Infraestruturas de Portugal

MANAGEMENT REPORT 2016

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2016 ANNUAL REPORT

PART I – MANAGEMENT REPORT

1. CHAIRMAN'S STATEMENT

LOOKING AHEAD

Our Culture

Our pride in and emotional attachment to the company are determining factors in the motto "We are IP", but will only become tangible in the long term, as we advance in the process of merging two large and historical companies.

We must contribute to create the conditions for building an IP culture, naturally grounded on the pre-existing cultures.

2020 Railway Programme

The great challenge that will mobilise the entire Company over the next years is the implementation of the "Railway 2020" Programme (Ferrovia 2020). This will involve an investment of over €2 billion, including interventions in the International North Corridor (Aveiro /Vilar Formoso, Beira-Baixa Line and Leixões Line), International South Corridor (Sines/ Setúbal/ Lisboa-Caia), and Complementary Corridors (Douro, Oeste and Algarve lines), where it is fundamental to guarantee the design and environmental assessment phase given its relevance for access to community funding.

Our Business

In addition to its commitment to the 2020 Railway Programme (investment), IP will continue to work to ensure its financial sustainability, optimizing concession contracts for service provision (cost reduction) and seeking to increase its non-core income.

In terms of *core* income, the Road Service Contribution is the company's main source of income (corresponding to around 65% of the total in 2016), followed by Tolls (around 27% in 2016). The remaining 8% comes from the Network Directory.

On the road network front, following the conclusion of the Marão Tunnel in 2016, investment will focus mainly on the "Accessibility" component of the Business Areas Enhancement Programme, which was launched by the Government on 7 February, at Entroncamento. This programme includes scheduled interventions in twelve motorway connections, in a total of 67 km, corresponding to an overall investment of €102 million in the 2017-2021 period.

Results

The results achieved by IP in 2016 attest to the company's sustained positive performance, already seen in 2015, where we note:

- **Net profit of €26.3 million**, which compares with €12.5 million in 2015 and represents an improvement of €13.8 million (+110%);

- **EBITDA** of €615 million;
- **Good Performance of Toll Revenues,** which rose by 8.6% year-on-year (+ €22.3 million);
- Revenues from **Compensatory Allowances** increased to €40.7 million, as established in the Framework Contract entered into between IP and the Portuguese State in March 2016, which governs the provision by IP of the public service of managing the National Railway Infrastructure;
- €65.2 million **Reduction in Net Financial Expenses** underpinned by the contraction of the financial debt and the capital increases.

The amount of realised **Investment in the rail and road networks** up to 31 December 2016 totalled €67.6 million. From the activities developed in 2016 we highlight the completion of the **Marão Tunnel** and the start-up of interventions in the North-South Corridor **- Northern Line**: **Alfarelos-Pampilhosa** stretch, corresponding to an implementation of €15.2 million.

The payments made during the year in connection to the **Motorway Partnerships** totalled €1,241.3 million (excluding VAT), reflecting already the renegotiation of the financial models for all State Concessions.

IP closed the year with share capital of €4,045 million, a reduction of €105.5 million compared to a year earlier that resulted from the **€950 million fully subscribed and paid up share capital increase**, and a financial debt in the nominal amount of €8,142 million.

We are IP - "Trust, Stability and Pride"

If each one of the companies - EP and REFER - by itself did much for the country and for the national economy, together within IP they will do much more, and it is precisely through the positive reinforcement of the qualities we have in common that we must pursue in our path of building the future. We are memory, experience, talent and the will to innovate **We are IP.**

This continues to be a time for striving and working, with a view to reinforcing the conditions enabling the company's financial sustainability and the well-being of its staff.

For all this, my final words are to express recognition for the dedication and professionalism of all the employees, who are those truly responsible for the achievement of the above-mentioned transformations as well as the guarantee of provision of a public service of reference.

This is the aspiration that moves us and it requires stability and trust in and from the organisation.

My words of recognition also go to the Shareholder, the Supervisory Bodies and all the other Stakeholders, for their cooperation and trust.

Thank you.

2. THE COMPANY

2.1 – MISSION, VISION AND VALUES

Infraestruturas de Portugal, S.A. is a state-owned company resulting from the merger of Rede Ferroviária Nacional – REFER, E.P.E. (REFER) and EP - Estradas de Portugal, S.A. (EP, S.A.) through which REFER was merged into EP, becoming a public limited company named Infraestruturas de Portugal, S.A. (IP). The merger became legally effective on 1 June 2015 upon publication of Decree-Law no. 91/2015, of 29 May.

Mission

The corporate object of IP is the design, planning, construction, financing, maintenance, exploration, rehabilitation, enlargement and modernisation of the national road and rail networks, including within the latter traffic command and control.

To this end, IP is responsible for the management of infrastructures under the terms of two contracts entered with the State, namely the general concession contract of the national road network and the framework contract for the management of the national railway network.

The company's corporate object also comprises the activities of exploring the rail and road public domain of the State, and its autonomous assets, including all its buildings, namely railway stations, service areas and parking lots, as well as the traffic information and management systems, the rail and road safety systems, the technical channel and the communication networks between infrastructures.

Vision

IP VISION

To focus on **multi-modal mobility** (road, rail, ...) as a core service

To leverage infrastructure and financial integrated ***Asset Management***

To exploit opportunities for new revenues

To position IP as a multi-modal mobility manager, leveraging *asset management*, synergies and new revenues to guarantee the provision of a sustainable, safe and efficient service

To guarantee transport **sustainability**, **availability**, **punctuality**, **and safety**

To maintain a **structural focus on efficiency** to ensure service provision at the lowest possible cost

Values

Our values reflect our commitment to society and our pledge to continuous improvement: Rigour, Transparency and Ethics

2.2 – ROAD AND RAIL NETWORKS MANAGEMENT CONTRACTS

Road Concession Contract

The State entered with EP, S.A. (now integrated in IP) a concession contract whose bases were approved through Decree-Law no. 380/2007, of 13 November, as amended by Law no. 13/2008 of 29 February, Decree-Law no. 110/2009, of 18 May, and Decree-Law no. 44-A/2010, of 5 May.

One of the more important changes concerned the introduction of the concept of availability, which consists in assessing the quality of the service provided to the users and measuring road accident levels and the levels of externalities produced by them, as translated in performance indicators.

The financing of the National Road Network comes, in addition to the toll rates charged in tolled roads and other income from the operation of the concession, from the road service contribution (RSC), created by Law no. 55/2007, of 31 August.

Railway Framework Contract

On 11 March 2016, the State and IP signed a 5-year Framework Contract for the National Railway Network, in compliance with Decree-Law no. 217/2015, of 7 October.

Under this contract, the State's main obligation is to finance the management of the infrastructures while IP is obliged to meet user-oriented performance targets, in the form of indicators and quality criteria covering elements such as train performance (line speed and reliability, and customer satisfaction), network capacity, asset management, activity volumes, safety levels, and environmental protection; The contract also sets financial efficiency objectives for IP in the form of revenue and expenditure indicators.

The National Railway Network is financed through tariff revenues charged to the railway operators, the surpluses resulting from ancillary activities associated with the operation of the railway infrastructure and the compensatory allowances permitting to cover the costs of fulfilling the public service obligations that are not covered by the referred revenues.

2.3 – GOVERNANCE MODEL

Shareholder Powers, Supervision and Control

The shares representing the entire share capital of the company belong to the State and are held by the Directorate-General for the Treasury and Finance. The share capital, in the amount of €4,045,375,000, is represented by 809,075 shares with the nominal value of €5,000 each.

IP is subordinated to the Ministry of Planning and Infrastructure, and, under the terms of the legislation applicable to the public business sector, is subject to the jurisdiction and control of the Court of Auditors, as well as subject to the control of the Inspectorate General of Finance, under the terms of the law.

Corporate Bodies

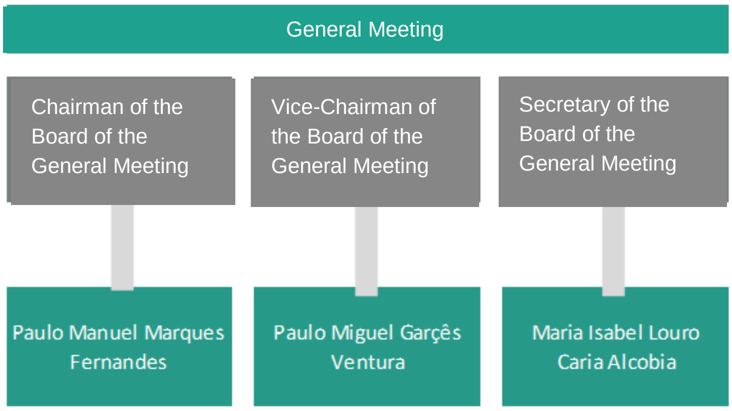
IP is a state-owned company under the form of a public limited company. It is governed by Decree-Law no. 91/2015, of 29 May, which created it, by its by-laws, approved as an attachment to said decree-law, by the legislation applicable to the public business sector enshrined in Decree-Law no. 133/2013, of 3 October, by the good corporate governance practices applicable to the sector, by the provisions of the Portuguese Company Code, by its internal regulations and also by the national and European legal rules applying to its activity.

Concerning the corporate governance model, IP adopts the dual model, which allows for the effective separation of the company’s supervision and management functions in pursuit of the goals and interests of the company, its shareholder, employees and other stakeholders, thereby contributing to achieve the degree of trust and transparency necessary for its adequate functioning and optimisation.

IP's corporate bodies are the General Meeting, the Executive Board of Directors, the General and Supervisory Board, which comprises a Financial Matters Committee, and the Statutory Auditor.

General Meeting

The General Meeting is formed by the shareholders. The Board of the General Meeting consists of the Chairman, Vice-Chairman and Secretary.

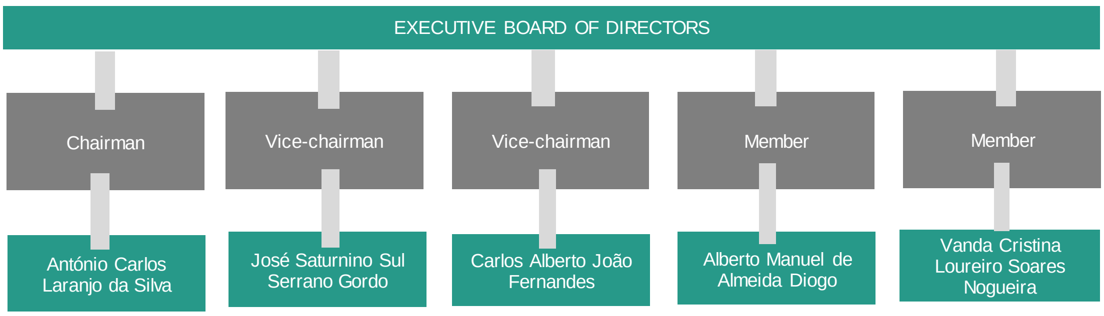


Executive Board of Directors

During the year, the following members of the Executive Board of Directors resigned their positions:

- Chairman: Mr. António Manuel Palma Ramalho (31 July 2016);
- Vice-Chairman: Mr. José Luís Ribeiro dos Santos (9 August 2016);
- Members: Mr. José Carlos de Abreu Couto Osório (12 August 2016) and Mr. Adriano Rafael de Sousa Moreira (31 October 2016).

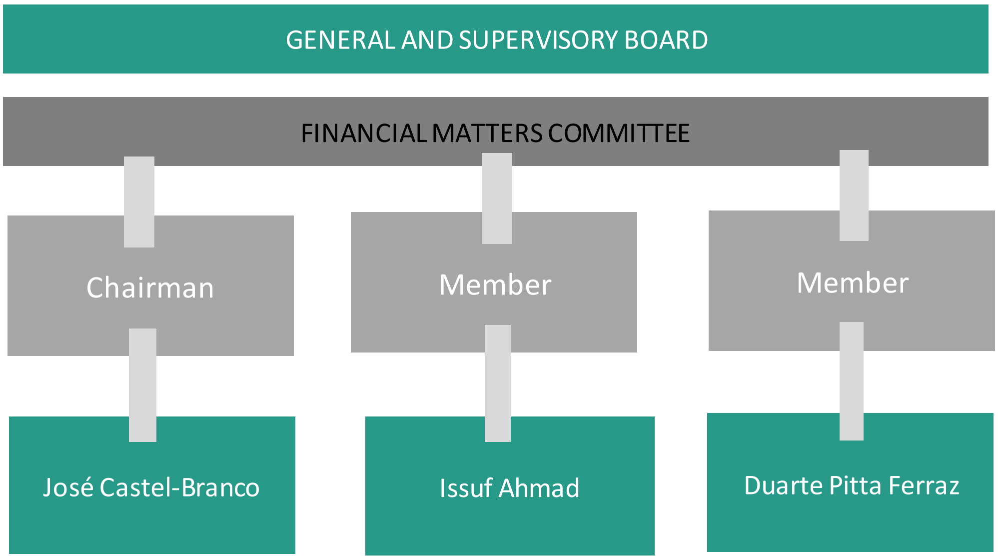
To fill in these positions, on 1 August 2016 Mr. António Carlos Laranjo da Silva and Mr. Carlos Alberto João Fernandes were elected Chairman and Vice-Chairman of the Executive Board of Directors, to complete the ongoing 2015-2017 term of office.



General and Supervisory Board

The General and Supervisory Board shall comprise six to nine members appointed by the General Meeting, which also appoints one of them to hold the position of Chairman.

At present the General and Supervisory Board comprises three members, who are also the members of the Financial Matters Committee, chaired by Mr. José Castel-Branco.



Statutory Auditor

On 1 June 2015, the date of creation of IP, the statutory auditor's functions in the merging company were performed by the audit firm of P. Matos Silva, Garcia JR, Caiado & Associados - Sociedade de Revisores Oficiais de Contas, Lda., registered in the Portuguese Securities Market Commission ("CMVM") under no. 20161390 and in the Portuguese Chamber of Certified Auditors ("OROC") under no. 44, represented by João Paulo Raimundo Henriques Ferreira, ROC no. 851 and registration in the CMVM no. 20160475.

As on that date the shareholder did not appoint a new firm as Statutory Auditor of IP, it was decided to maintain the above mentioned firm in office until the end of the year 2015 and, subsequently, during 2016.

By letter dated 14 October 14, P. Matos Silva, Garcia JR, Caiado & Associados - Sociedade de Revisores Oficiais de Contas, Lda. resigned their position as statutory auditor, the General and Supervisory Board having notified the supervising ministries (Planning and Infrastructures, and Finance) of this fact by letter dated 20 October 2016.

Accordingly, a process was set in motion to select a statutory auditor/ auditing firm to provide limited audit services for the half-yearly accounts and legal audit services for IP's separate and consolidated annual accounts during the remaining time of the current term of office (2015-2017). This process was undertaken according to all applicable legal and regulatory procedures.

Upon conclusion of this process and taking into account its result, on 6 February 2017 the General and Supervisory Board, pursuant to Article 21-e) of the Company's By-laws, submitted to the Shareholder a proposal to appoint, at the General Meeting, the entity classified in first place as IP's Statutory Auditor. On 13 April 2017 the Shareholder appointed the firm of Vitor Almeida e Associados, SROC, Lda (SROC no. 191, registered with the CMVM under no. 20161491), represented by the partner Vitor Manuel Batista de Almeida (ROC no. 691, registered with the CMVM under no. 20160331) as IP's Statutory Auditor.

2.4 - THE IP GROUP

In order to develop its activity IP may set up or acquire holdings in any company, regardless of their corporate object.

The chart below shows the composition of the share capital of each of these companies.

The IP Group possesses the technical knowledge required for the good performance of the road and rail infrastructure, namely in the areas of design, planning, construction, financing, maintenance, operation, renovation, widening and modernisation of the national road and rail networks, including rail traffic command and control. The company emphasises innovation and technological development in the equipment, systems and materials in use.

The purpose of the subsidiaries is to act as profit centres capable of optimising IP Group's non-core revenues, making a profit from the surplus capacity of the assets not used in the core activities.

IP Telecom

The mission of IP TELECOM is to ensure an efficient management of the telecommunications concession granted by the Shareholder, providing high quality services in the field of Information Technology and Communications, supported by innovative solutions focused on Cloud and Security technologies and in the main national telecommunications infrastructure, based on fibre optics and road technical channel, to the market in general and to state entities.

IP Património

The mission of IP PATRIMÓNIO encompasses the acquisition, expropriation, register updating and disposal of real estate assets or creation of liens thereon, the profitable use of the assets allocated to the concession or the autonomous estate of the IP Group, and also the management and operation of stations and associated equipment, including their operational management.

IP Engenharia

The mission of IP ENGENHARIA is to carry out transport engineering studies and projects, provide inspection services and boost the IP Group's international business.

GIL
Gare Intermodal de Lisboa

The mission of GIL is to operate and manage the Intermodal Transport Complex called Oriente Station.

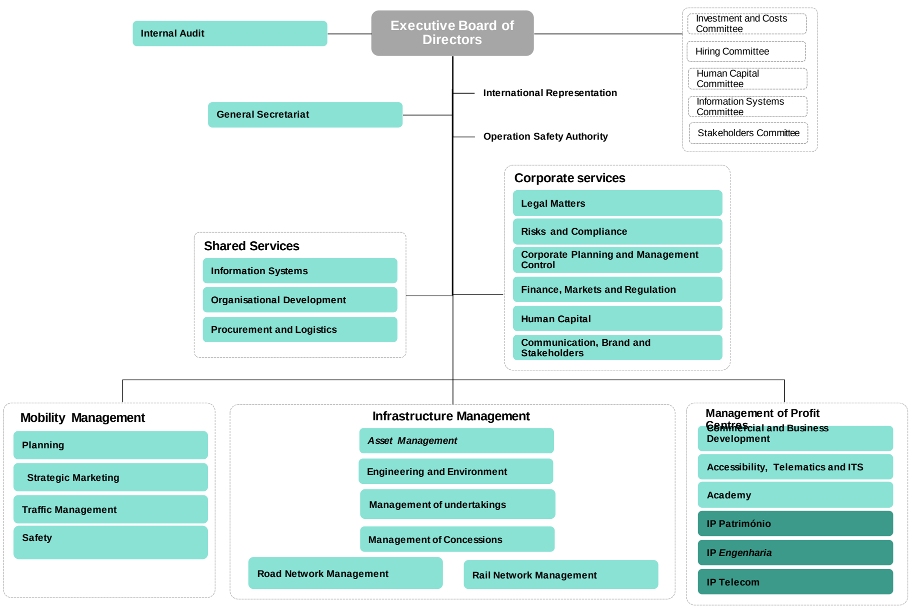
In addition, IP also participates in two economic interest groupings:

a) **AVEP – Alta Velocidade Espanha - Portugal**
AVEP's corporate object is to make preliminary studies for the Porto-Vigo and Madrid-Lisbon-Porto corridors.

b) **Corredor Atlântico**
Its mission is to make a profitable use of the existing railway infrastructure, with no additional investment, through centralised management of capacity allocation, traffic management and customer relations.
In addition, Corredor Atlântico also acts as a privileged platform for the coordination of investments in rail infrastructure in Portugal, Spain, France and Germany, permitting to overcome technical and operational barriers, promoting interoperability, and consequently increasing the competitiveness of railway freight transport.

2.5 - STRUCTURE OF THE IP GROUP: ORGANISATIONAL MODEL

About a year and a half after the merger, the organisational model has been consolidated taking into account the strategic objectives of the company.



Broadly speaking, the organisation is divided into two major areas, one comprising the divisions that provide support services (shared and corporate), with internal added value, and the other a business area that generates products and services market, materialising the service provided by the IP Group.

Core areas:

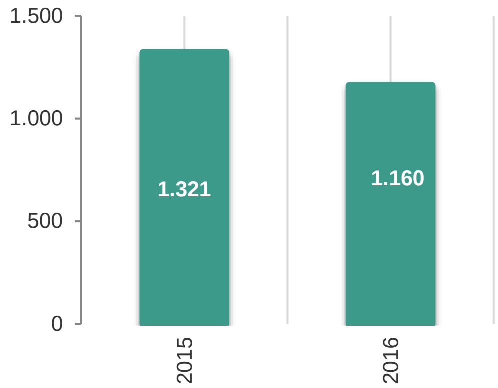
- units dedicated to **mobility management**, which ensure the implementation of the networks' integrated planning and the management of road and rail mobility, in accordance with safety, sustainability and core revenue optimisation principles;
- units dedicated to **infrastructure management**, with efficiency gains expected to materialise through the application of asset management principles; and
- **profit centre** units geared to increasing non-core revenues.
- **Support areas:** these include the shared services and the corporate services, both providing support to the entire structure.

As a complement, the organisational model also comprises five committees associated to critical processes of the company, acting as interface-management and decision-sharing mechanisms: Costs and Investments Committee, Hiring Committee, Human Capital Committee, Information Systems Committee and Stakeholders Committee.

3. PERFORMANCE IN 2016

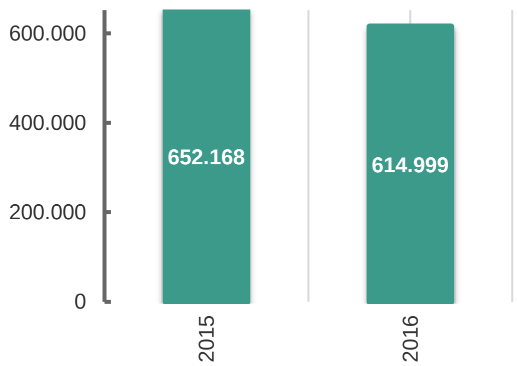
3.1 – KEY INDICATORS

Turnover
[Euro million]

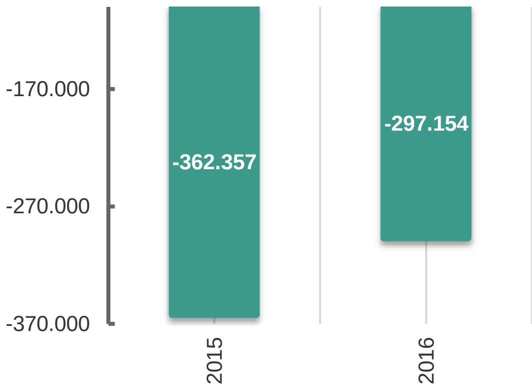


Operating Expenses
[Euro million]

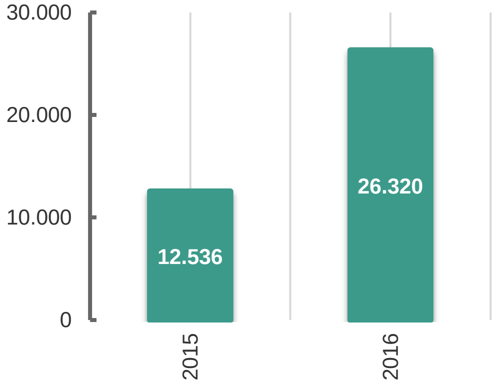
EBITDA
[Euro thousand]



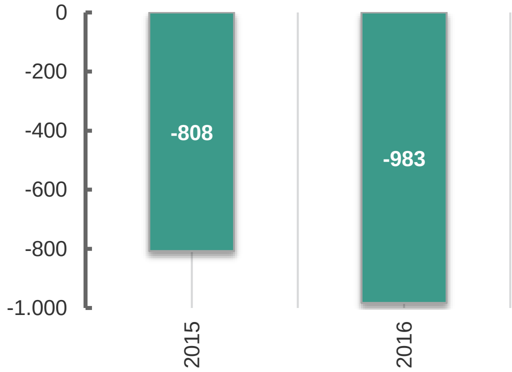
Financial Results
[Euro thousand]



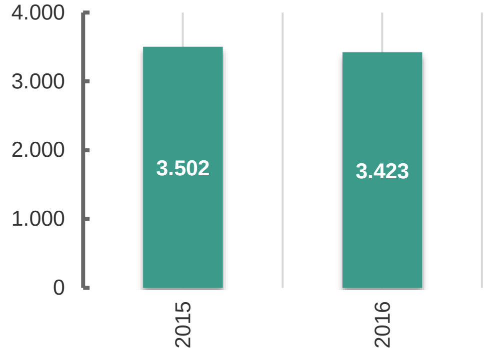
Net profit
[Euro thousand]



Total Cash flow
[Euro million]

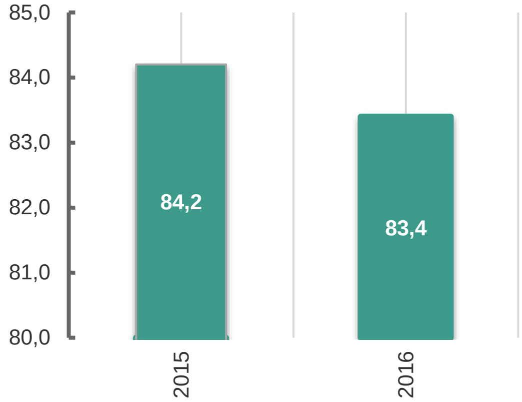


Average Staff (no.)
(not including Pensioneers and Assigned)



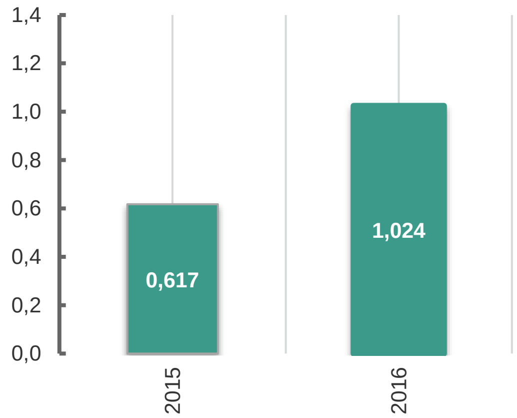
Train Km
[million]

Quality of Rail Network
[%]

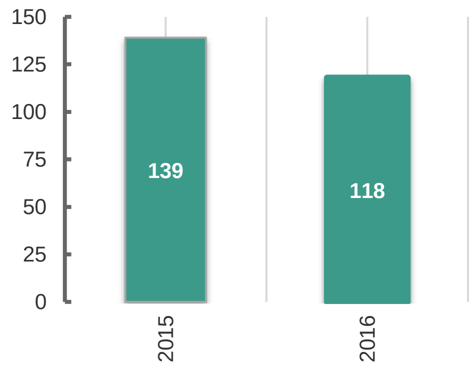


Quality of Road Network
[%]

Level of Railway Safety
[Significant accidents per MTK]



Level of Road Safety
[BS (Blackspots) / SI (Severity Indicator) / FV (Fatal Victims)] * *figures up to 31-07-2016*



3.2 - THE YEAR IN REVIEW

JANUARY

- Completion of a set of interventions in the Beira Baixa Line, in the Track and Geotechnics specialities, with the objective of increasing the availability, safety and quality levels of the railway infrastructure, representing an overall investment of around €3.2 million.

