 2, from October 3rd, the governing and supervisory bodies have generic competence, foreseen in commercial law, without prejudice to what is foreseen in said legal scheme.

[3] Submitted to the Supervisory Board pursuant to article 11 of Regulation (EU) no. 537/2014, of the European Parliament and of the Council, from 16th of April, 2014, and item 1 and 2 of article 24 of the Legal Framework on Audit Supervision, approved by Law no. 148/2015, from 9th of September.

[4] At a meeting held on the 12th of April 2018, where the Board of Directors resolved on their submission for approval of the sector and financial ministries.

[5] Issued on September 2014.

[6] ESA 2010.

Consequently, several institutional units, which were previously classified outside such sector, became included in the frame of Public ministrations for National Accounts purposes, having such situation occurred to CP, the Group's parent company, whose inclusion in the Public Administrations perimeter resulted from the change[7] in the so-called 50% ratio, or *"marketability ratio"*;

The consolidated financial statements and the group's performance as one entity are presented within this framework.

2. SUMMARY OF THE ACTION CARRIED OUT

During the analysed financial year, the Supervisory Board has held meetings and has followed certain points deemed relevant within the scope of its function, having:

i) Met with members of the Board of Directors in order to monitor the company's performance;

ii) Met with the Certified Public Accountant;

iii) Met with the External Auditors;

iv) Met with several CP departments, and more frequently with the divisions of finance and planning and control of the company's activity;

v) Made reports addressing the activity reports and quarterly budgetary implementation, submitted by the Board of Directors, in accordance with RJSPE;

vi) Expressed an opinion regarding the 2017 Budget and Activities Plan;

vii) Prepared an opinion regarding the Interim Consolidated Report and Accounts for the 1st semester of 2017.

3. CP GROUP COMMERCIAL ACTIVITY

CP is a public corporation, legal person governed by public law, with administrative, financial and asset autonomy, which is subject to, according to the corresponding articles of association, the RJSPE, the sector and financial responsible ministries (i.e., Ministry of Planning and Infrastructure and Ministry of Finance), as well as to the financial control from the Court of Auditors and the Inspectorate-General of Finance.

The company is liable to public service obligations and has as its main purpose the service of public railway transportation of passengers, in railroads, railroad sections and byways integrating, or soon integrating, the national railroad, as well as international passenger transport.

The public service obligations, as well as the corresponding financial compensation, are defined by entering into agreements. The agreement signed between CP and the State on the 24th of March 2011, named 'Transitional Arrangement for the Public Service Financing' is in force until the 31st of December, 2019.

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[7] The denominator of the ratio – corresponding to operating costs – now includes net charges with interest payment.

However, taking into consideration the Transport Strategic Plan (PET)[8], covering the 2011-2015 term, CP and the State have agreed on its termination, by considering the inadequacy of the agreement in force.

In the meantime, a new public service agreement has not yet been entered into, and no operations subsidies have been granted to CP for the third year in a row.

CP manages an array of companies whose activity range from maintenance of railway equipment to insurance, health and technical training, thereby seeking synergies and the maximisation of the integrated efficiency of the entire CP Group.

The activity of the companies of the group focuses on CP's strategic guidelines, set out along with the guidelines of the sector and financial ministries and those of the Transport Strategic Plan (PET) in force for the 2014-2020 term.

Within this framework, CP, as parent company of the CP Group, directly and majority-owns, on the 31st of December, 2017, companies called "subsidiaries" by CP, whose shareholdings are recognised by the full consolidation method, which are as follows:

- EMEF – Empresa de Manutenção de Equipamento Ferroviário, S.A. (EMEF), 100% owned by CP, with a share capital of 8,100,000 Euros, engaged in the manufacture, rehabilitation, large repair and maintenance of equipment, railway vehicles, vessels and buses; rehabilitation engineering, repair and maintenance of transportation vehicles; study of workshop facilities for maintenance purposes. This company has a 51% shareholding in the SIMEF ACE[9] and a 35% shareholding in the company Nomad Tech, Lda;
- SAROS – Sociedade de Mediação de Seguros, Lda. (SAROS), 100% owned by CP, with a share capital of 5,000 Euros and whose corporate purpose is the activity of insurance mediation;
- FERNAVE – Formação Técnica, Psicologia Aplicada e Consultoria em Transportes e Portos, S.A. (FERNAVE), also 100% owned by CP, with a share capital of 50,000 Euros, whose corporate purpose is the 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, communication and port sectors, and of those falling within its technological scope. FERNAVE has a 19.1% shareholding in Transcom, SARL, based in Mozambique;
- ECOSAÚDE – Educação, Investigação e Consultoria em Trabalho, Saúde e Ambiente, S.A. (ECOSAÚDE), with a share capital of 50,000 Euros, fully owned by CP, engaged in 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;

CP also has financial shareholdings – both directly and indirectly – in companies or other entities recognised under the equity method, due to the strategic interest for the company's operations[10], which are as follows:

- TIP – Transportes Intermodais do Porto, ACE (33.33%);
- SIMEF – Serviços Integrados de Manutenção e Engenharia Ferroviária ACE (51%);
- NOMAD TECH, Lda (35%);

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[8] Approved by the Council of Ministers Resolution no. 45/2011, of November 10th.
[9] Complementary grouping of companies.
[10] As is the case of OTLIS, ACE, and TIP, ACE, entities which are active in the ticketing field.