FEBRUARY

- Presentation of IP's investments - FERROVIA2020 - (RAILWAY 2020) - in a Press Conference attended by the Minister of Planning and Infrastructures, Mr. Pedro Marques.
- Launch of electrification works in the Minho Line, stretch between Nine and Viana do Castelo - 43.6 km - base value of €21,5 million.
- 89% of the bridges of IP's road network classified as being in a good or very good state of conservation.

MARCH

- Completion of renovation and reinforcement works of Zêzere Bridge, at km 157.7 of the Beira Baixa Line, representing expenditure of Euro 850 thousand; IP directly managed, coordinated and supervised these works.
- Assignment of track full renewal works between Alfarelos and Pampilhosa in the Northern line for an extension of 35 kilometres, an investment of €30.5 million.
- National Railway Network (NRwN) Framework Contract: the State signed a contract with IP to regulate the terms and conditions for the provision of the public service obligation to manage the NRwN, thus solving an instance of non-compliance identified by the European authorities.

APRIL

- Completion of corrosion protection works in Arzila and Mondego Velho metallic bridges, located in Coimbra region, corresponding to an investment of nearly Euro 530 thousand.
- The General Meeting of RailNetEurope (RNE) was held on 21 April in Lisbon, with the contribution of IP. The meeting was attended by the Company's CEO, Mr. António Ramalho, who opened the session.
- IP once again supports the Portuguese Road Congress, now in its 8th edition, held at the Congress Centre of the National Civil Engineering Laboratory from 12 to 14 April 12 to 14.

MAY

- The A4 - Amarante/ Vila Real stretch, which includes the Marão Tunnel, the largest excavated road tunnel in the Iberian Peninsula, was inaugurated and opened to traffic on 7 May.
- For the second consecutive year IP wins the first prize in the category "*Which is the best performing public company in terms of People Management?*" promoted by Human Resources.
- Completion of the deck replacement works in EN1/IC2 - Railway Overpass, at km 235,459 of the Northern Line, in the municipality of Mealhada, district of Aveiro, representing a total investment of around €744 thousand.
- Biannual Congress of ADFERSIT, already in its 12th edition, was held on 3 and 4 May at Pavilhão de Portugal, under the theme "i9.transports - Vision 20/30". IP's CEO acted as Chairman of the Executive Committee of the event.
- Conclusion of works of replacing wood for concrete cross-ties in the Vila Nova da Baronia and Cuba stations, in the Alentejo line, representing an associated investment of around €550 thousand.

JUNE

- On 3 June IP celebrated its first anniversary, holding the IP 1st Open Day
- Opening to traffic on 1 June of the Connection Junction of the EN2 Bypass to Faro, in a ceremony attended by the Minister of Planning and Infrastructures, Mr. Pedro Marques.
- Awarding of works for the elimination of Level Crossing at Midões, km 45.771 of Linha do Minho, and construction of under crossing, including accesses and links, involving an investment of over Euro 800 thousand and a completion period of 180 days.
- Completion of the construction of the new crossing over the Trancão river at Sacavém, Loures municipality, an investment of over €2.5 million.
- Completion of rehabilitation works in EN10 between Porto Alto and the Marechal Carmona Bridge over the Tagus River, at Vila Franca de Xira, which began in November 2015 and represented an investment of more than €1.7 million viewing the improvement of safety and circulation conditions in this 8 km stretch.
- Inauguration of Troto Bypass in EN125. This by-pass involved an investment of Euro 7.7 million and will constitute an important alternative road to EN125, in the area of Loulé.

JULY

- Presentation of the Mobility Plan for the Interior at the Covilhã Railway Station.
- Completion of road marking works in the districts of Leiria, Portalegre and Santarém, representing a total investment of around €612 thousand.

AUGUST

- Mr. António Laranjo was elected President of the Executive Board of Directors of IP to complete the current term of office (2015-2017). His election took effect on 1 August.
- Completion of Rehabilitation Works in the Abrantes Metallic Bridge to improve the safety and comfort conditions of users of this important link over the Tejo River. €3 million investment.

- Start of construction works on the Albardão Bypass, which will involve building a new road stretch with approximately 2.8 km and a new bridge over the Degebe river, an overall investment expected to reach €2.6 million.
- Presentation of the 25 de Abril Interpretation Centre - Pillar 7 Experience, a tourism and cultural project undertaken in partnership with the Lisbon City Council and Turismo LVT, which comprises a panoramic viewpoint and a sensorial, physical and cultural experience in the bridge's pillar at Alcântara.
- Conclusion of 5 contracts for track switching maintenance services, for a total value of around €5 million, aiming to guarantee the maintenance of 2813 AMV of the national railway network, for a period of 24 months.
- Presentation of 1st half of 2016 accounts. IP posts a net profit of €5.1 million in 2016, which compares with a €12.2 million net loss in 2015.
- Mr. Carlos Alberto João Fernandes is appointed Vice-Chairman of the Executive Board of Directors of Infraestruturas de Portugal.

SEPTEMBER

- Completion of works on the Structural Reinforcement of the Pillars and Foundations of the Vala Nova Bridge on the EN118 in the district of Santarém, Benavente municipality, an overall investment of around €415 thousand.
- Launch of Public Tender for stabilisation works in landfill slopes and road platform at kilometre 164 of EN230, an estimated investment of €500 thousand.
- Completion of a set of renovation and widening works in Bridges and Hydraulic Crossings and replacement of the deck of the Ponte de Ferreira Bridge, located in EN306 and EM202 in the municipality of Ponte de Lima, representing an overall investment of around €400 thousand.
- IP, through IP Património, sub-concessioned to the Sintra City Council the operation of the Car Parks under railway public domain that serve the Massamá/ Barcarena and Cacém railway stations in the Sintra Line.

OCTOBER

- Centenary of São Bento Station. marked in the hall of this emblematic railway station in Porto.
- Signature of contract for the Electrification of the 44 km stretch between Nine (Vila Nova de Famalicão) and Viana do Castelo, in the Minho Line, worth around €16 million.
- As part of the commemorations of 160 years of Railway in Portugal, IP, in partnership with several other entities, developed a set of initiatives to mark this historic date.
- National Road Network considered the 4th Best of the European Union by the European Commission.

NOVEMBER

- As part of the commemorations of the 50th Anniversary of the 25 de Abril Bridge, the Engineers Association held an event to pay homage to this great work of engineering, to which it associates a tribute to Engineer Luiz Canto Moniz.
- Within the scope of its Road Safety strategy and viewing the continuous improvement of user safety conditions in the Road Network under its responsibility, IP is carrying a geo-referenced survey of all pedestrian crossings in this network.

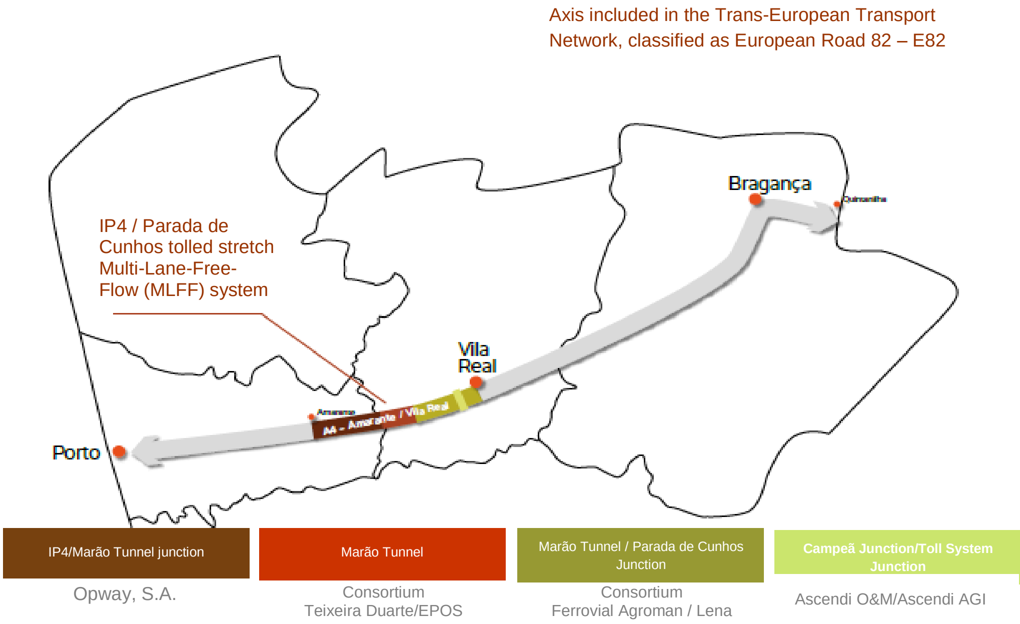
- IP is a partner in and associated beneficiary of the LIFE LINES - Linear Infrastructure Networks with Ecological Solutions project, co-financed by the EU and coordinated by the Évora University.

DECEMBER

- Serra da Estrela's Snow Clearing Centre has received a new heavy rotary snow plough that will reinforce its fleet of ice-prevention and snow-clearing equipment available for the next winter season.
- IP goes ahead with Electrification works in the Covilhã-Guarda stretch of the Beira Baixa Line and the construction of the Beiras Concordance linking the Beira Baixa Line to the Beira Alta Line.
- Memorandum of Understanding signed on 30 December with the Porto and Vila Nova de Gaia City Councils to regulate the maintenance and conservation of the Infante Bridge over the Douro River.
- Mr. Cardoso dos Reis elected Chairman of UIC's Rail System Forum.

3.3 – MAIN EVENTS

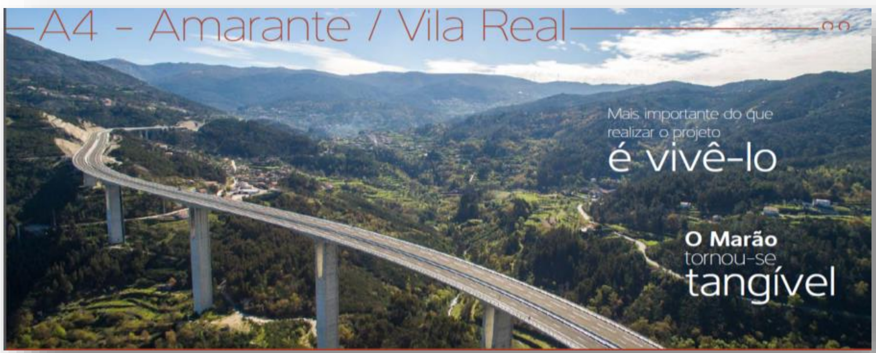
Inauguration of the Marão Tunnel



The Marão Tunnel was opened at 0:00 am on 8 May 2016 and, during the first 24 hours in service, was crossed by a total of 17,882 vehicles. Thus, in just 4 minutes, it is possible to cross the Serra do Marão, comfortably and safely, through the 6 kilometres of this superstructure.

The largest roadway tunnel in the Iberian Peninsula was inaugurated on 7 May by Prime Minister António Costa, and the motorway linking Porto and Bragança was therefore completed in all its extension.

With the opening to traffic of this major infrastructure, the Marão Project (A4 - Amarante/ Vila Real) was completed. Its total investment cost, €148.4 million, was co-financed by the Cohesion Fund (€80.4 million). The completion of this work shortens travel time between Porto - Bragança, Lisbon - Bragança and Amarante - Vila Real by 35 minutes and will significantly contribute to reduce road accidents.



50 years of the Bridge over the Tejo River

50 years of the Bridge over the Tejo River – original work done in acrylic and oil pastel on canvas, dedicated to the 50th anniversary of the Bridge, by the artist Xicofran.

50 years Connecting Destinations

Inaugurated on 6 August 1966 under the name 'Salazar Bridge', it was renamed '25 de Abril Bridge' after the 1974 Revolution. It linked the right and left banks of the Tejo River, and became an icon of the city of Lisbon that the General Directorate of Cultural Heritage is in the process of classifying as a national monument.

As any road-rail bridge that crosses a river in an urban environment, it connects territories, goods and people. Its character, however, comes from the greatness of its engineering work, from the work of those who built it, from its aesthetics embellishing the landscape and from the energy emanating from it.

For 50 years, the Bridge has been able to adapt and respond to urban mobility needs, keeping pace with the urbanisation process in its south bank, providing an essential infrastructure for the daily life of thousands of people, and all the while imprinting its remarkable presence on the landscape of the two banks of the river.

To commemorate this date IP produced the film "**Ponte 25 de Abril". Pontes de Vista",** in which, from dawn to dusk, we can listen to the people who see the Bridge from afar, those who cross it and use it daily, and those who work in it.

Lisbon and Almada postcard

It is almost unthinkable to look at the Tejo River and not see the 25 de Abril Bridge as part of the scenery, framing the city of Lisbon, with the Christ the King monument in the background on the south bank, as if blessing the whole structure.

The Bridge is not only a passage, in the most literal sense of its true function, it has become a landmark, an ex-libris, it inspires painters, musicians and photographers, who never tire of making it the central character of their works, extolling its spell and charm. For being photographed so many times, and used as a guiding point, it has become a model.

Some historical notes

The desire to have a Bridge over the Tejo, in Lisbon, dates back to the mid-nineteenth century.

The first project, designed by Engineer Miguel Pais, was registered in 1879 and defended a road-rail bridge to link the eastern part of Lisbon to Montijo. In the next nearly one hundred years many ideas came up, but the dream was not fulfilled.

The 1950s were decisive in terms of studies for the crossing, culminating with the creation of the Office of the Bridge over the Tagus and the launch of an International Public Tender, where the bridge was already considered in its current location

From then on, the project does not suffer any further setbacks: in 1962 the works begin and the bridge is completed ahead of its scheduled execution period, and inaugurated in August 1966 as a "star" of the *Estado Novo* regime.

The conditions were set in place for the expansion of the Setúbal Peninsula: a bet on the naval industry and tourism, the importance of opening a route to the South and the Algarve and the dynamics of Lisbon's dependency, generating growing commuting flows while displacing migrants to its outskirts, all concurred to the pressing need to build the new Bridge.

The engineering works

Inaugurated on 6 August 1966, the 25 de Abril bridge marked a new engineering milestone in Portugal, materialising the old dream of joining the two banks and for the first time creating a road crossing over the Tagus river, which became an ex- Libris of the city of Lisbon.

When the bridge was inaugurated it was the largest suspended metallic structure in Europe and the fifth largest in the world.

The fast growth of commuter flows led to the introduction, in June 1999, of a railway in the Bridge, as initially planned. The railway registers a traffic volume of around 174 trains/day and the motorway more than 150,000 vehicles/day.

50 years later, it continues to guarantee all safety and traffic conditions, standing as a key element of the country's transport system, along with the Vasco da Gama bridge.

Interesting Facts

- The 25 de Abril bridge ranks in 1st position in Europe and 3rd in the world in terms of road-rail bridges' largest suspended arch.
- The Bridge's two towers are around 190m high and the total length between anchorages is 2,300 m, comprising a 1,013m long central arch. Each main cable is 58.65cm wide and composed of 11,248 steel wires.
- The construction of the Bridge required the excavation of 6.6 million cubic metres of rock and soil, and consumed 300,000 cubic metres of concrete and 82,000 tonnes of steel.
- It took more than four months to install each steel tower.
- The two main cables weigh 8,000 tonnes and were built *in loco*.
- The stiffening girder was built by sections of 300 tonnes each, which were transported by barge and hoisted one by one.
- Despite its magnificence, the 25 de Abril Bridge is a dynamic and light structure, flexible and elastic: it does not break; it bends but stands firm. It is resilient to friction, wind and tectonic movements.

100 years of São Bento Station and 160 years of Railway

October marked important dates for the Portuguese railway ...

The **160 years of Railway**: the first train journey took place on 28 October 1856, between Lisbon and Carregado, travelling a distance of 36 km.

Since then much has changed in the mobility of people and goods. Trains, lines, stations, bridges and viaducts changed the landscape and urban scenery, leading people to discover new horizons and find new opportunities, and closing distances.

160 years of Railway in Portugal

We have innovated in the construction of bridges, in steel. We have opened tunnels. We have laid lines from north to south, from the interior to the coast, and into Europe. We lined our station halls in glass and steel. We built repair shops, hangars for carriages and roundabouts for locomotives. We have installed a telecommunications network. We based the future of the train on the capacity to transport people and goods fast, for great distances, in comfort and safety. We created the ticket, guaranteeing an identical right to that of a bank card. We have challenged sedentary Man to become an individual nomad. We enabled modern tourism. We have opened borders and promoted international free transit treaties. We bet on steam trains, invested in diesel locomotives, innovated with electric traction. We have pushed for modern management methods of made statistics a routine. We have joined international technical and scientific partnerships. We have contributed to the Official Time scheme. We continue to know how to make trains. We are an environmentally sustainable means of transport. We transport history and life: We are in the Future!

"I love trains, and they have always loved me back"

Railway stations "stand as monuments to nineteenth-century town planning and functional architecture ... they are the very incarnation of modern life, which is why they last so long and still perform so very well the tasks for which they were first designed." "Waterloo did for me what country churches and Baroque cathedrals did for so many poets and artists: it inspired me. And why not? Were not the great glass-and-metal Victorian stations the cathedrals of the age? I had long planned to write about trains." ... If there is something distinctive about my version of contemporary European history in 'Postwar', it is - I believe ... a sense of regions, distances, differences, and contrasts within the limited frame of one small subcontinent. My Europe is measured in train time.

The Future

In the near future, railways will see an increase in the speed and comfort offered to their passengers, making each trip an even more pleasant experience. The modernisation and development of railway infrastructures and trains are the strategic objectives of the sector, aiming to reinforce mobility, operating conditions and the quality of service provided. Investment on the new technologies will produce new ticketing solutions, better and more accurate information provided to the passengers, and new ways to spend time during the trip. All this, combined with the low ecological footprint of rail transport, will strengthen its role as the main means of mass transportation.

October 5th marked by the **centenary of the São Bento Station**, a project by the Portuguese architect José Marques da Silva, with the intervention of plastic artist Jorge Colaço in the decoration of its large hall. Classified by the General Directorate of Cultural Heritage as a Public Interest Building in 1997, it is now one of the most visited buildings in Porto.

Over the years, railway stations and in particular their buildings have played a role as mediators between the train and the urban space, as true hosting hubs, on the departure and arrival of passengers.

Top-level stations, transit stations, large, medium or small, all have had a major role in the lives of people, in their routines and in the formation of our collective imagination.

As part of these celebrations, IP, in partnership with several entities, developed a set of initiatives to mark these historical dates, including:

- **“EI-LOS QUE PARTEM…” (watch them go away ...) Exhibition**
- **“Lugares e máquinas do tempo” (time places and time machines) Exhibition**
- **"160 years of Railway in Portugal" Exhibition and Conference**
- **Entertainment programme in railway stations**

50 Years of Northern Line Electrification

The electrification of the Northern Line - the main axis of the national rail network - was completed on 3 November 1966, representing another step forward in the transformation of railway traction, until then dominated by steam and diesel

This paradigm shift was gradually extended to other lines across the country, bringing with it a number of advantages, not only from an environmental point of view, but also in terms of efficiency, speed and technology, insofar as it supports and enables new operation processes.

Of the 2,546 km of railway in operation in Portugal, 1,639 km are now electrified, with the prospect that, in the context of the infrastructure investment plan - Railway 2020 -, another 430 km will be electrified in the coming years, namely in the Douro, Beira Baixa, Oeste, and Algarve lines and through the development of the new South Corridor line.

This scenario, which reflects the different investment processes undertaken, is also underlined by the permanent maintenance of the various infrastructures that make up the overhead line, thanks to which, for example, some components of the Northern Line dating back to the initial electrification process are still fully operational.

Requiring permanent monitoring, the overhead line is inspected on a monthly basis, in coordination with the Track and Geotechnics Specialities, to ensure the optimal use of resources.

On the other hand, taking into account that this is a complex infrastructure, particularly vulnerable to severe weather conditions, and that its full operability is crucial for electric-powered trains to circulate, the readiness of the teams and the availability of technical and logistical resources are the guarantees of a capable, effective and efficient response, and one that mitigates any impacts on railway operation.

Moreover, as railway technology and skills are exclusive of this sector, and knowledge is acquired internally, based on continuous training, IP has in place a 160-people strong team of highly specialised technicians to ensure all inspection and supervision activities and maintenance of 38% of the network.

In the Northern Line the average cost of maintaining the overhead line infrastructure reaches around €2.5 million.

3.4 ECONOMIC ENVIRONMENT

The international economy

The most recent estimates point to global GDP growth of 3.1% in 2016, below the 3.2% achieved in 2015. If this estimate is confirmed, this will be the slowest pace of economic growth since the global recession in 2009.

This reflects the diverging performance between regions, with the advanced economies slowing down (1.6% in 2016, down from 2.1% in 2015) while the emerging and developing market economies levelled off their pace of growth (4.1% in both years).

In the fourth quarter of 2016, GDP in the OECD countries increased to 1.7% in real year-on-year terms (the same as in the 3rd quarter), with stronger growth in the US and Japan muffled by subdued growth in the European Union. In December 2016 the OECD countries' inflation rate accelerated to 1.8% (0.9% in December 2015).

The domestic economy

According to the Bank of Portugal, the Portuguese economy has maintained a moderate recovery dynamics since 2013, in particular when comparing to previous periods of economic recovery.

Based on the National Statistics Institute (INE)'s 2016 Preliminary Quarterly and Annual Accounts, GDP grew by 1.4% in 2016, down by 0.2 percentage points (pp) on the previous year. Private consumption and above all the strong performance of the tourism sector were the main contributors to the country's economic growth, particularly in the second half of the year.

In a progressively more favourable external environment, the economic recovery should remain sustained by the vigour of exports. As to domestic demand, a shift in the relative weight of its components is expected, with private consumption decelerating (to slightly below the GDP growth rate) and Gross Fixed Capital Formation (GFCF) accelerating. This scenario is consistent with the continued shift of productive resources to sectors more exposed to international competition and more productive, with an increase in net job creation and sustained reduction of unemployment, with the maintenance of an external accounts surplus and with the continued reduction of the non-financial private sector's debt.

The projected economic growth pattern thus reveals a set of characteristics that point to a more sustained recovery of the Portuguese economy. However, there persist several structural constraints to the growth of the Portuguese economy, including the high level of indebtedness of the various sectors of the economy (households, non-financial companies and public sector), unfavourable demographic trends, high levels of long-term unemployment and the fact that investment is taking longer to pick up than in previous recoveries.

In terms of investment, data for the three months to January 2017 show the following year-on year developments: sales of light commercial vehicles increased by 17.1% (8% in the 4th quarter of 2016), with heavy commercial vehicles registering a 2.6% increase in sales (8.8% in the 4th quarter of 2016); sales of cement were up by 10.2% (compared to 0.2% in the 4th quarter of

2016); and GFCF rose by 0.9%, accelerating compared to the previous three quarters. In turn, the available data up to January show that the machinery and equipment component improved by 1.8% year-on-year.

Inflation, as measured by the Harmonized Index of Consumer Prices (HICP), increased slightly in 2016, to 0.6% (0.5% in the previous year), reflecting a lower decline in energy prices and an acceleration in services.

Labour market conditions continued to improve in 2016, with the unemployment rate falling to 11.1% (down by 1.3 pp on 2015) and total employment increasing by 1.6% (up by 0.2 pp on 2015).

The 2016 general government deficit is estimated to have been 2.4% of GDP, 0.2 pp above the target established in the 2016-2020 Stability Programme and in the State Budget for 2016, and 0.1 pp below the value recommended by the European Commission and adopted by the Council of the European Union. The worsening of the deficit vis-à-vis the previous forecast was mainly due to the deceleration of economic activity, with the lacklustre performance of private consumption and consumer prices resulting in smaller tax revenues than estimated in the State Budget, which assumed that growth would be driven by a strong recovery of private consumption.

GDP growth in 2016

1.4%

2016 Unemployment Rate

11%

Inflation increase in 2016

0.6%

General Government Deficit 2.4% of GDP

3.5 - MANAGEMENT STRATEGY AND OBJECTIVES

Strategic Plan

IP Group's Strategic Plan was developed based on the merger's strategy and key objectives, which comprised the integrated development of the road and rail network, the increase in revenues (core and non-core), the capture of internal and external synergies (scale and know-how), and regional presence coordination, always in the perspective of ensuring the sustainable management of the national road and rail infrastructures.

The Strategic Plan thus sets out the course for positioning IP as a multi-modal mobility manager, leveraging asset management, synergies and new revenues to guarantee the provision of a sustainable, safe and efficient service. To this end, four priority strategic objectives have been defined:

1	Sustainable mobility	Enhance the **management of multi-modal mobility,** focusing on the development of railways (Railway 2020)
2	*Asset Management*	Develop ***Asset Management*** **as a lever to optimise the OPEX and CAPEX** of road and rail infrastructures
3	Integration	**Take advantage of integration to promote synergy** -based efficiency
4	Profit Centres	Develop **complementary profit centres** to make the existing assets more profitable

Action plans have been drawn up to develop each of these objectives, as summarised below.

- **Sustainable Mobility**
  - Promotion of a sustainable remuneration model, adjusted to the mobility services provided by the company and permitting to consolidate the road and rail investment plan;
  - Rational integrated planning of the network;
  - Optimisation of the execution of the Railway 2020;
  - Development of the multi-modal mobility management.
- ***Asset Management***
  - Optimisation of the cost of assets' life-cycle;
  - Redefinition of the railway network maintenance strategy
- **Integration**
  - Stabilisation of the new organisation and human capital;
  - Evolution of the procurement and smart sourcing model;
  - Integration of the management, processes and information systems.
- **Profit Centres**
  - Reinforcement of commercial focus;
  - Enhancement of Accessibility, Telematics and ITS services;

- Monetisation of the fibre optics, road technical channel and data centres assets and services;
- Value enhancement and commercial exploration of real estate assets.

Management Objectives for 2016

This framework provided the basis for the definition of IP Group's management objectives for 2016, at a corporate and sectoral level, grounded on the strategic axes of the Group and, where applicable, in alignment with the Budget.

IP Group's management objectives comprise a set of 36 corporate indicators that together encompass IP's entire activity and permit to control, within the scope of the Management Control System, the company's performance over the year.

Six of these indicators, called "Shareholder Indicators", are those at the highest level and their results are fundamental for achieving the company's financial and operational objectives, corresponding to the targets which the company undertakes to attain before its Shareholder.

Indicator	Calculation formula[1]	Target 2016	Result 2016
Core Revenues (€m) (cash)	Basis: Cash / Scope: IP, Includes: ∑ Rail Services (Network Directory) + ∑ Tolls+ ∑ IC + ∑ RSC + ∑ Other Core (concessions)	€m 1,234	€m 1,179
Level of compliance with road service levels	Corresponds to: Weighted deviation of results (Safety Rate + Infrastructure Quality) versus established target.	100%	104%
Rate of compliance with railway service levels	Corresponds to: Weighted deviation of results (Safety Rate + Infrastructure Quality + Infrastructure Reliability + Level of Use) versus established target.	100%	101%
Aggregate Indicator of Network Intervention Plan (PETI3+ and Proximity Plan)	A*0.25+B*0.25+C*0.25+D*0.25 (A) Number of works developed and planned / Number of works planned. (B) Total number of works developed / number of works planned. (C) Total planned duration of planned activities developed / Effective duration of planned activities developed (C) Total planned cost of planned activities developed / Total effective cost of planned activities developed	85%	65%
Cost to Income (%)	Basis: Cash / Scope: IP, Includes: ∑ Operational payments (does not include income tax) / ∑ Operational receipts	41%	33%
***Total Cash Flow* (€m)**	Basis: Cash / Scope: IP, Includes: ∑ Revenues - ∑ Expenses - ∑ Financial liabilities	€m -1,098.5	€m -826.4

[1] Cash – receipts and payments (including VAT)

The table below shows the results achieved in 2016 in the six Shareholder indicators: in four of these indicators the target was achieved and in the other two the result was slightly below target.

1. CORE REVENUES - CASH (€M)

IP's core revenues reached €1,179.3 million in 2016, missing the target (€1,234.45 million) by €55.2 million.

This was mainly due to the non-materialisation of the Temporary Transfer of the Operation of IPT (€90 million). On the other hand, Toll Revenues, the Road Service Contribution (RSC) and the Compensatory Allowances (CA) all show positive deviations against the budget.

- Tolls: +€11.6 million
- ND Services: -€1.3 million
- RSC: +€10.6 million
- CA: +EUR +13.9 million.

TOLL REVENUES – CASH (€m)

Toll revenues (including VAT) reached €340 million in 2016, which is €11.6 million (+3.5%) above budget.

Year-on-year toll revenues increased by 8% (from €315.8 million in 2015). This comparison excludes the 2015 toll revenues from the Beira Interior Concession, which were allocated to the concessionaire within the scope of the renegotiation of the Concession Contract.

REVENUES FROM NETWORK DIRECTORY SERVICES - CASH (€M)

Total revenues received in 2016 from Network Directory (ND) Services reached €95.9 million, which is in line with the established target of €97.1 million.

RSC REVENUES - CASH (€M)

Total revenues from the Road Service Contribution (RSC) amounted to €693.4 million, which is €10.6 million (+1.6 %) more than the budgeted figure for 2016.

This deviation is explained by the receipt in December of a sum of €20 million relating to road fuel consumption in November, bringing forward part of the transfer scheduled for January 2017.

2. ROAD SERVICE LEVELS (%)

The level of compliance with road service levels is determined against the established targets for the "Road Safety Index" (RSI) and "Quality of Road Infrastructure" (QRI). The 2016 level of compliance was 104%, which is 4% above the target.

ROAD SAFETY INDEX

The value of the road safety index (RSI) is determined through the weighted results of the following indices (basis 100 - average in 2013 and 2014): number of black spots (BS), Severity Index in urban areas (SI UA), and number of fatal victims (FV).

At the present date it is not possible to obtain a final value for this indicator since the National Road Safety Authority (ANSR) only disclosed information for the period of January to July 2016 for the SI UA and FV indices and no information for the BS index.

This indicator is thus calculated based on the available information for the SI UA and FV and assuming that the number of black spots was not higher than that forecast for 2016 (35).

The result of the indicator based on this calculation is 118, which is 8 points above the target (110). However, a more detailed analysis shows that:

- The number of fatal victims (between January and July 2016) was 447, of which 86 in the IP network. This represents a reduction in the IP network of 17% compared to 2015;
- The Severity Index in urban areas was 9,678 in the same period, corresponding to a year-on-year decline of 8%.

QUALITY OF ROAD INFRASTRUCTURE

The overall Quality of Road Infrastructure reached 61.6 in 2016, surpassing the target (61.3) by 0.3 points.

This indicator includes two components, namely pavement quality, which, at 56.6, was roughly the same as in 2015, and the State of Conservation of Engineering Structures (SC), which on average improved by 0.5 points

(66.5 in 2016 vs. 66.0 in 2015).

3. RAILWAY SERVICE LEVELS (%)

The Level of Compliance with Railway Service Levels is determined in line with the targets achieved by the following indicators: Railway Safety Index (RwSI), Quality of Railway Infrastructure, Reliability of Railway Infrastructure and Railway Network Utilisation Level.

In 2016 this index was 101%, i.e., the average result not only met but exceeded the target by 1%.

Railway Safety Index (SA/mtk)

The Railway Safety Index in 2016 was 1.024 SA/mtk (significant accidents per million of train-kilometres), which is slightly below the target established for the year (1.003 SA/mtk).

Quality of Railway Infrastructure (%)

The Quality of Railway Infrastructure index reflects two components, namely the quality of the railway infrastructure proper (% of the network in QN1 and QN2 - wide track, 1668 gauge) and the State of Conservation of Engineering Structures - bridges and tunnels of the National Railway Network (NRwN). The overall result of this index in 2016 was 83.4%, which is 0.5 pp below the established target (83.9%).

The 2016 quality of the railway track infrastructure was 91.5%, which compares with a target of 93.0%. This deviation is explained by the decline in the track quality indicator (geometric parameters) in sections of the Cintura, Vendas Novas and Douro lines, and in the Northern Line (Alfarelos-Pampilhosa stretch, which has not yet been subject to intervention under the ongoing investment.

The State of Conservation of Engineering Structures index reached 75.2% (against a target of 74.1%), which translates an improvement in the average state of conservation.

Reliability of Railway Infrastructure (%)

The overall value for the Reliability of Railway Infrastructure (punctuality) indicator was 91.3% (94% for passengers and 80% for freight), which is 1.3 pp above the established target of 90%.

The punctuality rate for passengers is distributed as follows:

- IP High Speed: 73.5%;
- IP Urban: 96.0%;
- IP Intercities: 76.3%.

Note: considers as benchmark 5 minutes for passenger trains and 30 minutes for freight trains.

Railway Network Utilisation Level (%)

The total Railway Utilization Level in 2016 was 36,858,121 train-kilometres (tk), which represents a decrease in the use of the infrastructure by train operators of 173,975 tk (-0.5%) and stands below the targeted increase of 0.5%.

By segments, utilisation by passenger trains increased by 1.1% while utilisation by freight trains decreased by 8.1%.

4. Network Intervention Plan Integrated Indicator (%)

The indicator which measures the implementation of the network intervention plan stood at 64.6%, 20.4 p.p. below the goal for the period.

This failure to reach the established target was mainly due to the delay in launching the works foreseen in the Network Intervention Plan: of the scheduled works in the Railway 2020 Programme and Proximity Plan, only 67% and 35%, respectively, were launched.

In terms of delays already in the works stage (including contract award stage), the level of execution was 78%, i.e., corresponding to a deviation of 22%.

Finally, in terms of costs, there was a 1% reduction against the contracted prices (execution rate of 101%).

5. Cost to Income (%)

Cost to income, which measures the share part of operating income absorbed by operating costs shows a positive trend in relation to estimates for the period (33% vs. 41%), reflecting a decrease by Euro 81.0 million (-17%) in operating cash outs (excluding taxes), distributed as follows:

IP's operating revenues were 2% above budget (+€23 million), being broken down as follows:

- Core services (excluding the Temporary Transfer of the Operation of IPT): +€34.8 million;
- IP non core services: -€10.7 million;
- Subsidiaries: -€10.2 million;
- Income tax and other taxes refunds: +€9.1 million;

6. Total Cash Flow[2] (€m)

IP Group's total cash flow in 2016 (excluding the transfer of community funds relative to AE Transmontana) was €-826.4 million, a positive deviation of €272.1 million against the target set for the year (€-1,098.5 million). This performance was driven by a decrease in operating cash outs, expenditure cash outs and financial expenses, as against the budget:

- Reduction in operating payments: €79.0 million (16%);
- Reduction in investment payments in IP's own network (PETI3+ and PP): €106 million (65%);
- Reduction in Financial Expenses: €179.5 million (57%) due to a new moratorium granted by the General Directorate of the Treasury and Finance (DGTF) on the payment of the debt service on State loans (€181 million), with deferral to 30 November 2017 and 31 May 2017. These deferrals are not subject to the payment of interest.

On the revenue side, receipts fell by €43.2 million. The main factor for this decrease was the failure to carry out the Temporary Transfer of the Operation of IPT, worth an estimated €90 million.

[2] Excludes the transfer of community funds relative to AE Transmontana

4. MAIN AREAS OF ACTIVITY

As referred further up, as determined by article 6 of its By-laws, the corporate object of IP is the design, planning, construction, financing, maintenance, exploration, rehabilitation, enlargement and modernisation of the national road and rail networks.

Accordingly, the company focused its activity in 2016 on the development of the following areas of intervention:

4.1 - MANAGEMENT OF THE ROAD INFRASTRUCTURE

The Management of Road Infrastructure activity comprises both the activities of building and rehabilitating roads and engineering structures and the activities of managing, maintaining and improving the safety of the national road network.

Characterisation of the National Road Network (NRN)

The National Road Network (NRN), which is governed by the National Road Plan (Decree-Law no. 222/98 of 17 July, Law no. 98/99 of 26 July and Decree-Law no. 182/2003 of 16 August), remained stable during the period. It comprises three levels of roads: "*Itinerários Principais*" (trunk roads), "*Itinerários Complementares*" (secondary roads), and National Roads.

The National Road Network in operation currently comprises 17,708 km.

Hence, apart from a few roads disqualified and delivered to the municipalities, the characteristics of the network under IP's direct jurisdiction or sub-concessioned remained stable.

IP is the concessionaire of 15,109 km, of which 13,509 km under direct management (including 3,727 km of roads disqualified but not yet delivered to the municipalities) and 1,600 km of sub-concessioned network (under seven different contracts).

Mainland Portugal's Motorway Network stretches over 3119 km, of which 540 km are under direct or indirect management of IP.

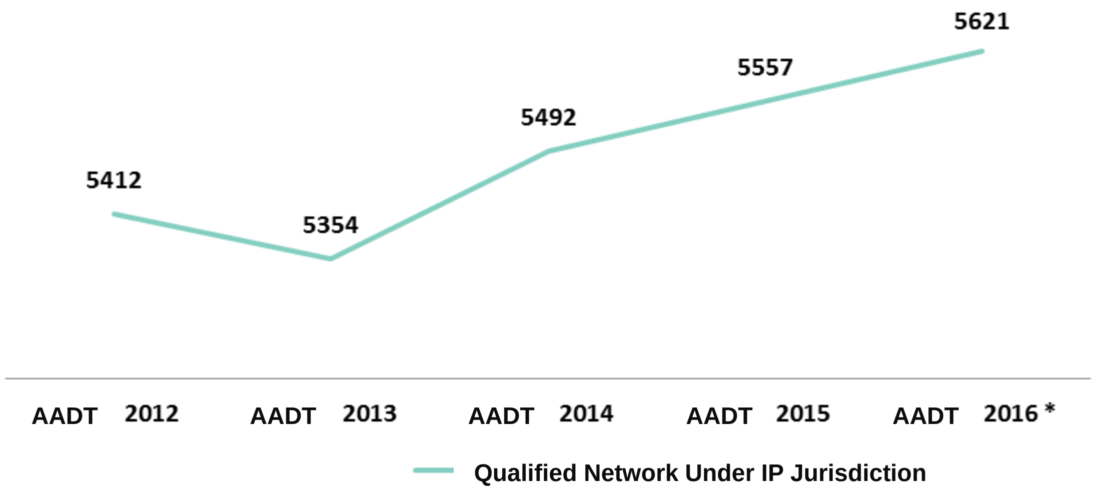
The remaining 2,599 km are State Concessions (including 2,184 km of tolled network).

The High Performance Network under direct management of IP has 305 km and includes motorways and other roads equivalent to motorways.

Traffic

An analysis and comparison of the traffic data for the years 2015 and 2016 shows an increase of around 1.2 % in IP's motorway network and an estimated Annual Average Daily Traffic (AADT) 2016[3] of 5,621 vehicles in the qualified network.

The chart below shows the evolution of Annual Average Daily Traffic in the qualified network under IP's jurisdiction:



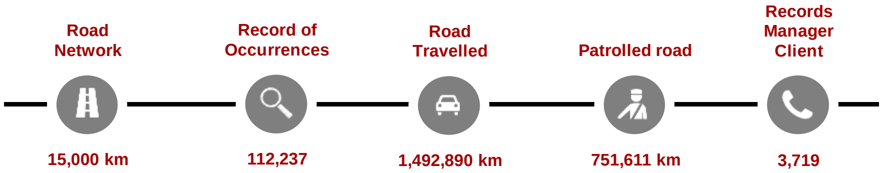
Network Supervision

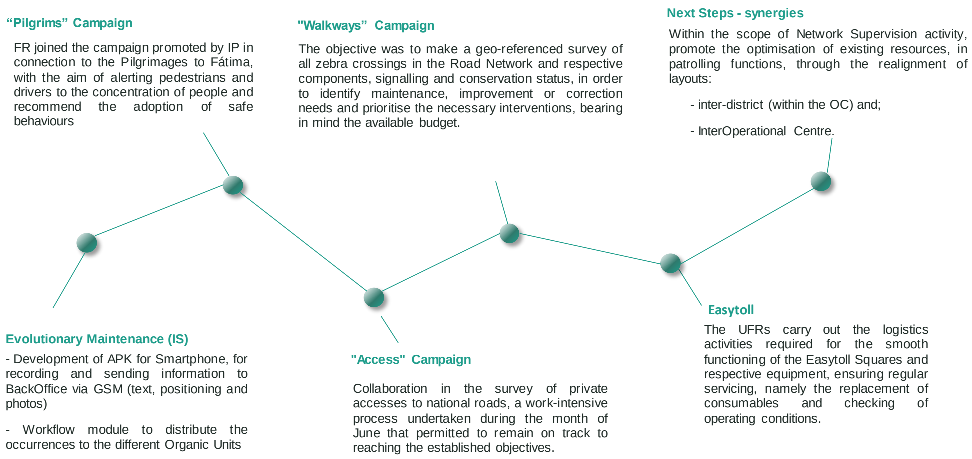
The supervision of the road network is an operational activity that, by means of patrolling, permits to **guarantee compliance with the legal obligations established** by the Concession Contract with the Portuguese State. These include compliance with the **duty of vigilance**, to defend the road public domain of the State, the **duty of policing**, through the exercise of the Road Administration's public authority powers, the **duty of surveillance**, laid down in the National Road Network Regulations, **support to the company's OUs**, and **support to the road users**.

IP, as the concessionaire of more than 15,000 km of roads, of which 13,509 km under direct management, develops the Network Supervision activity. This requires the regular patrolling of roads, carried out according to a stratification of the network using criteria such as Annual Average Daily Traffic (AADT), commercial activity (licensing), existing resources and compliance with network service levels.

[3]AADT) 2016 - refers only to the qualified network (includes subconcessions) under IP's jurisdiction . Traffic in the remaining IP network (disqualified network) is still being determined.

The network is patrolled by the Inspection and Support Mobile Units (ISMUs) using plans that indicate the itineraries (road stretches or connecting routes to be supervised), the direction to take and the situations to be assessed. During the year, the ISMUs travelled more than 1,700,000 km throughout the country (18 districts), to supervise approximately 800,000 km of road.





The main function of the Inspection and Support Mobile Units (ISMUs) is the systematic and continuous monitoring of the roads, promoting the collection and recording of information concerning deficiencies or relevant unexpected events not resulting from the normal wear and tear of roads and respective components which require urgent intervention and signalling due to endangering traffic conditions and/or the immediate safety of users.

Greater Lisbon and Greater Porto Metropolitan Areas

Under contractual obligations, IP ensures the management and operation of this Motorway Network. This includes a set of actions aimed at ensuring proximity with the client, namely monitoring traffic conditions to survey and prevent accidents and providing assistance to the clients (sanitary and mechanical assistance, including using external aid and assistance means). This Motorway Network aims to ensure accessibility and mobility within the large urban centres, particularly the Greater Lisbon and Greater Porto Metropolitan Areas.

The Operation and Maintenance of the Greater Lisbon Motorway Network (RAEGL) cover the motorway-equivalent roads located in the Greater Lisbon area, namely A16 - Pontinha Junction / Belas; A30 - Lisboa / Santa Iria da Azoia; IC17 - CRIL Algés / Sacavém; IC19 Buraca / Sintra; A40 - Olival de Basto / À-da-Beja; North/ South Axis Road; EN117 - A5 / IC19; IC15 - Duarte Pacheco Viaduct and also A21 - Ericeira / A8, totalling 100 km of dual carriageway plus approximately 70 km of access roads.

A23 - Torres Novas (A1) / Abrantes, IC10 - Santarém (A1) / Almeirim (IC13) (includes the Salgueiro Maia bridge) and IP6 Peniche / A8 are also included in the Lisbon and Tejo Valley region's high performance network, where the operation and maintenance works are carried out by IP’s regional structures, based on a shared resources management model.

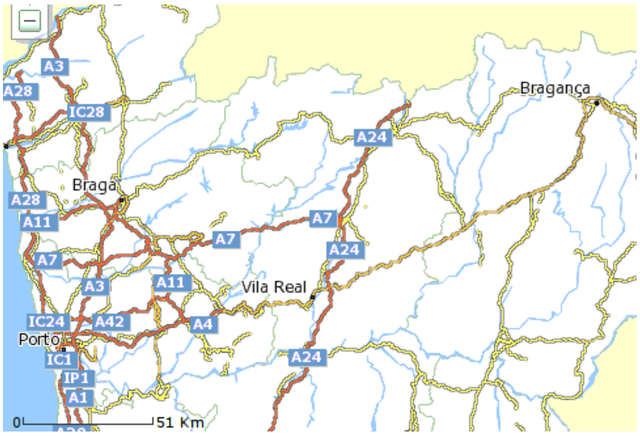
The level of requirements in these motorways is the highest at national level - in some sections the ADAT exceeds **100,000** vehicles. Hence the management model implemented (direct administration in Greater Lisbon) ensures the operation of these motorway-equivalent roads 24 hours a day, 365 days a year.

The network is patrolled by the **Inspection and Support Mobile Units (ISMUs)**, which provide Customer Support, Monitoring of Circulation Conditions and Inspection of Road Conditions. The ISMUs are on permanent call (24 hours/ 365 days a year), having travelled approximately **902,000 km** in 2016.

These units are supported remotely by a Traffic Centre which controls the telematic information of the network as well as the control and management equipment of the existing Tunnels.

18,044 occurrences were recorded during 2016 (User Support = 8,016, Inspection of Road Conditions = 9,884 and Police Patrolling = 144), corresponding to an annual average of 181 incidences / km.

The Operation and Maintenance of the Greater Porto Motorway Network (RAEGL) cover the motorway-equivalent roads under IP's jurisdiction in the Porto, Vila Real, Braga and Viana do Castelo districts.



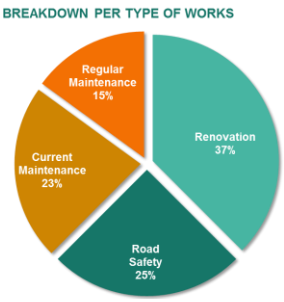
This network comprises the Greater Porto motorways (e.g. Douro Litoral Concession), the Bypasses to EN14 and EN101 in Braga, the Bypass to N14 in Vila Nova de Famalicão, the IP1 stretch between the Valença Sul (S. Pedro da Torre) Junction and the border with Spain, and the A4 stretch between the Geraldes Junction and the Parada de Cunhos Junction, which includes the Marão Tunnel.

A programme called "**Current Maintenance and Operation of the North - High Performance Network -2015/2018**" is currently being deployed, ensuring not only the current conservation and maintenance interventions in all the components of the roads and engineering structures of this network, but also the Operational Activities, namely Network Supervision and User Support.

Current Maintenance Management

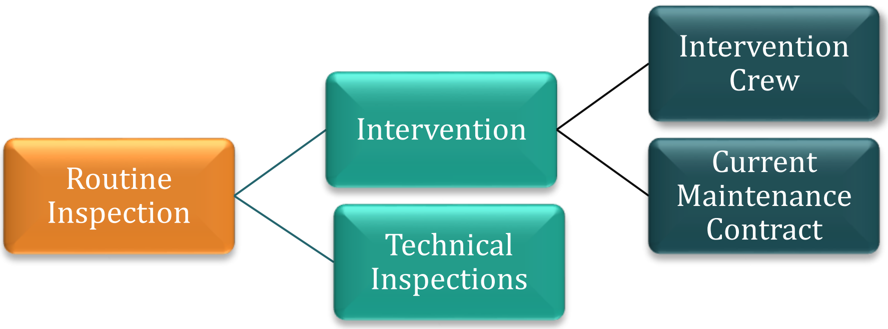
In 2016, a total of 80 works contracts were implemented, including 18 District Current Maintenance Contracts, representing a total cost of €38.6 million (9% more than in 2015).

By type of intervention, for the third consecutive year Engineering Structures (30) represented the largest share, followed by Road Safety (20), Current Maintenance (18) and Regular Maintenance (12).



Current Maintenance of the national road network under direct administration of IP is essentially based on 18 Multi-annual District Contracts. It takes place on the road and adjacent areas, with the purpose of maintaining conditions for comfortable and safe driving, preventing the deterioration of infrastructures and service quality.

The Management of Current Maintenance Contracts comprises several phases, the last of which is the intervention in the road network. Hence each work executed entails the identification of needs, technical validation, prioritisation, planning and finally the Execution Order.



The 7,281km inspected in 2015 were followed din 2016 by the inspection of the remaining 7,409km, viewing coverage of the entire network.

The Intervention Crews (ICs) are currently IP's only operational means of intervening in the road network, performing a set of activities in a preventive, timely, random and timely action model that does not fit into the management models of the Current Maintenance Contract.

The Inspection and Support Mobile Units inspected 751,611 km of Roads of the National Road Network in 2016, registering 112,237 Occurrences.

Types of intervention works:

- Urgent
- Current or preventive works
- *Non core*

Due to its unique nature, we make a special mention to the **Snow Cleaning Centre** located in Serra da Estrela, whose activity focuses on snow and ice control and prevention treatment.

Regular Maintenance

The cost of the Regular Maintenance of Roads represents the expenditure required to maintain the service level in roads and engineering structures imposed by IP's Concession Contract.

New activities are undertaken based on the assessment of rehabilitation needs, with priorities being set according to technical urgency, which in turn is determined based on the Quality Index (QI) of the roads and traffic levels, as foreseen in the 2015-2019 Proximity Plan. The maintenance management strategy is thus based on a cost-benefit approach to the medium/-long term performance of the various intervention alternatives, which is determined using the behaviour prediction model for pavements of the Pavement Management System (“SGPAV”). This permits to choose the alternative that best suits the state of the pavement according to the moment and type of intervention to be executed.

This method allows IP to plan and prioritise road renovation works. In addition, specific intervention needs in the area of geotechnics are assessed and prioritised based on inspections following the detection of incidents by the inspection units.

Interventions in Engineering Structures are undertaken based on the assessment of their State of Conservation (SC) through Major Inspections. This permits to solve SC4 and SC5 situations, and also to address potentially evolving SC3 situations, thus providing an adequate solution to situations likely to compromise the safety of the road infrastructure.

In 2016, a total of €13 million were invested in Regular Maintenance, with works evenly distributed among the six Operational Centres and the highest amounts being spent in the Centre North, Greater Lisbon and Centre South Operational Centres.

Road Safety works contracts (Vertical Signing, Road Marking and Maintenance of Traffic Lights Equipment) executed in 2016 represented an investment of around **€9.3 million**.

25 de Abril Bridge

Concerning the management of the 25 de Abril bridge, which is regulated by a specific law, IP operates in close cooperation with LUSOPONTE, whose management duties are specifically concerned with the road component.

A set of actions involving inspections, surveys, maintenance, conservation and improvement works and the safety of the operation are regularly carried out on the 25 de Abril Bridge on an integrated management basis.