- OTLIS – Operadores de Transportes da Região de Lisboa, ACE (14.28%).

Apart from the aforementioned shareholdings in “subsidiary” and “associated” companies, CP also has minority and temporary shareholdings, outside the consolidation perimeter, in 13 other entities and companies, including the shareholding in Medway (former CP Carga) (5%), which are recognised in the heading “Other Financial Investments”, valued at cost less impairment losses[11], representing a net total of 28 million Euros, already deducted from impairments amounting to 0.9 million Euros.

4. ECONOMIC AND FINANCIAL ANALYSIS

The Group closed the 2017 financial year with a net loss of 111.1 million Euros, which represents a relief of 32.9 million Euros (23%) compared with 2016 (- 144 million Euros).

This improvement was primarily due to an increase of more than 20.4 million euros in sales and services, and due to a decrease of the interest and similar expenses of 11.8 million euros, which arose from the debt relief achieved through capital injections made by the State (shareholder) and through the maintenance of financing interest rates at historically low levels.

The CP Group’s recurrent (or adjusted) EBITDA[12] in 2017 was 25.2 million Euros, which is better than that of 2016 (6.7 million Euros), by 18.5 million Euros (+276.1%). This is primarily due to an increase:

- Of 20.4 million Euros in the provided sales and services, resulting from the growth of the passenger transportation (CP) and of the rolling stock repair (EMEF);
- Of 4.2 million Euros in works for the entity itself regarding the maintenance and repair of rolling stock, particularly of the half-life interventions conducted on the Alfa Pendulares trains;
- Of 3.1 million Euros in the sold commodities and consumed material costs, primarily due to the increase in the consumption of material and commodities needed to carry out the aforementioned rolling stock repair interventions;
- Of more than 3.5 million Euros in personnel expenses[13], essentially justified by the effect of the progressions and seniority bonus restitution[14] and by the total reversion of the pay cuts occurring from October 1st, 2016.

Despite the aforementioned improvement, the Operating income of the CP Group has remained negative (-33.6 million Euros), highlighting, however, the relief of 20 million Euros compared with 2016.

The Financial Result of the CP Group has improved vis-à-vis 2016 by 10.3 million Euros. However, the Result remains significantly negative (76.6 million Euros) as a result of its high debt (2,615.9 million Euros), as analysed further ahead.

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[11] Since it is not possible to reliably obtain the fair value of most shareholdings.

[12] Corresponding to the operating results of the Core activity of the CP Group, as defined by CP.

[13] With no compensation.

[14] Resulting from the application of the provisions set forth in Articles 20 and 21 of the 2017 State Budget Law (Law no. 42/2016, of December 28th) and the provisions foreseen in Decree-Law of Budget Implementation (Decree-Law no. 25/2017, of March 3rd), whose effects are carried out in a phased manner (50% from July and 100% from January, 2018) and without retroactive effects.

As to the asset of the CP Group, there was a decrease of 38.5 million Euros compared with 2016, thus underlining a total of 629.2 million Euros on December 31st, 2017. The most significant variations worth mentioning are the following:

- Decrease in fixed tangible assets by 29.8 million Euros, mainly due to the fact that the depreciations were not offset through new investments;
- Increase in balance amount of the State and Other Public Bodies by 6.1 million Euros, due to the VAT surcharge to be regained, motivated by the received invoicing at the end of the year regarding the use of the railway infrastructure;
- Decrease in non-current assets held for sale by 11.1 million Euros, resulting from the sale of property in Praia das Maçãs and the reclassification, for the fixed tangible asset regarding the property owned by CP in Barreiro;

Regarding the Group's Equity, there was a relief of 405.1 million Euros, thereby decreasing from negative 2,651.4 million Euros in 2016 to negative 2,246.3 million Euros in 2017, mainly due to capital increases carried out by the State, which amounted to 516.4 million Euros[15].

Lastly, the liabilities of the CP Group decreased by 443.6 million Euros in 2017, thereby decreasing from 3,319.1 million Euros in 2016 to 2,875.5 million Euros, primarily due to the remunerated debt relief by 411 million Euros. In fact, the CP Group was able to secure the payment of the debt service overdue by 2017 through the down payments in cash made by the State, as well as through the conversion into equity of the due debt regarding the loan of the Directorate-General of Treasury and Finance. The CP Group also needed to contract a new finance of 6 million Euros from the Directorate-General of Treasury and Finance, in order to ensure the compliance with its operating liabilities.

Still regarding the liabilities, it is worth highlighting the decrease in provisions by 4 million Euros, primarily justified by the transfer for the heading of other payable debts (non-current liabilities) of the amount of payable liabilities in 2018 (3.1 million Euros), in accordance with the agreement included with the Organisations Representing Employees (ORT), regarding the integration of variable bonuses in holiday allowances.