For matters relating to operational safety, the work carried out by the 25 de Abril Bridge Safety Board, which is chaired by IP, is particularly important. The Board members also include the Instituto da Mobilidade e dos Transportes (IMT) (the road and transport infrastructure regulator), the security forces through the Security Coordination Office, and the emergency services, represented by the National Civil Protection Authority (ANPC).

In line with the management model adopted and to attain the objectives established in the Annual Safety Programme, submitted at the start of the year to the member of Government in charge of road infrastructures, the following activities were carried out in 2016:

- ✓ Quality Manual - development of a model for the burden-sharing of costs with the structure;
- ✓ Contracting the underwater inspection to pillars 3 and 4 of the suspension bridge;
- ✓ Contracting the structural monitoring for the 2017-2019 period;
- ✓ Monitoring and Observation of the Infrastructure, including observation of the bridge's overall behaviour, development of the instrumentation plan and acquisition of equipment;
- ✓ Development of Project *“P50. Bridge Experience. 50 Years of 25 de Abril Bridge. Lisbon”* project, which promotes the spreading of knowledge about the historical, technical and cultural aspects of this infrastructure. The draft specifications and tender programme for the **Pillar 7 - P50 Project** were drawn up in cooperation with the Lisbon Tourism Association (ATL). A highlight of this programme was the panoramic lift, a new attraction in Lisbon's tourism scene.

Besides all these activities, the following events also took place in 2016:

- The “***EDP Lisbon Half Marathon and Vodafone Mini Marathon***”, a public interest sports contest that held its 26th edition in 2016, and as usual attracted a great number of participants;
- The “*Life Science – Engineering in the Summer*” Project, which allowed all those interested to make a technical tour of the 25 de Abril Bridge and learn about the work developed in this unique infrastructure in the country;
- The “***Hour of the Planet 2016***” initiative, where the lights of the 25 de Abril Bridge were turned off for 60 minutes as a symbol of concern for the environment; this initiative took place on March 19th in more than 163 countries and territories across all the continents.

4.2 - MANAGEMENT OF THE RAILWAY INFRASTRUCTURE

Characterisation of the National Railway Network (NRwN)

The network's lines and branch lines (whether in operation or not, including franchised sections) have a **total length of 3,621 km**.

Seventy percent of the total railway network is operating, i.e. tracks suitable for train running cover 2,546 km.

The part of the network which is electrified (1,639 km) corresponds to 64% of the total network in operation.

The Convel system, which is shared by the Operators and REFER ensures high traffic safety levels, guaranteeing compliance with signalling and the authorised train running speeds. This system is deployed in approximately 1,695 km of the network (67% of the network under operation).

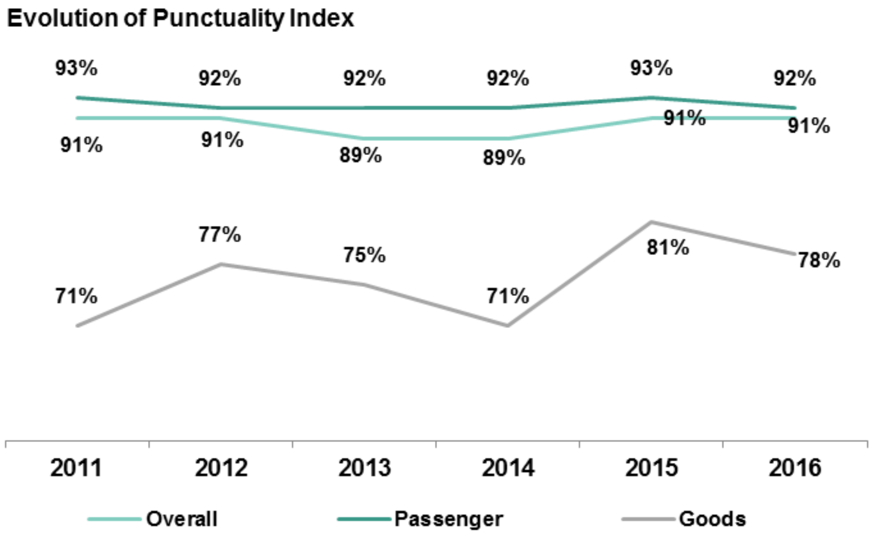
The Ground-Train Radio system (shared by the Operators and REFER) is used for voice and data communication between train drivers and IP personnel in charge of traffic control. This system is deployed in approximately 1,510 km of the network (59% of the network under operation).

Service Level

The reliability and safety of the infrastructure provided to end users reflects the maintenance strategy followed by the company. Traffic data analysis permits to monitor the direct performance of the network but also the management of railway assets. In addition to safe conditions on the railway infrastructure, IP must also ensure high punctuality levels (PR).

The punctuality rate is measured as the ratio of the number of trains with a delay of up to a pre-established time limit and the number of trains run.

In 2016 the global punctuality rate was 91.3%, the same level as in 2015, despite the worse performance of both passenger trains (in all segments except in Lisbon urban trains) and freight trains:



The worse performance in the second half of the year mainly resulted from the following:

- Restrictions due to works in the Alfarelos-Pampilhosa section;
- Increased speed limitations in the Southern and Northern lines.

Network Utilisation (TK)

For compliance with the provisions of Decree-Law no. 217/2015 and Decree-Law no. 270/2003, as amended by Decree-Law no. 151/2014 (the part maintained in force by Decree-Law no. 217/2015) IP annually publishes its Network Directory, which is intended to provide railway transport companies the information they may need to access and use the national railway infrastructure.

The annual Network Directory contains the characteristics of the national railway network (NRwN), as well as the respective access terms and other aspects of the services provided by IP to railway operators. This document also explains the principles governing the fixing of fees and tariffs, including methodology and rules.

Summing up, the Network Directory describes the general rules and terms, procedures and criteria relating to tariffs, distribution of capacity, and other required information allowing operators to apply for the use of the infrastructure.

unit: million tK

USE OF NETWORK	2014	2015	2016	Change 16/15	Δ% 16/15
Passenger	30,0	29,8	30,1	0,3	1%
Goods	6,0	6,3	5,8	-0,5	-8%
Unladen	0,9	0,9	0,9	0,1	9%
TOTAL	**36,9**	**37,0**	**36,9**	**-0,2**	**-0,5%**

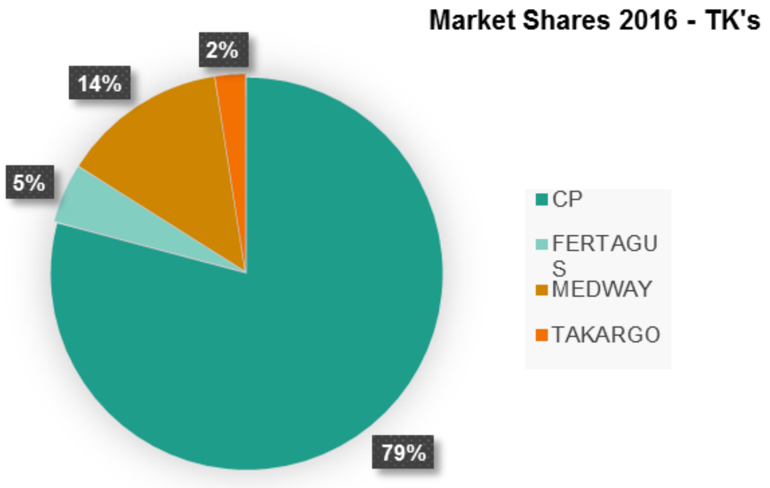
Between 2015 and 2016 demand fell by 0.5% (approximately -174 thousand train-kilometres (tk)). Freight trains were the only contributor to this reduction, and more specifically the cut in the capacity used by Medway (-11,9%), which was in part offset by the number of tk travelled by Takargo (20.0%):

- 1.1% increase in the passenger service;
- 8.1% decrease in the freight service.

In terms of the train operators alone, a total of 37 million tk were travelled, of which 82% by passenger trains, 16% by freight trains and 2% by unladen trains. The decrease in freight traffic was offset by the increase in passenger and unladen traffic.

The train operators using the NRwN are, for passengers, CP and FERTAGUS, and for freight, Medway and TAKARGO.

CP remains the operator with the highest impact on IP's turnover, with a market share of nearly than 80%.

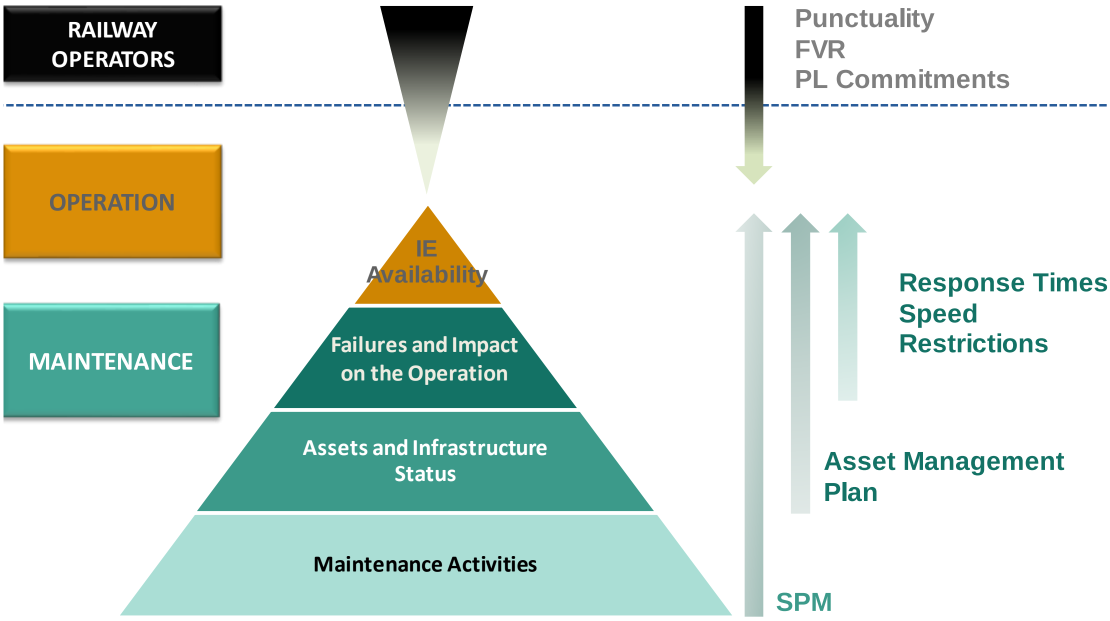


National Railway Network Management Strategy

Management of the railway network, including the optimisation of the life cycle of assets, steered by sustainability criteria, is directed to securing an infrastructure with high levels of reliability, availability and safety.

This strategy is largely carried out through the inspection and diagnosis of the infrastructure, for which IP has the necessary human resources and technically advanced means allowing it to know with accuracy the state of the infrastructure, prioritise investments in an informed manner, and efficiently carry out the various maintenance and renovation actions required in the 2,546 km of network in operation under its management.

MAINTENANCE STRATEGY
NETWORK SEGMENTATION AND LEVELS



With safety as the greatest and indisputable value of the railway system, railway maintenance is based on a set of systems and equipment, regulations, standards and procedures, which, together, permit to ensure the high standards required.

The railway network's maintenance strategy is grounded on principles of technical and economic rationality, where the inspection and supervision services are ensured by the company itself. Execution is outsourced in some specialities, keeping internalised those where, due to the specificity of the systems, or because they are not available in the market, or based on experience or surveys, it was concluded that this was the solution that best safeguarded IP's interests.

Rail Network Maintenance

Railway network maintenance works, which are included in IP's operating budget under multi-annual contracts for the various specialities, comprise three components:

- Systematic Preventive Maintenance (SPM), carried out according to a pre-established schedule;
- Condition-based Preventive Maintenance (CPM), carried out at IP's express request as a result of an inspection and diagnosis of the infrastructure;
- Corrective Maintenance (CM), to correct anomalies.

In 2016, the amount associated with this type of works totalled **€56 million.**

4.3 - INVESTMENT IN THE ROAD AND RAILWAY INFRASTRUCTURE

INVESTMENT IN THE RAILWAY NETWORK

Investments in the rail infrastructure comprise the construction, installation and modernisation of the infrastructure, made on behalf of the State (assets belonging to the public railway domain), which are considered as Long-Duration Investments (LDIs).

FERROVIA 2020

The **Ferrovia 2020 Investment Plan** envisages the modernisation of approximately 1200 km of network. This modernisation plan covers the main links to Spain and Europe: Aveiro-Salamanca e Sines/Lisbon-Madrid, modernisation of part of the North Line and electrification of over 400 km of existing lines. These investments will include the beginning of the installation of the European Railway Traffic Management System (ERTMS/ETCS), extension of train crossing length to 750m and preparation of migration to the standard rail gauge. The objective is to ensure an increase in rail transport efficiency, namely freight transport, in terms of:

(i) Increase in capacity, both in terms of load and train number;
(ii) Decrease in transport costs;
(iii) Decrease in travel time and length; and
(iv) Improvement of safety and reliability conditions.

On the other hand, in addition to improving international connections, these investments will benefit the links between the coastline and inland and links of the inland to the Iberian market.

PETI 3+ has established a number of priorities duly identified by a wide number of stakeholders, amongst which we point out the following:

- International commitments, including bilateral agreements with Spain and those resulting from the Atlantic Corridor;
- Promotion of freight transport, particularly exports;
- Articulation between national ports and main land borders with Spain;

The Rail Investment Plan 2016-2020 (Ferrovia 2020) which is based on the PETI3+ Plan, has financial package associated to it and a precise and ambitious schedule.

- **International North Corridor**: Leixões Lines, Aveiro-Vilar Formoso Corridor and Beira-Baixa Line
- **International South Corridor**: Sines/Setúbal/Lisboa-Caia Corridor
- **North-South Corridor**: Minho Line and North Line
- **Additional Corridors**: Oeste Line, Douro Line and Algarve Line

To achieve these goals, IP benefits from a package of community funds - “Connecting Europe Facility (CEF)” (general component - contribution of 30% to 50% and cohesion component - 85% contribution) and Portugal 2020 Programme (85% contribution), plus the Juncker Plan and the contribution of Infraestruturas de Portugal.

In what concerns the **Community Funding** of investment projects, the more relevant events in 2016 were the following:

2014-2020 programming period

Under the Connecting Europe Facility (CEF), the European Commission has approved the projects detailed below:

a) To be implemented by IP only:

  i. Aveiro-Vilar Formoso Railway Connection in the Atlantic Corridor: Beira Alta Line (Pampilhosa-Vilar Formoso) - Design and Construction;

  ii. Studies for the International South Corridor (Sines/Setúbal/Lisbon-Caia) included in the Atlantic Corridor.

b) To be implemented in partnership: Studies of road and railway accesses to Leixões harbour.

With regard to COMPETE 2020, which relates to the promotion of sustainable transports and the elimination of bottlenecks in main network infrastructures, the company is preparing applications concerning Notices 04/RAIT/2016 and 04/RAIT/2016.

The "Ferrovia2020" Plan clearly banks on the modernisation of the National Railway Network, anticipating an overall investment of €2,000 million, which will constitute IP's major challenge over the next few years. The overall budget of Ferrovia 2020 investments totals €36.6 million, of which **€25.5 were implemented in 2016**. We highlight the following activities developed in 2016:

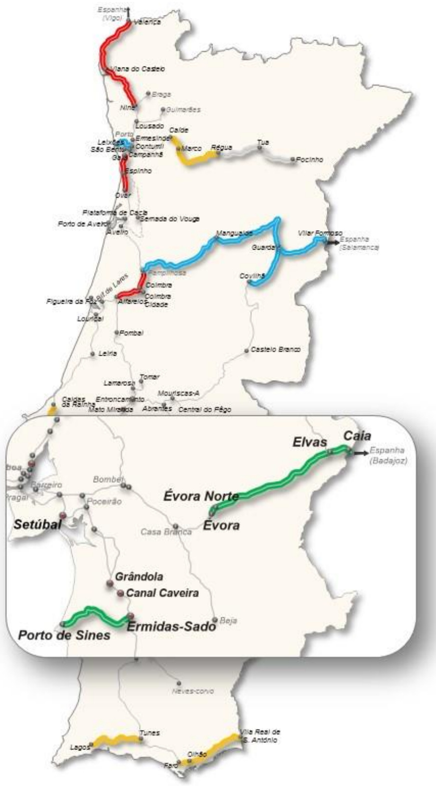
- Preparation of qualifying programmes for the implementation of the "Contractors Qualification and Supervising Service Providers System";
- Approval of contracting processes with a total base price of €32 million in Studies and Projects, €133 million in Contracts, € 58.5 million in the Contract for the Design, Supply/Assembly and Maintenance of Control-Command and Signing Systems of various stretches of the National Railway Network and €10 million in Management and Supervision;

In the **International North Corridor**, we point out the following:

- Awarding of contracts for feasibility studies, preliminary study, environmental impact assessment, development project and RECAPE for the modernisation of the three stretches of the Beira Alta Line;
- Completion of the Services viewing the finalisation and adaptation of the preliminary study and execution project for the convergence of the Beira Alta and Beira Baixa lines, including Technical Assistance,
- Finalisation of the Design Projects for mixed ballasted structures to replace the metallic structures of bridges (Carpinteira, Zêzere II, Penha da Barroca, Corge, Maçainhas and Gogos in the Beira Baixa Line);
- Completion of Design Project for the Modernisation of the Covilhã-Guarda Stretch in Beira Baixa Line;
- Launching of Contract Works for the Modernisation of Covilhã-Guarda stretch, Convergence of Beira Baixa-Linha and Beira Alta Lines, including 6 bridges and PI 207+212;
- Launching of the Management, Coordination, Supervision and Safety Services for the Beira Baixa Line;

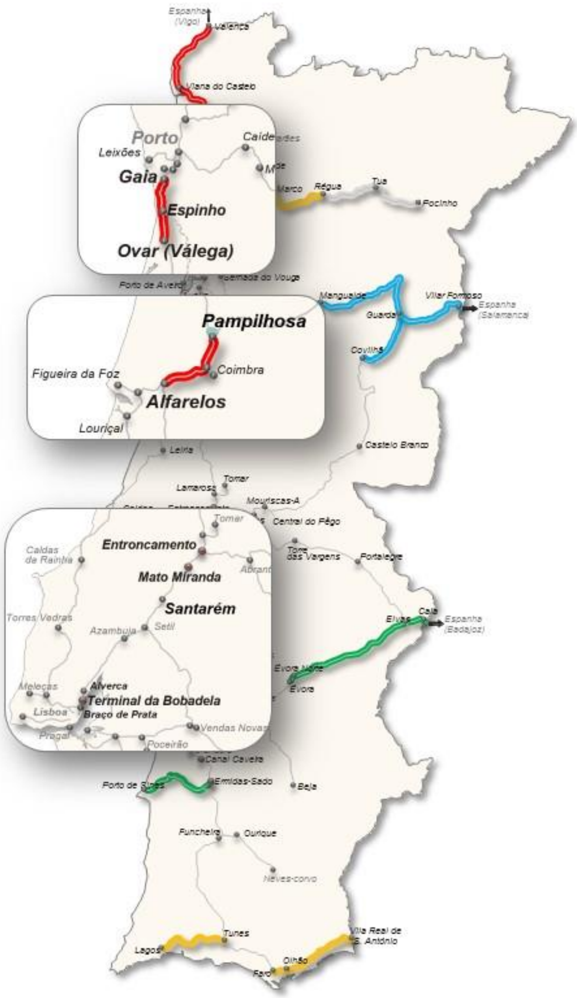
In the **International South Corridor**, we point out the following:

- Awarding of feasibility study, EP, EIA, PE and RECAPE for the modernisation of the line connecting Sines to the South Line, including the removal of rail crossings and RCT+TP;
- Beginning of the technical coordination contract concerning the Project for the new Railway Connection between Évora Norte and Elvas/Caia (border with Spain).
- Beginning of the services contract relating to the Project for the fixed electric traction facilities of the new Railway Connection between Évora Norte and Elvas/Caia (border with Spain).
- Beginning of the Services Contract relating to the Engineering Works and Special Structures Project;



- Beginning of the Services Contract relating to Line, Geotechnics and Related Services Project;
- Beginning of Services Contract relating to the Project for the new Railway link between Évora Norte and Elvas-Caia — East Line and connections to the new Évora-Caia Line;
- Awarding of contracts for the feasibility study, preliminary study, environmental impact assessment, development project and RECAPE for the modernisation of part of the Vendas Novas Line;

In relation to the **North-South Corridor** we point out the following:



- Awarding of contract for the Electrification of the Minho Line between Nine and Viana do Castelo, including technical stations; these works started in the beginning of 2017;
- Launching of Tender for the Provision of Management, Coordination, Supervision and Works Safety Services (GCFCSO) relating to the Contract for the Electrification of the Minho Line between Nine and Viana do Castelo, including technical stations
- Beginning of the Electrification and Modernisation Works of the Nine-Valença stretch, design/construction of traction sub-station of Vila Fria, auto-transformers stations and neutral area to the Electric Sub-station of Vila Fria in Minho Line;
- Removal of Level Crossing (LC) at km 45+771, and construction of road under crossing at km 45+714 (Midões) and respective accesses;
- Completion of the Electrification Project of the Nine-Valença stretch, including Technical Substations;
- Awarding of contract for the Full Track Renewal of the North Line between Alfarelos and Pampilhosa stations;
- Awarding of Signing Works in sub-stretch 2.3 of the Norte Alfarelos / Pampilhosa Line;
- Awarding of Construction Works and adaptation of existing telecommunications infrastructures in Alfarelos-Pampilhosa stretch;
- Electrification Project of Multimodal Terminal of Vale do Tejo;

In relation to the **Complementary Corridor** we point out the beginning of Contract for the Modernisation of the West Line, Mira Sintra–Meleças–Caldas da Rainha stretch, from km 20+320 to 107+740.

Finally, we highlight the beginning of contract for the design, supply/assembly and maintenance of command-control and signing systems of various stretches of the National Railway Network; this contract covers various corridors included in FERROVIA 2020.

Other railway investments

Taking into account the company's strategic goals, which comprise and prioritise investments according to a pre-established set of criteria, a number of interventions have been decided, which are listed in the Railway Proximity Plan.

Interventions in the rail infrastructure aim to reinforce safety conditions and improve the reliability and quality of the service provided to the clients. These interventions are also intended to contribute to improve the integration of the rail infrastructure in the surrounding territory, enhancing the positive externalities and mitigating the negative ones and improving mobility conditions by creating new connections or reducing travel times.

In 2016, investment in renewal and modernisation of the infrastructure, adequacy to rules and regulations in force, and improvement of service levels **totalled €13.9 million** (€6.74 million in track and overhead line renovation, €3.68 million in improvement of signing and telecommunications systems, €2.52 million in renovation of engineering structures (and other works), amongst which the following:

Replacement of wood cross-ties by concrete cross-ties in stations of Vila Nova da Baronia and Cuba, on the Alentejo Line

These works, which aimed to improve safety conditions as well as the availability and reliability of the infrastructure and passenger comfort, included, among other things, replacing wood cross-ties by concrete ones; the replacement of short rail by long welded rails and the replacement of wood by rubber in crossings between platforms.

Anti-corrosion protection of metallic bridges on the West Line

Painting works in 19 metallic bridges on the West Line, located namely in the municipalities of Torres Vedras, Bombarral, Óbidos, Nazaré, Leiria and Figueira da Foz aimed to ensure compliance with reliability, behaviour and safety indexes of engineering structures, mitigating the effects caused by different agents, such as moisture, salinity or pollution.

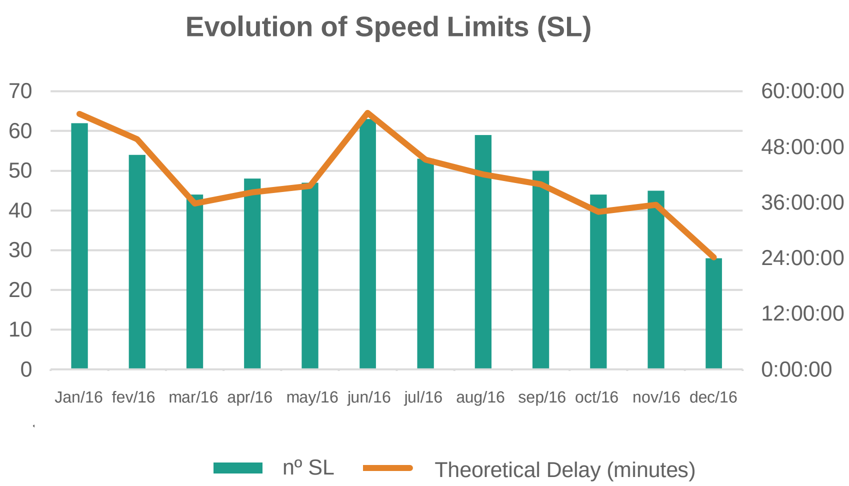
Slope stabilisation works on the Beira Alta Line

Set of intervention works to repair and improve the stabilisation of slopes on Beira Alta Line, namely those affected by storms in the beginning of 2016.

Anti-corrosion painting works of overhead line posts on Cascais Line

These works viewed to repair and paint overhead line posts in this railway line which is adjacent to the sea, and therefore exposed to significant deterioration and corrosion.

The maintenance and renovation works performed allowed to achieve overall gains in the infrastructure's service levels. Namely, there was a positive evolution over the year in the number of speed reductions and consequent theoretical delays, as shown in the following graph, which does not consider the speed reductions required during the works:



INVESTMENT IN THE RAILWAY NETWORK

Marão Tunnel Undertaking

In 2016 the Undertaking of the IP4 – Marão Tunnel, which includes the International North Corridor of PETI 3+, was completed and inaugurated. During 2016, investment relating to these works **amounted to €11 million**.

The Marão Tunnel is part of the so-called 82-E82 European highway, which starts in Porto (Matosinhos) on the A4/IP4 and stretches up to Amarante, overlapping the current IP4. At Vila Real the IP4 was expanded into a motorway, extending the A4 to Bragança and Spain.

The A4 - Marão Motorway with a 30km length, links the municipality of Amarante (end of Brisa concession) to the municipality of (beginning of AETRANSMONTANA sub-concession), crossing Serra do Marão through Marão tunnel. This motorway significantly improves accesses to the regions of Trás-os-Montes and Alto Douro, and is part of the National Road Plan.

Among other investment works carried out in 2016, we point out the following:

EN 15 - Renovation works between Paredes (km 26+944) and EN 106 (km 29+444)

These works consisted in the widening of the carriageway to 2x2 carriageways, with a central reservation and footpaths on both sides. They also included the construction of bus stops and parking areas, improvements in existing intersections, drainage systems, signing, safety and other facilities.

CRIL - Buraca / Pontinha sub-stretch - complementary works - Repair of Damaia Canal

These works consisted in the repair of the Damaia Canal and respective connection to the Alcântara Canal, including the construction of a concrete chamber anchored in piles, serving for contention purposes.

EN10 - Bridge over River Trancão

These works consisted in the replacement of the Sacavém Bridge over River Trancão, on National Road 10, in Loures. The works viewed to restore safety conditions for both drivers and pedestrians, as the existing bridge dated from 1941 and was showing several structural weaknesses that justified its replacement.

4.4 – ROAD PARTNERSHIPS

IP's road activity includes all roads managed pursuant to public-private partnership (PPP), namely State Concessions and Sub-concessions.

Renegotiation of the Concession and Sub-Concession Contracts

During 2016, IP continued the renegotiation process of road PPP contracts as agreed by the Portuguese State within the framework of the Economic and Financial Assistance Programme, viewing to significantly reduce government expenses.

The negotiation process concerning all **State concession contracts** was concluded during 2015, leading to the signature of nine contracts corresponding to the Norte, Costa de Prata, Beira Litoral/Beira Alta, Grande Porto, Grande Lisboa, Interior Norte, Beira Interior, Algarve and Norte Litoral concessions.

These nine contracts were submitted to the Court of Auditors for appreciation, this Court having returned them with the indication that they were not subject to prior supervision and therefore were already in full effect.

As far as the **sub-concessions** are concerned, the stock of the situation of the negotiation process is as follows:

- In relation to the Baixo Alentejo Sub-concession, the Audit Court has still not issued its decision on the new sub-concession contract, following the Government's approval of the Negotiation Report;
- With regard to Algarve Litoral, Pinhal Interior and Transmontana sub-concessions, renegotiation processes were completed and changes to the sub-concession contracts were already agreed. The finalisation of respective negotiation process is pending approval by financial backers, the signature of final negotiation minutes, the issue of final reports by the negotiation committee and approval by the relevant entities;
- In the Baixo Tejo and Litoral Oeste sub-concessions, following the initial Memoranda of Understanding, the Negotiation Committee and the Sub-Concessionaires have already agreed on the financial models, and the last amendments to contract clauses are now being agreed, so that negotiation processes may finally be closed.
- As for the Douro Interior Sub-concessions, the terms of the new financial models and revision of contract clauses have not yet been agreed.

The negotiation process of sub-concession contracts should be concluded in the first half of 2017, except for the Douro Interior concession, which is expected to be concluded in the second half of the year.

Completion of the network under sub-concession

Seven sub-concession contracts are now under implementation, covering a total length of 1,732 km.

As summarised below, 1,435 km are operational, including the Douro Interior, Transmontana, Litoral Oeste, Baixo Tejo and Pinhal Interior sub-concessions, totalling 1088 km in length, involving considerable control and monitoring activity to be carried out by IP.

However, according to the renegotiation processes under way, the construction/repair of 135 km is currently on hold, and in the Algarve Litoral and Baixo Alentejo sub-concessions, there are 162 of works still to be completed.

Construction works in the network under sub-concession have continued in 2016, namely the construction of new sub-stretches in the Baixo Alentejo and Algarve Litoral sub-concessions, which should be completed in the 1st half of 2017.

The physical progress of each sub-concession at 30 December 2016 was 87.44% in the Algarve Litoral sub-concession and 95.18 % in the Baixo Alentejo sub-concession.

2016 Expenses

Payments made during 2016 relating to road concessions and sub-concessions totalled €1,241.3 million (excluding VAT), corresponding to a budget implementation of nearly 102%. It should be noted that the “peak” of payments relating to road partnerships was reached in 2016.

unit: Euro million (without VAT)

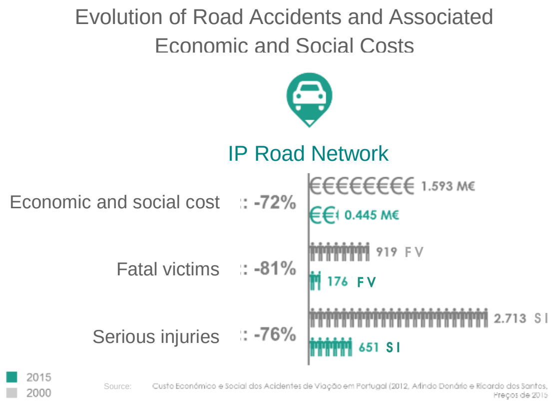
Concessions and Sub-concessions	Effective 2015	2016		
		Effective	Budget	Implementation %
Availability + Availability B	**593,2**	**679,9**	**670,5**	**101%**
Algarve	31,3	40,5	42,3	96%
Beira Interior	85,9	121,5	121,8	100%
Beira Litoral and Beira Alta	92,0	119,1	115,6	103%
Costa de Prata	49,5	55,8	53,2	105%
Greater Lisbon	25,8	29,4	28,4	104%
Greater Porto	77,8	80,5	78,3	103%
Interior Norte	104,9	75,7	75,8	100%
Norte	87,5	107,8	103,6	104%
Norte Litoral	38,6	49,6	51,5	96%
Contributions and Rebalances	**32,6**	**37,9**	**8,8**	**432%**
Major Repairs	**15,8**	**0,0**	**0,0**	
Concessions	**641,6**	**717,8**	**679,3**	**106%**
Availability + Service	**414,2**	**523,5**	**537,6**	**97%**
AE Transmontana	51,2	64,1	67,7	95%
Algarve Litoral	0,0	14,5	17,7	82%
Baixo Alentejo	0,0	59,3	61,9	96%
Baixo Tejo	67,8	69,3	69,5	100%
Douro Interior	82,1	80,9	81,4	99%
Litoral Oeste	128,7	116,2	115,7	100%
Pinhal Interior	84,4	119,1	123,8	96%
Sub-concessions	**414,2**	**523,5**	**537,6**	**97%**
Total	**1 055,8**	**1 241,3**	**1 216,9**	**102%**

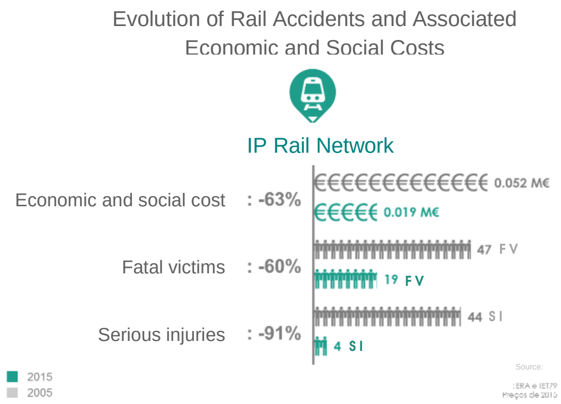
The overall deviation of €24.4 million in 2016 in relation to the budget is mainly explained by the compensation payable to Auto-Estradas do Atlântico S.A. (Oeste concession) in the amount of €29.7 million, as determined by the Arbitral Court.

05. RAIL/ROAD SAFETY

IP's vision is based on three structural pillars: **Sustainability, Efficiency and Safety**

The work developed by everyone at IP and former companies has decisively contributed to the relevant progress in the road and railway accident rate over the last few decades.

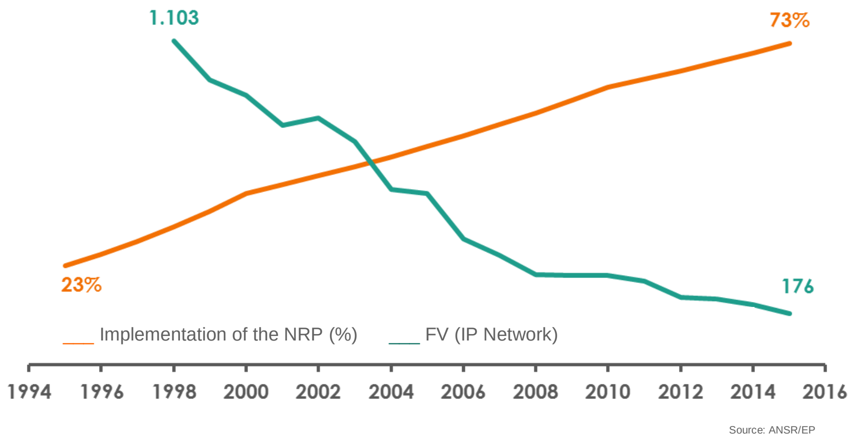




It should be said, moreover, that this performance was achieved against a backdrop of sharp rise in road traffic.

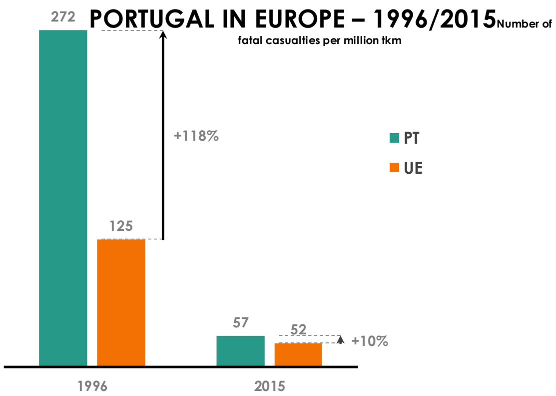
One of the main factors contributing to these results was the huge investment in transport infrastructures in the last 20 years, namely in better and safer roads such as motorways. The implementation rate of the National Road Plan is presently of 73% as against 23% in 1995.

These investments translated in huge social and economic advantages - they helped to spare thousands of lives, reduce the number injured and save millions of Euro. By way of example, if we had achieved the results of 2015 fifteen years before, we would have saved €7 billion, and avoided over 4 thousand fatal casualties and 210 thousand injured.



Recent indicators confirm this positive trend and Portugal is now closer to the European Union average.

ROAD SAFETY



Portugal's accident rate has evolved quite favourably over the last decades. In 1996, the number of fatal casualties per inhabitant was twice the European Union average; 20 years later, this indicator has fallen by 92%, though it is still 10% over European Union average.

As mentioned above, the National Road Network (NRN) under IP's and its predecessors' management decisively contributed to this decrease, particularly in the last 15 years, as Portugal reduced the number of accidents with injuries by 25% and the number of fatal casualties by 49%; the NRP under IP's management reduced by 56% the number of accidents with injuries and by 79% the number of fatal casualties.

Road Safety Plan

Road safety is one of IP's top priority areas. It has its own plan and budget - the **Road Safety Plan (RSP)**, which on a par with other intervention works in the network, including construction, renovation and maintenance, has contributed to the positive performance posted by Portugal's roads, namely the road network managed by IP, in terms of road accidents.

Among other things, the Road Safety Plan (RSP) takes into account the National Road Plan (NRP), and pays close attention to locations where a larger number and more serious accidents occur.

The approval of a new national road safety plan is now under way - **PENSE 2020 NATIONAL ROAD SAFETY PLAN 2020**, which will follow the National Road Safety Strategy (NRSS) which established as goal to place Portugal among the 10 European Union countries with the lowest accident rate by the end of 2015; the goal is to achieve a rate of not more than 62 fatalities per million inhabitants, equivalent to a reduction of 31.9% (2006 base). According to National Road Safety Authority (ANSR) data, in 2013 Portugal reached the goal set forth for 2015 of 62 fatal casualties per million inhabitants; the road network managed by IP Infraestruturas de Portugal, SA (IP) contributed the most to this favourable evolution.

At European level, the European Commission established as goal for 2020 to reduce the number of fatal casualties in EU countries' roads by 50% in relation to 2010, a goal which IP has also adopted to its network.

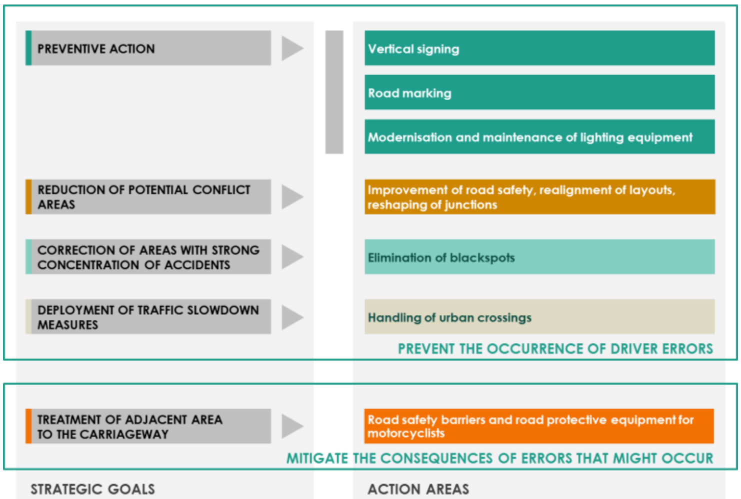
In addition to these public policy instruments to reduce road accidents, the Concession Contract entered with the State establishes that IP must continue pursuing goals to reduce the accident rate, and it sets forth specific objectives based on three indicators: number of black spots, accident severity index in built-up areas and number of fatalities, giving rise to penalties if not complied with.

IP annually prepares its Road Safety Plan (RSP) in order to pursue the national aim of fighting road accidents, guided by the legal documents mentioned above; the goals for road accident indicators; the objectives established in the concession contract; the defects detected in the road network in terms of safety; and available funds; this plan includes preventive and corrective measures to reduce accidents and improve safety and traffic conditions in the road network under management.

IP's road safety strategy is in line with PENSE2020 Proposal and with the strategies of most developed countries in terms of road safety, such as Sweden, based on the ethical imperative that *"nobody should die or become permanently disabled following a road accident in Portugal".*

This approach is based on the concept of forgiving road. Since it is recognised that road users will make errors and accidents will occur, the infrastructure must prevent and anticipate a driver's error, on the one hand, and on the other hand, minimise the error and any consequences arising therefrom.

In line with this approach, IP's Road Safety Plan (RSP) views to prevent the occurrence of driving errors and mitigate the occurrence of such errors, based on 5 strategic objectives:



In 2016 IP carried out 50 specific road safety actions involving a total amount of **€9.3 million,** meaning that preventive actions consumed over 90% of capital expenditure.

a. Road Safety Indicators

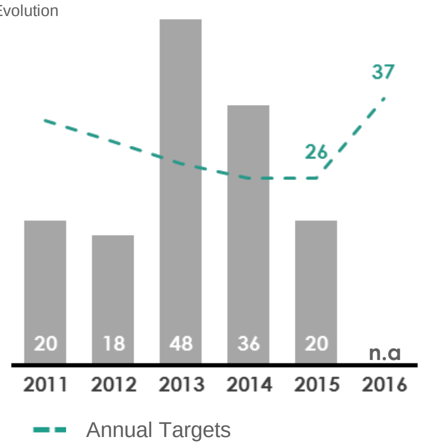
The Concession Contract (CC) established with the State defines objectives to reduce accidents, specifying three indicators: number of blackspots, accident severity index in built-up areas and number of fatalities.

IP has always met the goals established in its CC, except for the indicator of number of blackspots in 2013 and 2014. This situation is due to the fact that in 2013 IP widened its network, integrating stretches of Grande Lisboa and Douro Litoral concessions, which led to a significant rise in the number of blackspots (annual average increase of 37% in the number of blackspots recorded per year).

Figures for 2016 must be viewed as provisional as the ANSR has still not validated the road accident figures for this year. Note that goals established for 2016 and 2017 were revised and approved by Instituto da Mobilidade e dos Transportes (IMT).

BLACKSPOTS IN IP NETWORK

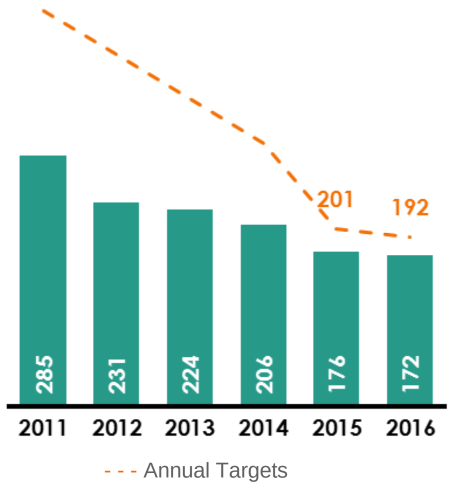
Evolution



According to ANSR's 2015 report, IP's network registered 20 blackspots, falling by 44.4% over the previous year. Likewise, the severity of accidents occurred in blackspots fell in 2015 as compared to 2014: 50.0% less fatal victims – 4 down to 2 - and 30.8 % less serious injuries – 13 down to 9.

FATAL CASUALTIES IN IP NETWORK

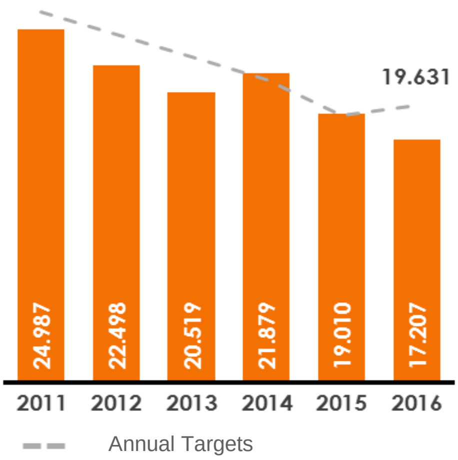
Evolution



In terms of serious accidents, including fatalities and serious injuries, in IP's network, there was a decrease in the number of Fatal Victims (-4) to 172 from 176 (-2,3%) and in Serious Injuries (-67), from 651 to 584. The goals established in terms of fatal casualties have been met by IP.

SEVERITY INDICATOR IN BUILT-UP AREAS WITHIN IP NETWORK

Evolution



In 2016 the severity indicator in built areas decreased by 9.5% over 2015. Note that the figure recorded in 2015 matched the goal laid down for the year (+0.4%). In 2016, it outperformed the goal by 12.3%.

b. Road Safety Inspections carried out in the year

Road Safety Inspections are among IP's key activities in the field of road safety; these are carried out by nationwide safety inspection teams, and allow to pinpoint defects and problems and propose corrective and cost effective measures.

The activity of Accident Prevention Centre gained strength since 2015, having inspected and analysed 106 accidents (with fatal casualties and serious injuries) occurred in IP's network, permitting to review possible causes and acting more efficiently in the network.

ROAD SAFETY INSPECTIONS – evolution

Type of inspections	2011	2012	2013	2014	2015	2016
Planned on the network (km)	320	250	450	345	122	61
Blackspots (no.)	30	20	18	44	34	15
Accident Accumulation Areas (no.)	43	42		23	14	0
Monitoring (no.)				21	9	0
Inspection to accident sites (no.)				10	66	40

RAILWAY SAFETY

Rail Safety Plan

IP's activity in the field of railway safety is supported by the approved Safety Management System (Letter of Approval of the Safety System no. 01/2012), according Decree law 260/2003 of 28 October, as amended by Decree law 231/2007, of 14 June, followed by Decree law 151/2014, in accordance with:

- Directive 2004/49/EC of the European Parliament and of the Council of 29 April 2004, relating to the safety on EC rail roads;
- (EU) Regulation no. 1169/2010, of 10 December, establishing a common method to assess the compliance with requirements to obtain a railway licence;
- EU Commission Regulation 1078/2012 of 16 November 2012, establishing a Common Safety Method for monitoring activity to be followed by IP.

In the field of railway safety, in line with IP's mission as manager of a reliable and safe railway infrastructure, the company develops the following activities:

- Promotion and development of railway safety policies as instrument to improve the performance of infrastructure management operations, encouraging a close relationship with all stakeholders, whether internal or external to IP;
- Definition and disclosure of railway safety indicators, promoting the analysis and monitoring of deviations, with the purpose of acting on respective causes, in order to maintain adequate safety levels of rail infrastructures and operations;
- Development, coordination and monitoring of investigation of railway accidents and occurrences;

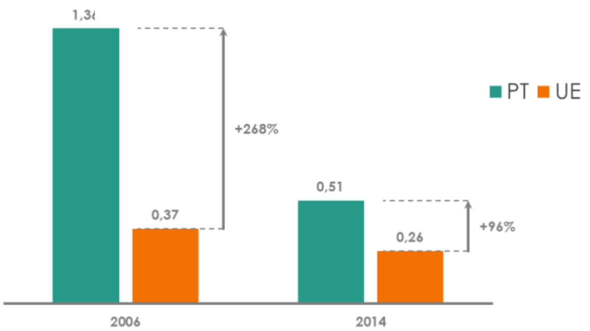
- Preparation of procedures and rules to support and frame critical activities from the point of view of railway safety;
- Issue of regulatory and technical opinions on railway safety (for instance relating to works carried out in the proximity of railways, and contract specifications);
- Support to the activities developed by the safety authority, including in what concerns the processing of Special Train Movement Permits.
- Use of a common safety method to determine and assess risks, and carry out inspections (on foot, on board trains or on board maintenance, verification of works in prohibited tracks, follow-up of traffic control command) and audits viewing to identify risk situations and establish mitigating measures to minimize occurrences (incidents/accidents) with impact on safety;
- Management and monitoring of the Wagon Maintenance Management System (certification valid until 2019, subject to annual review);
- Promotion of Service Authorisation processes, in accordance with technical and procedural specifications relating to the design, construction, putting into service, re-adaptation, renovation, operation and maintenance of the various elements which make up the railway system;
- Development and coordination of safety certification procedures relating to rolling stock (running on operating tracks or closed tracks and checking of machinery under operating conditions), preparation of movement documents, ensuring consistency in processes and compatibility of the different elements of the railway infrastructure.

a. Rail Safety Indicators

Rail safety indicators improved significantly in Portugal as compared to remaining EU28 members, as result of the rail safety activities carried out by IP and railway operators. In 2006 the rail accident rate, measured in terms of fatal victims per million of train km was almost four times above EU28 average. In 2014 (latest data made available by ERA), Portugal improved its accident rate performance.

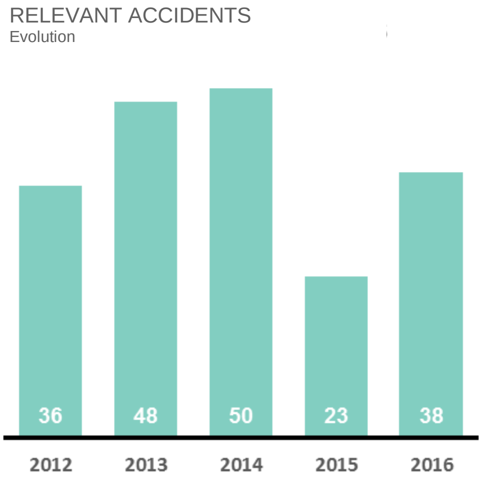
PORTUGAL IN EUROPE – 2006/2014

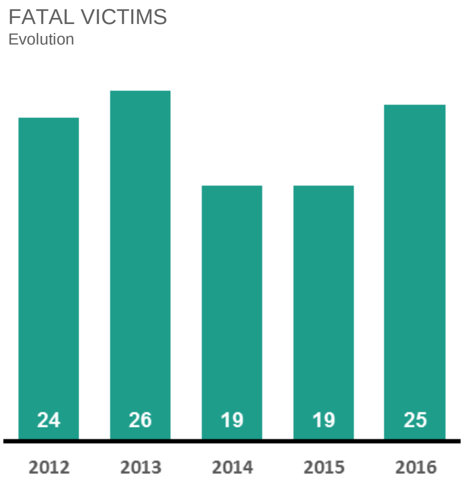
Number of fatal victims per million train km



Portugal's safety indicators performed worse in 2016 as compared to 2015, as the number of Significant Accidents increased by nearly 65%.

In what concerns the causes for the accidents, the majority of Significant Accidents is due to factors external to the rail system, caused by third-party negligence and intrusion.





In terms of the consequences of Significant Accidents, note that the 25 fatalities recorded were not caused by the operation: 68% of the victims are trespassers and 32% are people who disobeyed level crossing rules.

b. Rail Safety Inspections carried out in the year

As mentioned above, Rail Safety Inspections are one of IP's key activities; they allow identifying any non-conformity or risk situation, and propose mitigating measures accordingly.

In 2014, 2015 and 2016 a large part of the railway network was subject to safety inspections.