4.1 Companies of the Group

The following should be noted concerning the remaining companies of the CP Group:

- **EMEF**

EMEF's net profit amounted to 5.9 million Euros, which is 2.4 million Euros higher than the profit accounted for in 2016, with a positive EBITDA of 9.8 million Euros.

EMEF's operating income amounted to 8.5 million Euros, thereby representing an increase of 4.1 million Euros compared with 2016 (+93%), mainly by reason of the significant growth in its activity, whose provided sales and services reflect an improvement of about 14.3% compared with the previous financial year. However, due to such growth, the operating expenses also increased, mainly in the heading of sold commodities and consumed material costs (+2.3 million Euros).

It should be noted that CP, Medway and Metro do Porto continue to be the more important clients of the company, representing 91% of the total of sales and services provision.

By the end of 2017, EMEF employed 1036 workers, thereby representing a 1% decrease compared with 2016 (1048), and, even so, personnel expenses have sustained a 6.1% increase,

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[15] In the parent company CP.

due to the restitution of pay cuts and compensations for termination of employment by mutual agreement.

The following events occurring in 2017 should also be noted:

- On November 2017, the Competition Authority decided to close the case which was prompted by a complaint, on the basis that there was no evidence of practices that restrict competition;

- The company decided to reincorporate the health and safety services at work, in the quality and environment field of the company;

- On September 2017, a credit facility agreement with Banco Popular has been concluded, in the form of bank overdrafts up to 2 million Euros.

- **FERNAVE**

FERNAVE sustained a net loss of 287.3 thousand Euros, increased by 58.5 thousand Euros compared with 2016 (-228.7 thousand Euros), due to the decrease in activity (-60%).

Within this framework, FERNAVE's operating income was negative by 186.5 thousand Euros, thereby reaching a negative value of 162.6 thousand Euros.

The company closed the year of 2017 with 18 employees, less 2 compared with 2016, since one of whom has returned to the parent company (CP) and the other is performing municipal functions.

However, the ratio of the main operating expenses (External Services and Supplies and personnel expenses) per turnover was 69%, presenting a sharp decrease compared with 2016 (113%), due to the considerable reduction of the volume of services provided.

- **ECOSAÚDE**

In 2017, the company sustained a 3% decrease in turnover compared with the previous year, compensated by the cut in expenses with External Services and Supplies and personnel.

ECOSAÚDE has reached a positive EDITDA of 84 thousand Euros, a positive operating income of 17 thousand Euros and an equally positive net result of 668 thousand Euros.

It should be noted that, in 2016, ECOSAÚDE lost one of its main customers in the occupational health sector, Infraestruturas de Portugal, SA, and the second largest customer in the occupational safety sector, Medway (former CP Carga). In 2017, new businesses have been secured, which allowed to cover most of the downturns in 2016 due to the loss of customers.

In terms of human resources, the company employed 27 permanent workers by the end of 2017, representing an addition of 6 workers (4 under a fixed-term employment agreement and 2 under an employment agreement for an uncertain term).

It should be noted that the company was autonomous and self-sufficient regarding its treasury and it did not require any financial support from third parties.

- **SAROS**

In line with performances obtained in previous financial years, SAROS had a net profit of 395 thousand Euros, similar to the preceding year.

In 2017, it sustained a 3% growth in Provided Sales and Services, at 476.2 thousand Euros, and had a positive EBITDA of 486 thousand Euros, slightly higher compared with 2016 (483 thousand Euros).

In terms of human resources, the company developed its activity with the two managers it has, one of whom is a legally-qualified insurance intermediary.

The External Services and Supplies heading has shown an increase of 2 thousand euros (21.7%) vis-à-vis 2016, while personnel expenses had an increase of 0.4 thousand Euros (0.8%) due to the reversal of pay cuts.

5. OPINION

The Supervisory Board took note of the Legal Certification of Accounts arising from the assessment performed by Oliveira, Reis & Associados, SROC, Lda., and the External Auditors' Report, Ribeiro, Rigueira, Marques, Roseiro e Associados, SROC, Lda., which were taken into account for the preparation of this Report and Opinion.

The Supervisory Board analysed the consolidated financial statements, prepared in compliance with the International Financial Reporting Standards, having concluded that such elements truly and appropriately convey the financial position of the CP Group, as at 31st of December, 2017, and how the results for the financial year ended on said date were obtained, by taking into account the emphases mentioned in the Legal Certification of Accounts and in the external auditors' report.

Within the scope of its functions, the Supervisory Board ascertained that the set of consolidated financial statements allows an adequate understanding of the CP Group's financial position.

In conclusion, the Supervisory Board's opinion points to the approval of the Consolidated Financial Statements of the CP Group, concerning the financial year of 2017, considering the emphases mentioned in the Legal Certification of Accounts and by the external auditors' report.

Lisbon, on the 31st of April, 2018.

The Supervisory Board,

The President,
[Signature]
António Farinha Simão

The Voting Members,
[Signature]
Mª. de Lurdes Correia de Castro

[Signature]
Nelson Costa Santos