RAIL SAFETY INSPECTIONS – evolution

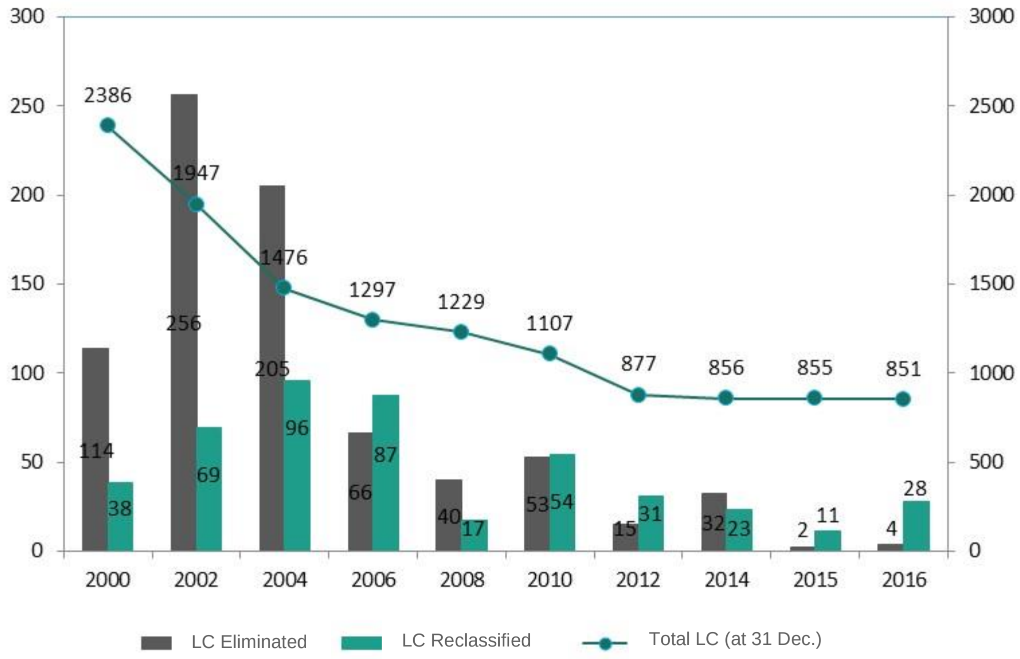
Type of inspections	2014	2015	2016
Pedestrian (no./km)	25 / 119	19 / 104	12 / 65
Train (no./km)	6 / 877	12 / 1195	3 / 406
Regulatory (no./km)	3 / 7	1 / 2	1 / 2

Removal of level crossings

Under the terms of the Plan for the Removal and Re-classification of Level Crossings (LC) - as provided under the terms of article 4 of Decree-Law 568/99 of 23 December - 32 interventions were carried out in 2016 (removal of 4 level crossings and re-classification of 28 level crossings), involving an investment of €836 thousand.

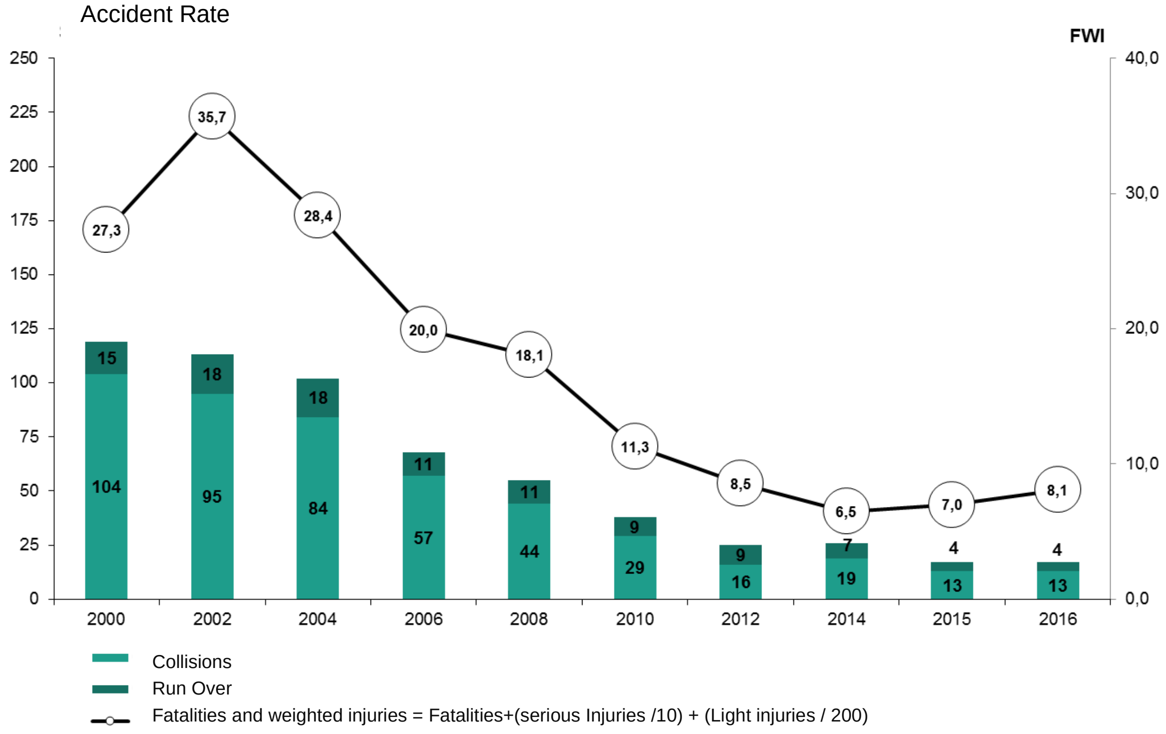
At the end of 2016 there were 851 LC in the universe of railway lines in operation (IET50), of which 460 (54%) are equipped with active protection, whether level crossing keeper or automatic signing. At the end of 2016 the average level crossing density was of 0.334 LC/km.

The following graph illustrates how the number of Level Crossings evolved over the last few years:



"**Stop, look both ways and listen before crossing**" is the name of the awareness-raising and safety campaign which IP has pursued over the years, having, as usual, celebrated the "International Level Crossing Safety Day" by means of a campaign viewing to raise pedestrians awareness to the risks associated with the crossing of LC. Posters saying "don't spoil your holidays" were affixed during the Summer season in 19 LC close to beaches and other leisure areas, where no accidents were recorded in 2016.

Over the last few years, the accident rate at level crossings has evolved as follows:



The removal and improvement in safety conditions of level crossings has contributed to a sustained decrease in the accident rate (by 89%), whereas the fatalities rate dropped by 69% as compared to 1999.

On the other hand, 76% of accidents recorded in 2016 occurred in LC equipped with active protection, which attests for a clear disrespect for existing signs and an irresponsible citizen behaviour, which should be made accountable.

In view of these evidences, on par with other field-level actions, IP will continue to promote the "Stop, look both ways and listen before crossing" campaign and will continue involved in other institutional activities, such as the "International Level Crossing Safety Day" which will be held on 11 June 2016.

IP is also committed to continue implementing its action plan to reduce accidents at railway crossings and complete the actions defined within the scope of PETI 2020+, including reducing accidents in LCs by over 40% until 2020 as against 2013, i.e. less 17 accidents per year.

06. ENVIRONMENTAL SUSTAINABILITY

ENVIRONMENT

At environmental sustainability level, in 2016 IP consolidated its environmental management processes in the road and railway contexts.

These processes cover the whole life cycle of infrastructures, from planning, to design project, construction, operation and maintenance.

Eco-design principles were reflected in the projects, introducing, whenever possible, the re-use and recycling of raw materials, and reconciling environmental protection options with other intervention needs, in line with the principles of the Circular Economy promoted by the EU.

It should be noted that the environmental management activities developed in 2016 during project, construction and maintenance phases followed the best environmental practices, resulting in the optimisation of the environmental investment.

We continue to contribute to the preservation of the environment and biodiversity, directing the company's growth to environmentally sustainable results.

From a point of view of sustainable management of the operation/maintenance of the road and rail networks and seeking to improve services provided in this field, we systematised environmental management activities, using the "SIG Empresarial" software.

The company pays close attention to landscaping, taking into account safety requirements to protect both road users and neighbouring properties, and takes the necessary steps to prevent fires and protect forests in adjacent areas to the road and rail networks.

Landscape management includes tree pruning, felling and new plantations.

In 2016 the company's experts surveyed around 2519 km of roads and carried out 687 inspections to the railway network.

IP's participation in the ECO SUSTAINABLE RAIL project is now ensured, following the approval in August 2016 of the company's application within the framework of Portugal 2020. The project views the development of eco-sustainable cross-ties made up of mixed plastics to replace existing wood cross-ties, according to technical requirements and specifications.

A joint-venture was set up to develop this project, joining entities with different expertise, namely the leading company EXTRUPLÁS, PIEP (Innovation in Polymer Engineering) and Centre for Residue Utilisation (CVR), with the technical support of IP.

07. ECONOMIC AND FINANCIAL PERFORMANCE

IP's results at the end of 2016 attest to a favourable financial performance, which had already started in 2015.

Positive net results of €26.3 million, as against net profit of €12.5 million in 2015, meaning an improvement of €13.8 million (110%). (Net) financial expenses decreased by €65.2 million, thanks to a reduction in financial debt and to share capital increases.

During 2016 IP posted **positive operating results of €343.7 million**, which fell by €47.7 million over 2015. EBITDA totalled €615 million.

7.1 OPERATING INCOME

Core income

The core income of IP, according to the current remuneration model, is made up of the Road Service Contribution (RSC), tolls and User Fee charged for the services provided within the framework of the Rail Network Directory.

In 2016 the core income of IP increased by 2.5% over the same period of the previous year (by nearly €24.7 million).

unit: thousand Euro

Core income	2015	2016	Change 16/15	Δ% 16/15
Road	**929 823**	**955 020**	**25 198**	**3%**
Road Service Contribution	671 040	673 967	2 927	0%
Tolls	258 783	281 054	22 271	9%
Railway	**78 159**	**77 680**	**-479**	**-1%**
User Fee (UF)	68 470	67 701	-769	-1%
Capacity requested and not used	1 359	712	-647	-48%
Additional rail services	7 476	8 629	1 153	15%
Auxiliary services	757	637	-119	-16%
Total	**1 007 981**	**1 032 700**	**24 719**	**2,5%**

Road Service Contribution (RSC)

The Road Service Contribution (RSC) created by Law no. 55/2007 of 31 August is the consideration paid by users for using the national road network. It is levied on gasoline, auto diesel and LPG (as from 2014) subject to tax on oil and energy products (ISP) that are not exempt from such tax.

The RSC is IP's main income, accounting for almost 65% of the company's core income. We mention an increase by €3 million over 2015 in diesel consumption (+1.0%), which contrasts with a decrease in gasoline consumption (1.4%).

Tolls

Income from tolls increased 9% in relation to the previous year, reaching €281.1 million.

This performance is driven by the gradual recovery in motorway traffic, on a par with increased efficiency in toll collection. The increase in efficiency in toll collection is explained by the fact that 90% of tolls from Multi-Lane-Free-Flow systems (MLFF) used on-board units. Additionally, we point out the following events influencing the year's performance:

- Opening to traffic of the Marão Tunnel Undertaking (A4 - Amarante/Vila Real) on May 8, 2016, with the deployment of a Multi-Lane-Free-Flow system (MLFF). In 8 months, an average of 317 thousand cars passed through the system, generating overall revenues of €4.2 million in tolls, nearly 90% of the traffic potential.
- The exercise of the right to share the benefits of toll revenues in the Norte Litoral, Algarve and Interior Norte concessions, pursuant to respective concession contracts, following the renegotiation of road PPP contracts.
- Entry into force on August 1, 2016, of Ministerial Order 196/2016, of 20 July which reduced toll rates by 15% (less €0.30 in average) in the A22, A23, A24 and A25 motorways (corresponding to the Algarve, IP/Beira Interior, Interior Norte and Beira Litoral e Alta concessions) and the A4, belonging to the AE Transmontana sub-concession.
- The sharing of revenues with IP, as provided in Brisa Concession contract, where annual tariff revision exceeds the rise in the CPI by 90%, in an annual amount equivalent to 85% of the exceeding amount. In 2016 as compared to 2015, there was a decrease by 26% in revenues thus achieved, mainly because the Estádio Nacional / Oeiras sub-stretch on Brisa's A5 motorway ceased to have a different toll rate according to the revision percentage, and therefore did not give rise to the sharing of revenues with IP.
- Completion of another phase in toll collection management on the A21 motorway, which closed the year with toll revenues of over €6.5 million.
- The number of subscribers of the Easytoll payment system grew by 12% over 2015, with 420 thousand new subscriptions in 2016, most of which (72%) associated with the Algarve and Guarda toll plazas. The use of the MLFF system for the collection of tolls to foreign licence plate vehicles is successful, as well as the use of electronic in-board devices in Spanish cars, made possible by the interoperability of toll systems deployed throughout the national motorway network.

User Fee

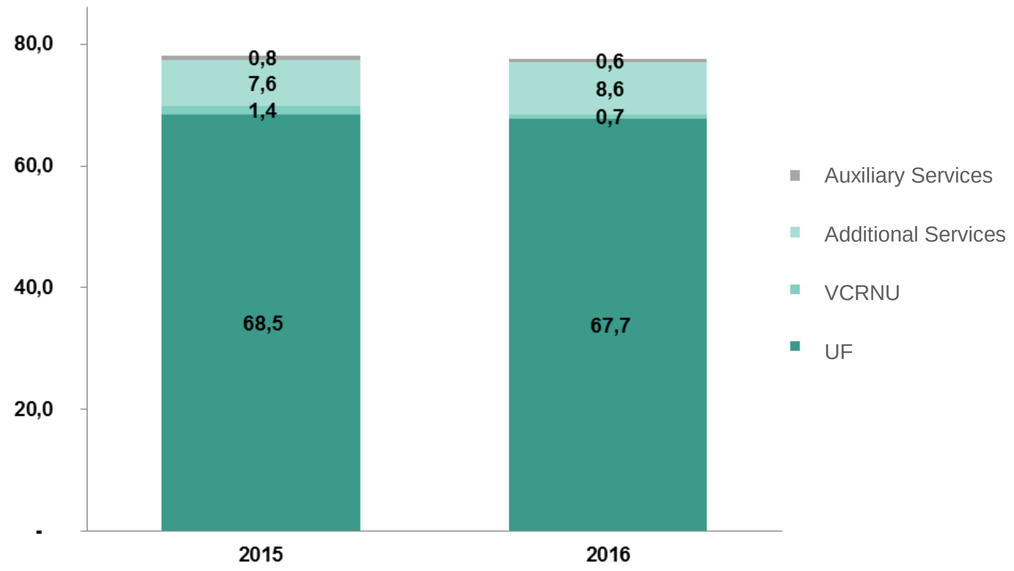
Income from the rail user fee totalled €77.7 million in 2016, declining by 0.6% in relation to the previous year. The largest slice of this amount stems from services associated with access to the railway infrastructure – "Minimum Access Package" and "Access to Service Facilities".

The decrease in the use of the railway infrastructure, as shown by the 1.1% decline in revenues from the User Fee (UF), which accounts for nearly 87% of the total amount recorded, was entirely due to the freight segment, as the reduction in capacity used by operator MedRail (-11.9%), was only partly offset with an increase in capacity used by Takargo (+20.0%). However, it should be noted that the share of this segment accounts merely for 12% of overall revenues from user fees.

The location of the decrease in user fee points to changes in channel mostly from/to Sines, in connections to the Bobadela and Leixões terminals, with less trains though some longer trains (over 600 metres).

Revenues stemming from the passenger train segment - in the amount of €60 million, did not differ in relation to 2015, accounting for 88% of total revenues.

In 2016 the valuation of capacity requested and not used is considerably lower as compared to 2015 (-45.2%), which is mostly explained by the absence of strikes during the year.



The performance of the passenger train segment did not differ in relation to 2015. The share of this segment accounts for 88% of total revenues from the use of the infrastructure. About half of passenger train revenues (43% of total User Fee revenues) are generated by urban and sub-urban trains.

On the other hand, income from the movement of freight trains dropped by 9.5% over 2015, but the segment kept its share of 12% of total revenues from network usage. In this segment, operator Medway (formerly CP Carga), accounts for 86% of generated revenues.

Besides path availability to run trains, IP provides other rail services, such as traction power, parking of rolling stock, shunting, performance improvement and supply of water and power. Total income from these services in 2016 totalled €9.3 million, increasing by 11.2% over 2015.

Compensatory Allowances

unit: thousand Euro

Core income	2015	2016	Change 16/15	Δ% 16/15
Compensatory Allowances	28 770	40 650	11 881	41%

Income from compensatory allowances in 2016 totalled €40.7 million, i.e. 41% above the amount posted in the previous year.

This amount is higher than predicted in the budget provided for in Council of Ministers Resolution 10-A/2016, and the Programme Contract entered into by IP and the Portuguese State in March 2016, concerning the rendering of public railway services.

Other income

unit: thousand Euro

Other income	2015	2016	Change 16/15	Δ% 16/15
State Grantor - Revenue LDI	**15 808**	**19 992**	**4 184**	**26%**
Construction contracts	**286,1**	**97,8**	**-188,3**	**-66%**
Construction of new infrastructures	118 963	3 577	-115 387	-97%
Network under sub-concession	82 858	30 388	-52 470	-63%
Capitalized financial expenses	84 307	63 876	-20 431	-24%
Other rendered services	**11 171**	**9 475**	**-1 695**	**-15%**
Rail Freight Terminals	3 167	2 601	-565	-18%
Licensing	1 412	1 996	584	41%
Service Areas Operation Right	1 943	1 982	39	2%
Technical road channel	2 863	1 357	-1 506	-53%
Other services	1 786	1 538	-248	-14%
Other Income and gains	**96 610**	**93 005**	**-3 605**	**-4%**
Investment subsidies	62 388	64 317	1 929	3%
IPT Concession Rent	2 991	3 092	101	3%
IPP Concession Rent	5 519	4 255	-1 264	-23%
Disposal of Property	4 210	1 333	-2 877	-68%
Sale of waste	660	2 099	1 438	218%
Other income	20 817	17 909	-2 908	-14%
Total	**409 717**	**220 313**	**-189 404**	**-46,2%**

Other Income fell by 46.2% in 2016 as compared to 2015, totalling €220 million. This decrease was mainly due to a deceleration in road construction activity (-66%) following the completion of the construction of the Marão tunnel and delays in the finalisation of the construction of the sub-concession network namely, the Algarve Litoral and Baixo Alentejo sub-concessions.

State Grantor

Amounts recorded under Caption State Grantor (LDI Revenue) correspond to internal works debited to the long duration infrastructure investment activity, namely materials and labour for investment and respective overheads, under the terms of IFRIC12. The increase by 26% in relation to 2015 was due to recognition of materials for investment, with impact on expenses associated with the cost of goods sold.

Construction contracts

This caption includes income from the construction of the National Road Network (NRN) as provided in the Concession Contract, including all road construction activities carried out directly or via sub-concessions.

Note the decrease in construction activity of new road infrastructures (-97%) over 2015, following the completion of the construction of Marão Tunnel. Sub-concessions' construction activity also recorded a significant rise (-63%) in relation to the previous year, with consequent decrease in capitalized financial expenses (-24%).

Railway Terminals

According to Joint Order of the State-Secretaries for Finance and for Infrastructures, Transports and Communications dated 23 April 2014, the management of rail freight terminals formerly in the hands of CP Carga was transferred to REFER, and the said terminals were integrated in the public railway domain.

2016 was the first year in which the Bobadela and Leixões Terminals' clients were charged directly by IP (in 2015 billing was in charge of CP Carga). The need to adjust prices to the market and the opening of a private terminal close to the Bobadela terminal led to a decrease in revenues by 18% over 2015.

Licensing

Road operation licensing is provided in a new legal framework for the Public Road Domain (PRD) - Law 34/2015, of 27 April, approving the new National Road Network Statute and Ministerial Order no. 357/2015, of 14 October, which lays down the fees chargeable by the Road Administration for the services rendered to third parties and the private use of the PRD.

Notwithstanding the changes introduced by the new laws, in 2016 the number of applications for road licences totalled 8,744, corresponding to an increase of 4% over 2015. These applications concerned reconstruction, changes and expansion of buildings, use of road platform, road accesses, occupation of the subsoil of roads and licences for fuel stations.

In the field of railway licensing, in 2016 the company received 332 applications, 66 of which concerned crossings of the railway channel, and 266 were made by owners of property adjacent to the railway, within the scope of RJUE procedures.

This caption showed an amount of €2 million, increasing by 41.4% over 2015.

Technical road channel

The management of the technical road channel, which recorded revenues of €1.4 million in the year, was transferred to IP Telecom.

Investment subsidies

Subsidies received from the Portuguese State and the European Union are recognised at fair value when there is reasonable certainty that the terms for receiving the subsidy will be complied with.

Investment subsidies considered in 2016 concern the Cohesion Fund financing to repay expenses relating to investment projects (Marão Tunnel and CRIL - Buraca/Pontinha) within the framework of the 2007- 2013 National Strategic Reference Framework (NSRF).

Concession of Commercial Areas

This income stems from the rent associated to the concession contract entered between IP and IP Património (IPP) for the operation of public domain assets; it consists of a share of turnover deducted of respective operating expenses and supplies and services of third parties payable by IPP. The turnover of Commercial Areas dropped by 23% over the previous year, due to a decrease in the rate used for determining the concession rent payable (from 60% to 45%), following major changes in the scope of IPP’s activity, which now includes the management of assets and commercial activity associated with the road infrastructure, as well as services relating to road expropriations.

Concession of Telecommunications

The rent associated with the concession contract between IP and IP Telecom (IPT) for the operation of the telecommunications infrastructure corresponds to an annuity equivalent to 30% of turnover to third parties, except for the technical road channel, which had a rental rate of 71% in 2016.

There was a slight increase in relation to the previous year (+3%), following the inclusion of the rent associated with the technical road channel in the calculation of the rent, despite the decrease in IP Telecom turnover.

Disposal of Property

Revenues from the disposal of property dropped sharply in 2016 (-€2.9 million), partly due to a change in strategy, as the company decided to favour leases rather than selling.

Sale of waste

The implementation of this budget heading recorded a favourable deviation of €2.4, as result of the withdrawal of ferrous waste in deactivated channels in several rail lines (Leste, Cáceres, Évora and Algarve and Sul).

Income on subsidiaries

unit: thousand Euro

Gains/Losses on associates	2015	2016	Change 16/15	Δ% 16/15
Gains/Losses on associates	2 158	-20 240	-22 398	-1038%

In 2016, the change recorded in impairment and income/(expenses) in subsidiaries and associates resulted from the conversion of partners' loans into equity in the amount of €24.8 million in subsidiary GIL (with no impact on results). IP Telecom paid €4 million in dividends.

7.2 OPERATING EXPENSES

unit: thousand Euro

Operating expenses	2015	2016	Change 16/15	Δ% 16/15
Cost of goods sold	413.854	259.728	-154.126	-37%
External supplies and services	246.207	257.028	10.821	4%
Maintenance, Repair and Safety of the Road Network	*95.398*	*100.899*	*5.501*	*6%*
Maintenance, Repair and Safety of the Railway Network	*56.794*	*56.046*	*-748*	*-1%*
Other supplies and services	*94.015*	*100.083*	*6.068*	*6%*
Personnel expenses	111.779	123.228	11.450	10%
Impairments (losses/reversals)	10.173	-16.008	-26.181	-257%
Expenses/reversals of depreciation and amortisation	260.735	271.301	10.566	4%
Provisions (Increase/Decrease)	5.897	19.992	14.095	239%
Other expenses and losses	8.549	14.456	5.908	69%
Total	**1.057.192**	**929.725**	**-127.467**	**-12%**

IP's operating expenses fell 12% over the same period of the previous year (by nearly €127 million).

Cost of goods sold

In the period under review, expenses with costs of goods sold fell by 37% over 2015, as result of a sharp fall in new road infrastructures construction activity (-97%), following the completion of the Marão Tunnel, and delays in the physical evolution of ongoing works in the network under sub-concession (-64%). Conversely, the amounts received by IP relating to State concession tolls (net of collection charges) grew by 5% over 2015, in line with the increase in tolls. Consumption of materials for maintenance works and investment in railway infrastructures rose by 37% in relation to 2015.

Supplies and Services

Maintenance, Repair and Safety of the Road Network

unit: thousand Euro

Maintenance, Repair and Safety of the Road Network	2014	2015	2016	Δ% 16/15
Regular road maintenance	53 000	53 000	53 000	0%
Road safety	11 390	6 843	9 304	36%
Current road maintenance	33 504	35 555	38 595	9%
Total	**97 895**	**95 398**	**100 899**	**6%**

Regular Maintenance of Roads corresponds to the recognition of the increase in IP's responsibility for the expenditure required to maintain the service level in roads and engineering structures imposed by the Concession Contract. The annualised cost of the programmed maintenance works required to maintain the network’s average quality index at the same level as when the network was received (a stipulation of IP’s Concession Contract), which is calculated based on technical assessments of repair needs and an index of the average quality of road and engineering structures, totalled €53 million in 2015.

New **Road Safety** activities are as established in the Road Safety Plan, comprising vertical and horizontal signing, stoplights and safety barriers, among other; in 2016 expenses relating to these activities totalled €9.3 million, increasing by €2.5 million (36%) in relation to 2015.

Current Maintenance corresponds to expenses for the year with current maintenance in roads and road related structures to maintain traffic comfort conditions and prevent the deterioration of the roads and the quality of the service. In 2016 expenses with current maintenance totalled €38.6 million (+9% over 2015).

Maintenance, Repair and Safety of the Railway Network

IP has several service contracts in force to ensure the maintenance and repair of the National Railway Network.

Most of these contracts are multi-annual and cover intervention works in the fields of systematic preventive maintenance (SPM), Condition-based Preventive Maintenance (CPM) and Corrective Maintenance (CM), of tracks, signing, overhead lines, low voltage, substations, civil works, level crossings, lifts and escalators.

These contracts for maintenance services comprise:

- Contracts for maintenance services at national level, covering more than one regional organisational unit;
- Contracts for maintenance services, developed centrally and divided into several batches, circumscribed to the regional organisational units;
- Contracts of regional/local scope.

The following table shows the performance according to area, in 2016, which decreased by 1% in relation to 2015:

unit: thousand Euro

Maintenance, Repair and Safety of the Railway Network	2014	2015	2016	Δ% 16/15
Tracks	23 135	18 844	21 159	12%
Signalling	14 390	14 689	14 311	-3%
Telecommunications	12 494	11 908	8 210	-31%
Overhead line	5 211	4 901	5 058	3%
Civil works	2 514	1 300	2 602	100%
Low tension	1 318	877	1 232	41%
Emergency train	1 860	1 365	741	-46%
Recovery of materials	495		383	
Sub-stations	701	704	604	-14%
Lifts and escalators	985	960	832	-13%
Engineering services	1 782	801	257	-68%
Level Crossings	353	361	413	15%
Engineering works	375	47	237	401%
Other		38	7	-82%
Total	**65 612**	**56 794**	**56 046**	**-1%**

The main area of railway maintenance is track maintenance, which together with overhead line maintenance account for nearly 50% of total railway maintenance. Maintenance of signing and telecommunications systems account for 26% and 15% of total maintenance expenses recorded in 2016.

Other external supplies and services

In 2016 Other External Supplies and Services hovered around €100 million, rising by 6% in relation to 2015; this performance was mainly due to an increase in sub-concessions operation and maintenance expenses, and expenses with toll collection, which increased by 10% and 16% respectively:

unit: thousand Euro

Other supplies and services	2015	2016	Change 16/15	Δ% 16/15
O&M EP Sub-concessions	23 216	25 654	2 437	10%
Toll collection - Concessions	17 194	19 890	2 696	16%
RSC Collection costs	13 421	13 479	59	0%
Electric power	8 427	8 884	457	5%
Fees and related expenses Special. works	4 793	2 118	-2 675	-56%
Traction Power	5 071	6 466	1 395	28%
Car fleet	4 913	4 982	69	1%
Surveillance	5 022	4 883	-139	-3%
IT	2 648	2 722	74	3%
Cleaning	2 186	2 292	106	5%
Travelling and accommodation	329	262	-68	-21%
Transport of personnel	439	533	94	21%
Communications	562	406	-156	-28%
Other supplies and services	5 792	7 512	1 720	30%
Total	**94 015**	**100 083**	**6 068**	**6%**

O&M - Sub-concessions

Expenses with the operation and maintenance of sub-concessions translate the recognition in the accounts of expenses with the operation and maintenance carried out by the sub-concessionaires within the scope of the sub-concession contracts in force.

Increase in these expenses in the period under review (10%) in relation to 2015, reflects the evolution of O&M expenses foreseen in the financial models of sub-concession contracts, and are in line with estimates for the period.

Toll Collection in Concessions

This caption includes the payment of a variable fee and the monthly adjustment of accounts (cost offsetting) of the tolled network.

In 2016 this caption posted an increase by 16% over the previous year, in line with the favourable performance of toll revenues.

Expenses relating to the collection of the Road Service Contribution (RSC)

The RSC collection costs correspond to 2% of the RSC which is withheld by the Tax Authorities for providing the service of calculating and collecting this contribution. Collection expenses are a share of the amount charged, hence they evolve in line with respective revenues. As compared with the same period of the previous year, this caption kept stable at €13.5 million.

Electric power

Consumption of electric power rose by 5% in 2016 as compared to 2015, due to expenses with lighting in the Marão Tunnel.

Traction Power

IP provides electric power to rail operators for traction of rolling stock. Expenses with traction power are totally offset as the traction power supplied is subsequently invoiced to users. In 2016 traction power expenses totalled €6.5 million, increasing by 28% over 2015, following the restatement of invoices relating to 2015.

Fees, Consultancy Services and Other Specialised Works

In 2016 expenses with Fees, Consultancy Services and Other Specialised Works totalled €2.1 million, i.e. 56% less than in the previous year.

This deviation is explained by the non-fulfilment of several actions that were foreseen in the budget, namely the protocols with IP Engenharia concerning technical standards (€660 thousand) and internationalisation processes (€725 thousand) that did not go through, following the reorganisation of the IP Group, and the integration of the employees assigned to the Engineering Area IP (Engineering and Environment Department).

Car fleet

Expenses with the car fleet remained stable at €4.9 million.

Anyway, following the merger, in 2015 the company had to re-organise and re-define its car fleet strategy, in order to continue reducing costs, without jeopardizing effective operating needs.

Surveillance

Surveillance costs comprise mainly expenses with surveillance services contracted for IP' administrative facilities and operating centres, and other related expenses such as access controls, maintenance of fire extinguishers and other equipment and services.

In line with its streamlining policy, the company reduced surveillance costs by 3% over the previous year.

IT

In the information technology area, during the year under reviews, information systems which support the Company's activity and different departments (financial, logistics and HR areas) were duly updated and consolidated.

During 2016 the company spent approximately €2,7 million in information systems - mainly software licences (€17 million), which is 3% more than in the previous year.

Remaining expenses account for less than 10% of the Goods & Services Account.

Personnel Expenses

unit: thousand Euro

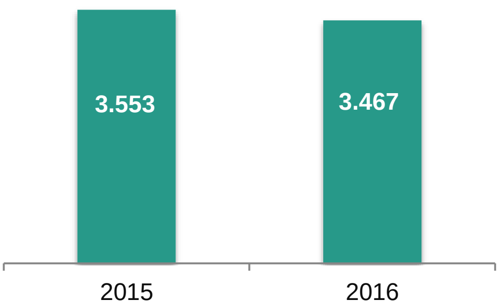
Personnel Expenses	2015	2016	Change 16/15	Δ% 16/15
Personnel Expenses	110 683	119 830	9 147	8%
Redundancies	1 096	3 398	2 303	210%
Total	**111 779**	**123 228**	**11 450**	**10%**

The 10% increase in staff costs during the year was due to the following reasons:

- Gradual reversal of remuneration reductions by 20% every quarter until full cancellation in October 2016;
- Recognition of amounts owed to employees through the inclusion of average variable allowances (extra hours, work in non resting days) in the holiday bonus from 1997 to 2014, with a total impact of €8.2 million, including respective social charges;
- Increase in rescission by mutual agreement.

Within the scope of the consolidation of the merger process, various adjustments were made in the allocation of employees to the different companies of the Group; notwithstanding, the number of employees decreased by 86 (-2.4%) over the previous year, as shown in the following table.

Evolution of the Staff as of 31 December.



Other Expenses and Losses

In 2016 Caption Other Expenses totalled €14.5 million, showing an increase over 2015 by approximately 69%.

This caption consists mainly of the fee payable to the Regulator (AMT) in the amount of €3 million, plus €462 thousand in the contribution to the "*Implementation of rail freight corridor* n°4 (CFM4)" project, plus €3.5 million in irrecoverable debt from impairment, €3 million in indemnities and €1 million concerning the reinstatement of the financial balance in intra-group relations of IP and IPE.

Provisions and Impairment

In 2016 provisions and impairment recorded a significant decrease in relation to the previous year, as a result of: i) reversal of impairment at GIL in the amount of €-24.8 million and other receivables and debtors in the amount of €3.7 million; ii) Impairment of partners' loans paid to GIL (€10.4 million); iii) Provision for the ongoing lawsuit relating to the VAT payable on the RSC (€13.6 million) and other pending legal proceedings (€9.4 million).

7.3 INVESTMENT

unit: million euro

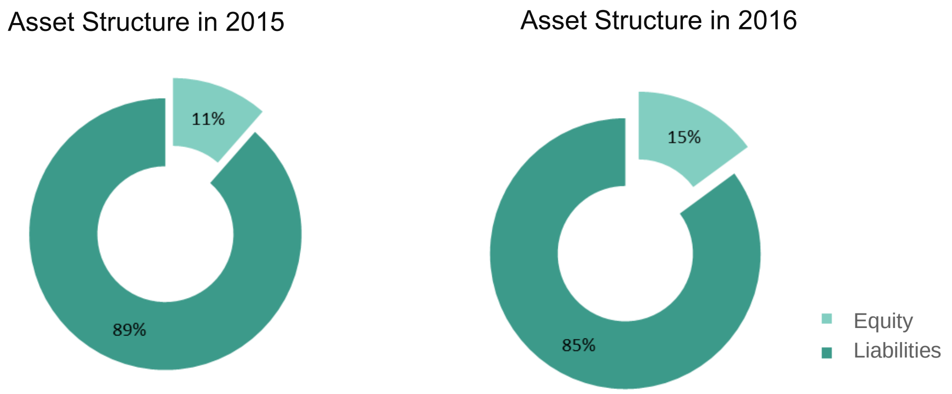
Network Intervention Plan	2015	2016	?%
Ferrovia 2020 Investment (Rail)	6,4	25,5	297%
PETI3+ invesment (road)	131,3	11,1	-92%
Investments PETI3+	**137,7**	**36,6**	**-73%**
Other railway investments	32,4	13,9	-57%
Other road investments	22,4	13,3	-41%
Other investments	**54,8**	**27,2**	**-50%**
Management supporting investments	2,4	3,8	59%
Total	**194,9**	**67,6**	**-65%**

Investment in the rail and road networks up to 31 December 2016 totalled €67.6 million, which is only 51% of the budgeted amount, falling by 65% over the previous year. Amongst developed activities, we highlight the completion of **Marão Tunnel -** which recorded a budget implementation of €11 million and the start-up of works in the**North Line - Alfarelos-Pampilhosa** (North-South Corridor of Ferrovia 2020), with a budget implementation of €15.2 million in 2016.

During the period under review, the amount in subsidies received by IP from community funds for the development of the railway infrastructure was €89.4 million, consisting of €37 million from the Cohesion Fund to repay expenditure relating to the NSRF plan for the 2007-2013 period, and €52 million relating to the pre-funding of the CSF plan for the 2014-2020 period. Additionally, the company received €3.8 million from funding within the scope of the investment plan known as PIDDAC.

7.4 EQUITY STRUCTURE

At the end of 2016 Total Assets amounted to €27,382 million, comprising mainly intangible assets made up of the road network and “Grantor - State - Account Receivable” relating to the value of the Long Duration Infrastructure Investments (LDI) in the railway network.



Equity totalled €4,084 million (15% of assets) and total liabilities amounted to €23,298 million (85% of assets). We point out the capital increase carried out during the year under review, in the amount of €950 million in cash, directed to cover capital expenditure (€711.7 million) and the debt service (€238.4 million), (except for the debt service relating for State loans); Credit conversion operations initially planned did not take place.

unit: thousand Euro

Equity Structure	2015	2016	Δ%
Assets	**27 060,4**	**27 381,8**	**1%**
Non current	19 826,0	20 033,9	1%
Current	7 234,3	7 347,9	2%
Equity	**3 107,9**	**4 084,2**	**31%**
Liabilities	**23 952,5**	**23 297,6**	**-3%**
Non Current	19.519,0	18.113,7	-75
Current	4.433,9	5.183,9	17%

Assets increased by €321 million in relation to the previous year (+1%), despite a decrease in Cash and cash equivalents by €144 million. In what concerns non-current assets, we highlight the increase in intangible assets (concerning the rights emerging from the Road Concession Contract), with €631 million of expenditure during the year (of which €576 million concern State concessions), plus €255 million in depreciation for the year and an amount of €164 million resulting of the transfer to the sub-concessionaire of the investment subsidies received for the construction of the Marão Tunnel. Caption "Current assets - Grantor - State - Account Receivable" - increased by €89 million, and consists of investments (€52 million) and €115 million in interest, deducted of €75 million of investment subsidies.

Liabilities recorded a change of -3%. Debt fell by €58 million, following the extension of the moratoria relating to State loans; Caption "Other accounts payable" fell by €375 million as result of payments of sub-concessions.

08. FINANCIAL MANAGEMENT AND DEBT

8.1 FINANCIAL MANAGEMENT

IP's financial management activity is developed pursuant to the regulatory framework in force applicable to public-sector companies (Decree law 133/2013, of 3 October) and takes into account, since 2012, the law applicable to Reclassified State-owned Company (RSC), with indirect impacts on the management of financial resources.

Until the date of the legal merger (1 June 2015), both REFER and EP were considered as Reclassified State-owned Company (RSC); IP enjoys the same status.

The State Budget for 2016 (2016 SB), as approved by Law 7-A/2016, of 30 March included IP's overall funding requirements in the amount of €4,666 million, of which €3,418 million concern the debt service on loans contracted with the Portuguese State.

IP's budget implementation was governed by Law 8/2012 (Law on Commitments and Overdue Payments) and related provisions, whereby any expense must be recognised previously, taking into account the appropriations allocated to the different budget captions in the 2016 State Budget. IP managed its activity so as to minimise the risks of fiscal implementation. The following events had a relevant impact on both expenses and revenues:

- Capital increase in the amount of €950 million, including €711.7 million to cover capital expenditure (including PPPs) and the remaining to face the debt service;
- Recognition of Compensatory Allowances in the amount of €50 million;
- Recognition of Road Service Contribution (RSC) revenues, minus collection costs, in the amount of €679.5 million;
- Recognition of toll revenues, minus collection costs, in the amount of €314.2 million;
- Recognition of PIDDAC and EU funding in the amount of €3.8 million and €91.9 million, respectively;
- Operating payments in the amount of €411.3 million;
- Payments of investment in PPP, totalling €1,687.7 million;
- Payments of investment in PETI3+ and Proximity Plans (roads and railway) in the amount of €56.7 million;
- Financial expenses totalled €132.9 million;
- Repayment of loans amounted to €105.5 million.

At the end of 2016, IP had total cash and liquid assets of €278.1 million.

Although initially planned, the conversion into share capital of credit relating to the debt service on loans contracted with the Portuguese State in the amount of €3,416.6 million did not occur, conversely to the previous year.

According to information received from the Directorate-General of the Treasury in notice 3168, of 21 June 2016, the repayment of the said debt service due on May 31, 2016 was postponed until November 30, 2016 at the latest.

Under the terms of office 493 of 18 January 2017 of the Directorate-General of the Treasury (DGTF) payment of the debt service of loans due on 30 November 2016 and 31 May 2017, was postponed to 30 November 2017, effective as from 30 November 2016.

This deferred repayment will not accrue interest.

8.2 STRUCTURE OF IP'S FINANCIAL DEBT

Group IP's debt stock as of 31 December 2016 improved by €105.5 million, decreasing in nominal terms, from €8,247.4 million as of December 2015 to €8,142 million as of December 2016, as shown in the following table:

Euro million

Type of loans	2015	2016
EIB	1 306,7	1 201,2
State Loans	4 715,8	4 715,8
Eurobonds	2 225,0	2 225,0
Total	**8 247,4**	**8 142,0**

This improvement was mainly the result of the share capital increases carried out by the shareholder, which totalled €950 million, as follows:

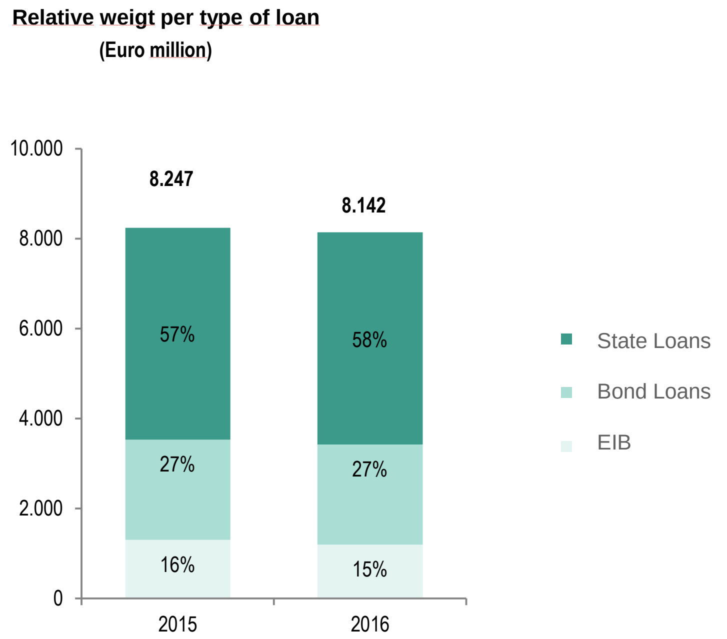
Figures in Euro

	Date	IP
Share capital (DL91/2015)	01/jun/15	**2 555 835 000**
Increases:		
	jul/15	90 000 000
	aug/15	80 000 000
	oct/15	220 000 000
	nov/15	13 000 000
	dec/15	136 540 000
	mar/16	210 000 000
	apr/16	190 000 000
	jul/16	200 000 000
	aug/16	200 000 000
	dec/16	150 000 000
		4 045 375 000

These operations were meant to cover the following borrowing requirements of IP:

- Debt service in 2016 (not including loans with the Portuguese State) in the amount of €238.3 million;
- Capital expenditure: in the amount of €711.7 million, including PPP payments.

The breakdown of relative weight per type of loan was as follows:



The share of IP's debt guaranteed by the Portuguese State was of 34% of total debt. This universe comprises all EIB loans and three bond issues, totalling €1.6 billion.

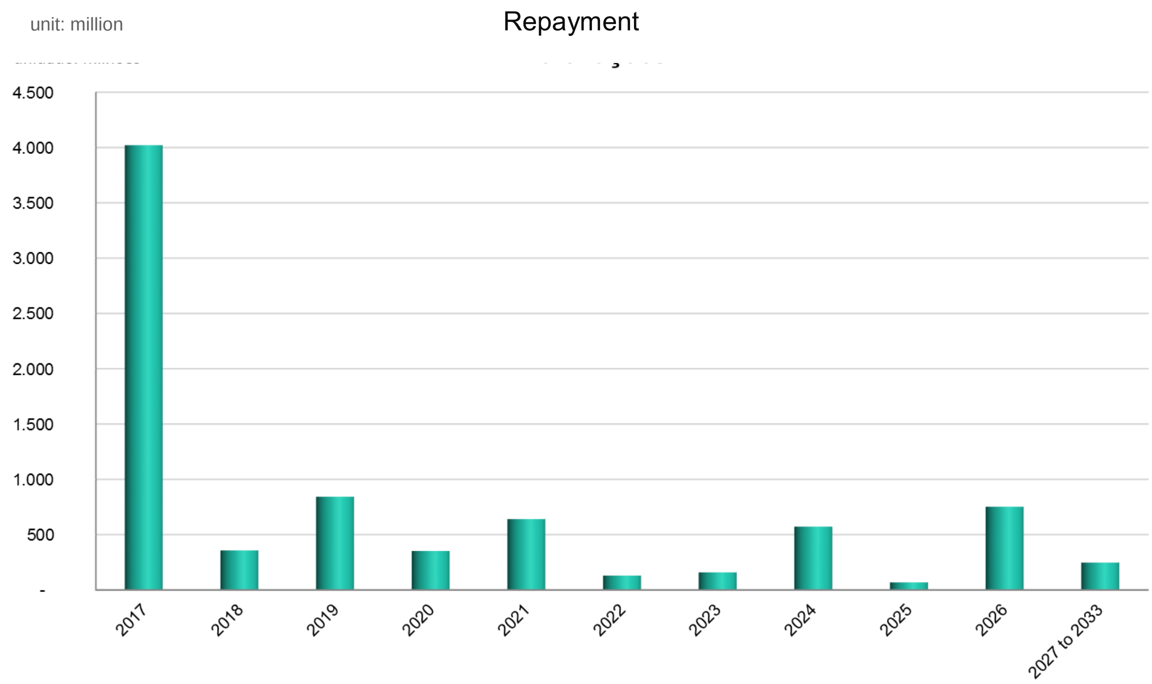
Loans entered with the State since 2011 will become due in 2016, 2017, 2020 and 2021; they are subject to an interest grace period of 12 months and have a repayment plan consisting of 8 to 12 equal and consecutive principal instalments. These loans are subject to fixed interest rate.

EIB loans entered for longer terms are subject to a repayment plan made up of equal or different but consecutive instalments, ensuring a smoother debt repayment profile.

Bond loans are subject to fixed rate and repayment is to be made in one principal instalment at due date (bullet).

The repayment of bond loans will occur in 2019, 2021, 2024, 2026 and 2030, increasing refinancing risk in those years.

As shown in the following graph, debt repayment amounts scheduled for 2017 are significantly higher that year, as it includes the repayment of State loans which are being postponed since May 2015.



At end of December 2016 and end 2015 the debt portfolio according to type of interest rate was as follows:

At 31 December 2016 IP had no risk hedging instrument.

8.3 ANALYSIS OF FINANCIAL RESULTS

Our analysis of financial results is made from the Global Financial Results standpoint, which starts from financial results in the Consolidated Statement of Comprehensive Income and ignores accounting movements (revenues) with impact on the Consolidated Statement of Financial Position relating to i) debit of interest to the Grantor (in the railway business case), and ii) capitalization of interest relating to PPPs (in the road business case). This approach gives a true view of the Group's performance in terms of debt and risk management.

Table below shows the financial performance at 31 December 2016 and 2015:

Amounts in Euro million

Financial Result	Dec.2015	Dec.2016	Change 2016/2015
Financial Results from Investment Activity (1)	**-119,8**	**-114,7**	**5,1**
Financial gains			
Financial losses*	-119,8	-114,7	5,1
Financial Results from Infrastructure Management Activity (2)	**-60,3**	**-34,7**	**25,6**
Financial gains	0,3	0,9	0,7
Financial losses	-60,6	-35,7	24,9
Financial Results - High Performance (3)	**-302,0**	**-259,4**	**42,7**
Financial gains			
Financial losses - sub-concessions	-234,1	-215,5	18,6
Financial losses - State concessions	-67,9	-43,8	24,1
Financial results - Management of Road Network (4)		**-3,1**	**-3,1**
Financial gains			
Financial losses		-3,1	-3,1
Overall Financial Result = (1)+(2)+(3)+(4)	**-482,1**	**-411,9**	**70,3**
Allocated amount - State Grantor*	119,8	114,7	-5,1
Financial result (Comprehensive Income Statement)	**-362,4**	**-297,15**	**65,2**
FR Direct management *(excluding Financial losses - sub-concessions)*	**-248,1**	**-196,3**	**51,7**

At 31 December 2016 IP's overall Financial Results amounted to €-411.9 million, improving by €70.3 million over the same period of the previous year.

Excluding the amount associated with sub-concessions, since it concerns expenses with the financial revision of the amounts due to these companies for works / services (which will be invoiced in the future, in accordance with terms agreed in respective sub-concession contracts), therefore not forming part of financing contracts entered by former EP, overall financial results would amount to €-248.1 million as against the €196.3 million at the end of December 2015, translating an improvement by €51.7 million.

This favourable performance was driven by the financial results obtained in the investment, infrastructure management and high performance segments.

In fact, the principal repayment of EIB loans made during the year (€105.5 million) added of the financial expenses paid (€132.8 million) were covered by capital increases in cash in the total amount of €950 million, which permitted to reduce the average balance of financial debt allocated to the coverage of each activity segment in 2016, leading to a decrease in related financial expenses.

As for the decrease in the amount chargeable to the Grantor in 2015 and 2016, the largest contribution stems from a decrease in the stock of financial debt to hedge investment in LDI, with consequent impact on financial expenses charged (debited) to this activity.

At the end of the 4th quarter of 2016, financial debt, in nominal terms, amounted to €8,142 million, meaning a decrease by €105.5 million over the same period of 2015, justified, as mentioned above, by the repayment of principal of EIB loans.

The budget for 2016 included share capital increase operations in a total amount of €4,666 million, including €1,248 million in cash to cover capital expenditure and the debt service (excluding State loans) and €3,416.6 million through conversion of the debt service relating to State loans.

In real terms, as mentioned above, the share capital increased by €950 million through cash entries, directed to cover expenditure (€711.7 million) and the debt service (€238.4 million), which does not include the State's loans; Credit conversion operations initially planned did not take place, as also mentioned above.

The annual average interest rate of IP's funding in 2016 stood at 2.4%, keeping the downward trend of the past few years. On the other hand, in 2016, the increase in indebtedness exceeded the threshold laid down in Law 7A/2016, of 30 March (3%). However, such increase was already foreseen in IP's budget, which is considered tacitly approved by the Government's Budget Law.

Finally, it is worth noting that on 03 November 2016 Moody's Investors Service renewed its rating of IP at Ba2 with Stable Outlook, on the following grounds:

- key role performed by IP in the management of Portugal's road and rail networks;
- effective Government supervision, as IP is included in the State's budget consolidation scope;
- expectations that the State will continue to timely ensure the financial support deemed necessary;
- maintenance of high indebtedness level and insufficient cash flow generating capacity.

09. RISK MANAGEMENT POLICY

Group IP's risk management policy was established in line with the business goals of the Group, based on a corporate strategy of integrated risk management common to the whole Group, based on NP ISO 31000:2013.

The risk management model adopted is an important tool, as it allows identifying the main risks to which companies of the IP Group are exposed[4], analyse them [5] and determine which steps to take, based on the assumptions described in the following table:

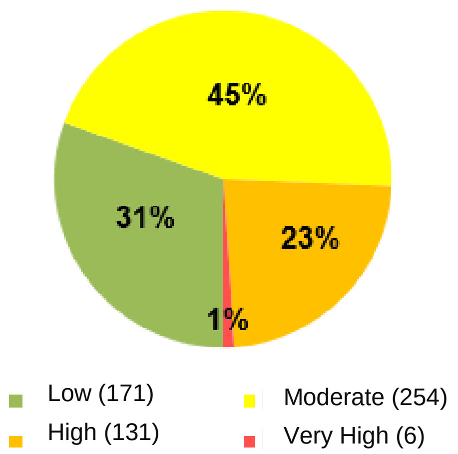
RISK LEVEL		Response to Risk	
GAPS	SCALE		
[1 ; 4]	Low	Accept	No action is identified to alter the probability or impact of the risk. Respective consequences, if any, based on an informed decision. (1)
[5 ; 9]	Moderate	Mitigate/Share	Actions to reduce the risk's probability, impact or both will be established. Share - Actions to reduce the risk's probability or impact will be established, by transferring to or sharing the risk with third parties.
[10 ; 16]	High		
[17 ; 25]	Very high		
Any gap	Any risk level	Avoid	Activities giving rise to the risk will be eliminated (decision to not start or not continue the risk generating activity).

(1) Except for cases where the risk has a level 5 impact on any of the four aspects considered.

Further to assessing risks and determining the measures to treat them, the risk management policy of IP Group includes monitoring, disclosure and revision mechanisms.

[4] Including corruption, collusion, fraud and information leak, and respective and necessary prevention and mitigating measures.
[5] By determining the probability of a risk occurring and its impact on financial, legal, reputation and human life terms.

For information purposes, based on data as of 31/12/2016, the global risk chart of IP Group comprises a total of 562 risks, distributed as follows in terms of risk level:



We highlight the existence of 504 risks specifically related to IP's activity.

Finally, we point out the existence of a total of **660 measures to deal with risks**, including deployment and monitoring.

The management of corporate risk is a wide-ranging activity covering IP's whole organisation. The Group's risk management procedures [6] comprises the assignment of responsibilities to the main players in the risk management process:

MATRIX OF RESPONSIBILITIES	
ENTITY/PLAYER	**RESPONSIBILITY**
EBD	• Approves the documentation produced within the scope or risk management (process implementation plan; risk management procedure; global chart of the Group's risks; risk matrix, etc.); • Approves proposals for handling risk; • Approves the Risk Prevention Plan, including the risks associated with corruption and related infringements in Group companies, as well as respective updates and monitoring reports.

[6] Procedure GR.PR.006 - risk management, approved by IP's CAE on 24/9/2015 and revised on 01/09/2016 and 22/12/2016, applicable to all IP Group units/companies.

MATRIX OF RESPONSIBILITIES	
ENTITY/PLAYER	**RESPONSIBILITY**
Risk and Compliance Department	• Coordinates the management of risk within the Group, ensuring that it is in line with the Group's strategic goals; • Establishes and promotes the methodology and specific tools to implement, monitor and revise the risk management process of the IP Group; • Supports the Risk Owner in the risk assessment process, the identification and monitoring of proposals to handle risks and their effectiveness; • Reports/discloses the risks (building and communicating Risk Charts to IP Group companies); • Monitors the risk management process • Prepares an annual report on the prevention of management risks, including the risks associated with corruption and related infringements in Group companies, as well as respective updates and monitoring reports. • Promotes a risk management culture within the whole IP Group.
"Risk Owner"	• Identifies, reviews and assesses the risks and proposes respective treatment measures; • Implements treatment measures; • Monitors the effectiveness of treatment measures and reports results to the RCD.

As they fulfil their mission, IP and remaining companies of the IP Group are exposed to numerous risks; as provided in the Risk Management Procedure of the IP Group, the risks are broken down according to 6 relevant categories, as follows:

RISK CATEGORY	DEFINITIONS	DISTRIBUTION PER CATEGORY
Financial Risk	Liquidity, interest rate and credit risks	2%
Business risk	Risks associated with planning, design, performance, monitoring and control in areas contributing to the business of Group companies.	10%
Operating Risk	Risks associated with internal processes, infrastructures, human capital and outsourcing	52%
Regulation & Compliance Risks	Risks associated with laws, regulations, rules, contracts, codes of conduct, best practices and ethical principles.	28%
Reputation Risk	Risks associated with the public perception of the company by shareholders, clients, suppliers, employees, press, public opinion in general and remaining stakeholders.	1%
Technological Risk	Risks associated with critical technological infrastructures, security of information, integrity and flexibility of systems.	7%

Financial Risk

IP's activity is subject to risk factors of financial nature, namely credit risk, liquidity risk and interest rate risks associated with loan payment cash flows.

Decree-law 133/2013 of 3 October introduced changes to the autonomy of reclassified public companies (EPR) in what concerns access to funding with the financial system, and the use of derivative financial instruments for risk management purposes.

In fact, Article 29 of the said Decree-law determines that an EPR cannot access funding with financial institutions, unless it is a multilateral financial institution (e.g. European Investment Bank), while article 72 established the transfer of these companies' derivatives portfolios to the Public Debt and Treasury Management Agency (Agência de Gestão da Tesouraria e da Dívida Pública – IGCP, EPE (IGCP).

These risks are managed by the Finance, Markets and Regulatory Department, in line with risk mitigation policies established by the Executive Board of Directors.

Credit Risk

Credit risk is associated with the risk of another party defaulting on its contractual obligations, resulting in a financial loss for IP, S.A.. This type of risk is run by IP, S.A. in the course of its operating and financial activities.

At operational level, IP's revenues stem from the two business segments which the company develops, i.e. the road and the railway segments.

In the road segment, revenues derive mainly from the Road Service Contribution charged by and handed over to IP by the Tax and Customs Authority, collected tolls, and other smaller operations with a wide range universe of clients. Therefore, IP's road segment does not show any significant credit risk.

In the railway segment, revenues stem from compensatory allowances established in the State Budget, granted as consideration for the public service provided and the commercial relationship developed with main clients, rail operators, CP, Fertagus, Takargo and CP CARGA. Accordingly, credit risk associated with railway activity is basically related with any failure by railway operators to fulfil their obligations.

CP is the main counterparty, as it is the only public provider of passenger transport services on the entire network, except for the 25 de Abril Bridge crossing, which is operated by Fertagus.

Therefore, although credit risk is strongly concentrated in CP, it is mitigated by the legal nature of this company, which is also 100% held by the Portuguese State.

As for the credit risk from its financial activity, the majority of the company's liquid funds and financial applications are managed by IGCP, therefore, they do not hold significant credit risk.

Impairment adjustments for accounts receivable are calculated on the basis of the counterparty's risk profile and its financial situation.

Exchange rate risk

IP's activities are not subject to significant exchange rate risk.

Liquidity Risk

This type of risk is measured by the capacity to maintain the financial resources required to face liabilities assumed with different stakeholders, namely suppliers, banks, the capital market, and other.

A prudent liquidity risk management requires maintaining an adequate level of cash and cash equivalent to face the responsibilities assumed; this is ensured by IP based on a strict and planned control of operating cash flows, complemented with share capital increases carried out by the shareholder. This conservative management has made it possible to secure a reduced level of liquidity risk.

Interest rate risk

The main objective of interest rate risk management is to safeguard the company against interest rate rises; insofar as IP's revenues are immune to this variable, any natural hedging is not possible.

The company does not use interest rate hedging instruments.

Presently, the purpose of the interest rate risk management is basically to monitor interest rates affecting Euribor-based financial liabilities.

Capital Risk Management

Capital risk management is deemed crucial to maintain adequate solvency levels, taking in to account the company's operations.

The level of expected revenues, including the Road Service Contribution, tolls, compensatory allowances, activities with rail operators and community funds, are continuously reviewed and monitored to ensure that they can meet borrowing requirements and operations.

IP's key tool to manage this risk is its financing plan, which includes share capital increases in cash or via conversion of loans and shareholders' loans into equity.

Throughout 2016 the statutory capital of IP, S.A. was strengthened by €950 million.

Although initially planned, the conversion into share capital of credit relating to the debt service on loans contracted with the Portuguese State in the amount of €3,416.6 million did not occur, conversely to the previous year.

11. SUBSEQUENT EVENTS

i) Share capital increase

Pursuant to a unanimous resolution in writing dated 22 February 2017, the share capital of IP was increased by €600 million, through the issue of 120,000 shares with the nominal value of €5,000 per share, subscribed and paid up by the Portuguese State, as shareholder, as follows:

a) On 22 February 2017 the amount of €460 million;
b) Up to 20 April 2017 the amount of €140 million;

ii) Agreement for the settlement of debt

On 17 March 2017, the Company entered an agreement with the Municipality of Aveiro, pursuant to the legal framework on municipal financial recovery, following the said Municipality's adhesion to the Municipal Support Fund (FAM).

12. PROPOSAL FOR THE APPROPRIATION OF NET INCOME

The Executive Board of Directors proposes to appropriate the Net Results for the year in the total amount of €**26,319,781.33** (twenty-six million three hundred nineteen thousand seven hundred and eighty-one Euro and thirty-three cents) as follows:

Legal Reserve	€26,319,781.33
Net results for the period	€26,319,781.33

Almada, 19 April 2017

The Executive Board of Directors

Chairman	António Carlos Laranjo da Silva
Vice-chairman	José Saturnino Sul Serrano Gordo
Vice-chairman	Carlos Alberto João Fernandes
Member	Alberto Manuel de Almeida Diogo
Member	Vanda Cristina Loureiro Soares Nogueira

Infraestruturas de Portugal

2016 ANNUAL REPORT

PART II - FINANCIAL STATEMENTS AND ATTACHED NOTES

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FINANCIAL STATEMENTS AND ATTACHED NOTES

STATEMENT OF COMPLIANCE

Under the terms and for the purposes of provisions in Article 245, no. 1, sub paragraph c) of the Securities Code, each member of the Executive Board of Directors of Infraestruturas de Portugal, S.A., as identified below, underwrote the following statement:

"I hereby declare, under the terms and for the purposes of provisions in Article 245, no. 1, sub paragraph c) of the Securities Code, that to the best of my knowledge, within the scope of the duties assigned to me and based on the information supplied to the Executive Board of Directors, the financial statements were prepared in compliance with the applicable accounting standards and give a true and appropriate view of the assets and liabilities, the cash flows, the financial situation and the results of Infraestruturas de Portugal, S.A., and the management report relating to 2016 faithfully describes the material events that occurred during this period and the impact on respective financial statements, and describes the main risks and uncertainties for the forthcoming year."

The Executive Board of Directors

Chairman António Carlos Laranjo da Silva

Vice-chairman José Saturnino Sul Serrano Gordo

Vice-chairman Carlos Alberto João Fernandes

Member Alberto Manuel de Almeida Diogo

Member Vanda Cristina Loureiro Soares Nogueira

SEPARATE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016 AND 2015

	NOTES	31-12-2016	31-12-2015
Assets			
Non-current			
Tangible fixed assets	5	54 348	55 928
Investment properties		109	115
Intangible assets	6	19 826 916	19 626 321
Investments in subsidiaries	7	9 469	8 909
Financing Loans	8	-	-
Clients	11.2	12 219	17 107
Deferred tax assets	9	130 850	117 636
Available-for-sale financial assets		32	32
		20 033 943	**19 826 048**
Current			
Inventories	19	47 746	49 245
Clients	11.2	88 488	100 797
Advances to suppliers		-	27 522
Grantor - State - Account Receivable	12	5 496 216	5 407 589
Current tax assets	13	16	21 373
Government and other public bodies	13	1 237 101	1 017 687
Other accounts receivable	11.1	199 001	186 764
Deferrals	10	763	512
Noncurrent assets held for sale		3	3
Cash and cash equivalent	14	278 547	422 848
		7 347 881	**7 234 340**
Total assets		**27 381 825**	**27 060 388**

To be read jointly with the Notes to the Separate Financial Statements

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016 AND 2015 (CONTINUED)

	NOTES	31-12-2016	31-12-2015
Equity			
Capital and reserves attributable to equity holders			
Paid-up capital	15	4 045 375	3 095 375
Reserves	15	631	4
Cumulative results		11 909	-
		4 057 915	**3 095 379**
Net income/(loss) for the period		26 320	12 536
Total equity		**4 084 234**	**3 107 915**
Liabilities			
Non-current			
Provisions	16	858 718	857 606
Borrowings	17.1	3 315 668	3 420 846
Shareholder funding / Shareholder's loans	17.2	796 252	1 478 345
Other accounts payable	18.2	2 616 557	2 998 086
Deferrals	10	10 526 518	10 764 155
Deferred tax liabilities	9	156	179
		18 113 869	**19 519 217**
Current			
Trade payables	18.1	18 762	38 111
Cash receipts from clients		8 118	-
Government and other public bodies	13	6 506	6 371
Current tax liabilities	13	25 804	-
Borrowings	17.1	161 975	155 416
Shareholder funding / Shareholder's loans	17.2	4 070 120	3 347 598
Other accounts payable	18.2	882 422	875 597
Deferrals	10	10 014	10 164
		5 183 721	**4 433 257**
Total Liabilities		**23 297 590**	**23 952 474**
Total equity and liabilities		**27 381 825**	**27 060 388**

To be read jointly with the Notes to the Separate Financial Statements

STATEMENT OF COMPREHENSIVE INCOME AT 31 DECEMBER 2016 AND 2015

	NOTES	31-12-2016	31-12-2015
Sales and services	20	1 160 008	1 321 088
Compensatory Allowances	21	40 650	28 770
Cost of goods sold	22	- 259 728	- 413 854
Supplies and services:	23	- 257 028	- 246 207
Maintenance, Repair and Safety of the Road Network	23	- 100 899	- 95 398
Maintenance, Repair and Safety of the Railway Network	23	- 56 046	- 56 794
Other supplies and services	23	- 100 083	- 94 015
Personnel expenses	24	- 123 228	- 111 779
Impairments (losses/reversals)	25	16 008	- 10 173
Provisions (Increase/Decrease)	16	- 19 992	- 5 897
Other Income and gains	26	93 005	96 610
Other expenses and losses	27	- 14 456	- 8 549
Income/(expenses) in subsidiaries	28	- 20 240	2 158
Results before Depreciation, Financial Expenses and Tax		**614 999**	**652 167**
Expenses/reversals of depreciation and amortisation	5 6	- 271 301	- 260 735
Operating Result (before Financial Expenses and Tax)		**343 698**	**391 432**
Interest and similar income	29	115 652	120 052
Interest and similar expenses	29	- 412 806	- 482 409
Results before tax		**46 544**	**29 075**
Income tax for the year	30	- 20 224	- 16 541
Net profit for the year		**26 320**	**12 536**
Comprehensive income		**26 320**	**12 536**

To be read jointly with the Notes to the Separate Financial Statements

STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER 2016 AND 2015

	Share capital	Reserves	Cumulative results	Profit/(Loss) for the period/year	Total
Balance at 31-12-2015	**3 095 375**	**4**	**0**	**12 536**	**3 107 915**
Appropriation of net results for 2015	-	627	11 909	- 12 536	0
Share capital increases	950 000	-	-	-	950 000
2016 Comprehensive Results	-	-	-	26 320	26 320
Balance at 31-12-2016	**4 045 375**	**631**	**11 909**	**26 320**	**4 084 234**

	Share capital	Reserves	Cumulative results	Profit/(Loss) for the period/year	Total
Balance at 31/12/2014	**1 486 000**	**0**	**- 2 429 854**	**- 89 065**	**- 1 032 919**
Appropriation of net results for 2014	-	-	- 89 065	89 065	-
Share capital increases	1 617 255	-	-	-	1 617 255
Merger effect	2 511 039	-	-	-	2 511 039
Transfers of reserves	- 2 518 919	-	2 518 919	-	-
2015 Comprehensive Results	-	-	-	12 536	12 536
Other changes	-	4	-	-	4
Balance at 31-12-2015	**3 095 375**	**4**	**0**	**12 536**	**3 107 915**

To be read jointly with the Notes to the Separate Financial Statements

CASH FLOW STATEMENT AT 31 DECEMBER 2016 AND 2015

	NOTES	31-12-2016	31-12-2015
Operating Activities			
Cash receipts from clients		1,115,386	1 053 483
Cash paid to suppliers		-1,091,188	- 852 374
Cash paid to personnel		-113,581	- 109 659
Flows generated by operations		**-89,383**	**91 450**
CIT (paid)/received		13,882	- 31 276
Other receipts/payments relating to operating activities		55,732	27 526
Net cash from operating activities (1)		**-19,769**	**87 701**
Investing activities			
Cash receipts relating to:			
Investment subsidies		95,767	258 114
Tangible assets		2,094	4 183
Financial investments		4,000	6 122
Interest and similar income		-	71
		101,861	**268 489**
Cash payments relating to:			
Investment subsidies		-	- 14 214
Financial investments		-10,452	- 10 359
Tangible assets		-43,935	- 52 019
Intangible assets		-877,400	- 767 842
		-931,787	**- 844 434**
Net cash from investing activities (2)		**-829,926**	**- 575 944**
Financing activities			
Cash receipts relating to:			
Capital contribution		950,000	1 617 255
Other financing operations		-	75 587
		950,000	**1 692 842**
Cash payments relating to:			
Borrowings		-105,453	- 705 033
Interest and similar costs		-132,891	- 158 882
		-238,344	**- 863 915**
Net cash from financing activities (3)		**711,656**	**828 927**
Variation in cash and cash equivalents (4) = (1) + (2) + (3)		**-138,039**	**340 684**
Cash and cash equivalents at the end of the period	**14**	278,103	416 142
Cash and cash equivalents at the beginning of the year	**14**	416,142	75 458
Variation in cash and cash equivalents		**-138,039**	**340 684**

To be read jointly with the Notes to the Separate Financial Statements

Almada, 19 April 2017

The Executive Board of Directors

Financial Manager

Maria do Carmo Duarte Ferreira

The Official Auditor

Diogo Mendonça Lopes Monteiro

Chairman	António Carlos Laranjo da Silva
Vice-chairman	José Saturnino Sul Serrano Gordo
Vice-chairman	Carlos Alberto João Fernandes
Member	Alberto Manuel de Almeida Diogo
Member	Vanda Cristina Loureiro Soares Nogueira

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR 2016

1. INTRODUCTION

Infraestruturas de Portugal, S.A. is the state-owned company resulting from the merger of Rede Ferroviária Nacional – REFER, E.P.E. (REFER) and EP - Estradas de Portugal, S.A. (EP, S.A.) through which REFER merged into EP, becoming a public limited company named Infraestruturas de Portugal, S.A. (IP). The merger entered into force on 1 June 2015, as provided in Decree-law 91/2015 of 29 May.

The immediate consequence of the merger determined that road and railway infrastructures are to be managed by one company, according to a joint, integrated and complementary strategy.

1.1 COMPANY'S ACTIVITY

According to Decree-Law No. 91/2015, the corporate object of IP "... shall be the design, construction, financing, maintenance, operation, restoration, widening and modernisation of the national road and rail networks, including command and control of movements of trains."

For the purposes of pursuing its activity IP "... shall take on the position of infrastructure manager, under the terms of the general road concession contract entered with the State and any concession contract that may be entered into the future, and as manager of any other infrastructure under its administration."

In order to provide a highly efficient and effective service while pursuing its activity, IP relies on complementary services in business areas not covered by its main object, but which are performed by its subsidiaries.

2. BASES OF PRESENTATION AND ACCOUNTING POLICIES

2.1 BASES OF PRESENTATION

The financial statements presented herein are the separate financial statements of IP and they reflect the results of IP’s operations and its financial situation for the years ending at 31 December of 2016 and 2015.

These financial statements were approved by the Executive Board of Directors in meeting held on 19 April 2017. The Executive Board of Directors is of the opinion that these financial statements give a true and fair view of IP's operations, its financial position, performance and cash flows.

All amounts are expressed in thousand Euro (€th), unless otherwise stated. Additionally, initials €m are used for Euro million, where necessary.

IP's financial statements were prepared on a going concern basis, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and respective predecessors.

The financial statements presented herein were prepared according to the principle of historic cost, except for financial assets and liabilities recorded at fair value.

The preparation of financial statements in conformity with IFRS requires the application of judgement and the use of estimates and assumptions by the Company that affects the process of applying the accounting policies and the reported amounts of income, expenses, assets and liabilities. Estimates and related assumptions are based on historic experience and on other factors deemed applicable and form the basis for the judgements on the values of the assets and liabilities, the valuation of which could not be obtained through other sources. The issues that involve a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements are disclosed in Notes 2.3 and 2.4. (Main estimates and judgements used for preparing the financial statements).

2.2 MAIN ACCOUNTING POLICIES

The financial statements include the company's assets, liabilities, results and cash flows as of 31 December 2016 and 2015.

The main accounting policies used in the preparation of the financial statements are as described below. These policies were consistently applied in relation to 2015, except where stated otherwise.

a) EQUITY HOLDINGS IN SUBSIDIARIES

According to IAS 27 – Separate Financial Statements, where an entity is required to present separate financial statements, investment in subsidiaries, joint ventures and associates are recorded alternatively at cost or fair value or equity method.

IP records the financial investments previously mentioned at cost, deducted of any impairment losses.

Dividends from these entities are recognised under "Gains and Losses on Subsidiaries, Associates and Joint Ventures" where the right thereto is established.

According to IFRS 10 – Consolidated Financial Statements, a subsidiary is an entity controlled by another entity.

An investing company controls an entity where it is exposed or holds rights relating to variable results via its relationship with such entity, and it has the power to affect such results through the control it has over the invested company.

b) EQUITY HHOLDINGS IN ASSOCIATES AND JOINT VENTURES

As provided in IAS 28 – Investments in Associates and Joint Ventures, associates are entities over which the investing company exerts significant influence.

It is presumed that significant influence is exercised where an entity holds directly or indirectly 20 % or more of the voting rights of the invested company, unless it can be clearly demonstrated that this is not the case.

A joint venture is a joint business in relation to which the parties that exercise joint control hold rights over the net assets of the business.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

These investments are recorded in the separate financial statements at cost and any dividends therefrom are recognised under "Gains and Losses in Subsidiaries, Associates and Joint Ventures" where the right thereto is established.

c) FINANCIAL INVESTMENTS IN JOINT ARRANGEMENTS

According to IFRS 11 - Joint Arrangements, a joint arrangement is an arrangement where two parties or more have joint control.

A joint arrangement has the following characteristics:

The parties are bound by a contractual arrangement; and

- The contractual arrangement gives two or more of those parties joint control of the arrangement.

According to the said standard, a joint arrangement is a joint operation or a joint venture.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. These parties are known as joint operators.

A joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output of the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets relating to the arrangement. These parties are known as joint venturers.

d) STATE GRANTOR - ACCOUNT RECEIVABLE – SERVICE CONCESSION ARRANGEMENTS – IFRIC 12.

Following the split-off of the railway activity in Portugal in 1997, IP (former REFER) was assigned the responsibility of building and renovating long duration railway infrastructures. This activity is carried out according to the Government directives; its financing is guaranteed through the share capital, by State and European subsidies and loans; the majority of the loans are secured by the State, where IP plays the role of “agent”.

Based on this understanding, the effects relating to this activity are recognised and measured in accordance with IFRIC 12 - Concession Arrangements.

Accordingly, for the purposes of IFRIC 12, it is considered that the Long Duration Investment Activity relies on the existence of a concession arrangement between the State (Public Entity) and IP (considered as private entity although its sole shareholder is the State), where IP acts as "Concessionaire".

IFRIC 12 – Service Concession Arrangements was issued by IASB on November 2006, to be applied in the years starting at or following 1 January 2008. Its endorsement within the European Union occurred on 25 March 2009, to be mandatorily applied in the years starting at or following 1 January 2010.

IFRIC 12 applies to public service concession arrangements where the Grantor (State) controls (regulates):

- The services to be provided by the concessionaire (using the infrastructure), to whom they are to be provided and at what price; and

- Any residual interests concerning the infrastructure at the end of the contract. IFRIC 12 applies to infrastructures:
- built or acquired by the operator to third parties;
- already existing and to which the operator provides access.

In the light of the above, it is the understanding of IP that the existing concession is included in the scope of this IFRIC due to the following reasons:

- IP is a profit-making company subject to provisions in the Companies Code; although its shareholder is the State, the company was incorporated according to the relevant law relating to the public corporate sector (Decree-Law 133/2013 of 3 October), and is independent in terms of assets in relation to its shareholder; therefore, exclusion provided in IFRIC 12 does not apply, according to its paragraph 4;
- The decree-law which created IP may, in substance, be considered as concession agreement, since the State as Grantor, controls and governs the public services provided by IP, as concessionaire of the infrastructures belonging to public railway domain or which may come to be included in the public railway domain in the future, and defines to whom the services are to be provided and at what price; and
- The State, owns and controls the infrastructures which belong to the public domain and assigns to IP the right of access to such infrastructures so that it may render a public service against a consideration payable by passenger and goods transport operators.

This interpretation sets out the general principles for recognising and measuring rights and obligations pursuant to concession contracts holding the characteristics mentioned above and defines the following models:

- Intangible asset model - this model applies where the operator receives from the Grantor the right to charge a fee for using the infrastructure;
- Financial asset model - where the operator has an unconditional right to receive cash or other financial asset from the Grantor corresponding to specified or determinable amounts, the operator must recognise a financial asset (account receivable). Under this model, the concessionaire has little or no discretionary powers to avoid payment, since the agreement is generally legally binding; and
- "Mixed" model - This model, provided under paragraph 18 of IFRIC 12 applies where the concession simultaneously includes remuneration commitments guaranteed by the Grantor and remuneration commitments contingent on the level of use of the concession infrastructures.

Taking into accounting the types of existing models, the model which best translates IP's activity is the Financial Asset model, since according to the law in force, the State (public entity) will fully bear the costs of the investments in national railway infrastructures, whereas IP has an unconditional right to receive cash from the State for its investments in LDIs. This right is conferred under article 11 of the General Ground Transport Law for railway transport (LBTT), by Decree-Law 141/2008, of 22 July, by the 2011-2015 Strategic Transport Plan (PET) and finally, by the Strategic Plan for Transport and Infrastructures (2014-2020 horizon) (PETI3+).

In what concerns Financial Assets resulting from the application of this standard, they were registered under provisions in IAS 32, IAS 39 and IFRS 7.

As there is no official concession agreement for the railway infrastructure activity, IP made some assumptions for determining the value of the concession, based on the principle of substance over form and existing law, namely:

- The Base Law on the Land Transportation System and Infrastructure Maintenance and Supervision – Law 10/90 - which establishes in number 3 of article 11 the compensation due by the State for the full infrastructure construction, maintenance and supervision costs, in accordance with rules to be approved by the Government.

- The Strategic Transport Plan (RCM 45/2011):

"Investment required for the construction of transport infrastructures, since they are public domain assets, must be ensured by the State as provided in the General Ground Transport Law. Notwithstanding, over the past decades, state-owned corporations operating in the land transport and railway sectors have carried the burden of having to register in their financial statements - via the issuing of debt - the costs of this investment made on behalf of the State." and;

"The historic debt of state-owned enterprises operating in the public railway transport and infrastructures sector, results in part from the development of investment projects which are the State's responsibility (...)"

- PETI3+ - Strategic Plan for Transports and Infrastructures (2014-2020 horizon).

PETI3+ "…is a revision of PET 2011-2015, including a second phase of structural reforms to be made in this sector, as well as a set of investments in transport to be carried out until the end of this decade. It is estimated that 61% of priority railway projects can be financed through community funds and 39% through public funds. "Where any assets are withdrawn from the public railway domain, the profit or loss will be allocated to this activity, as established in each withdrawal order.

Therefore, the costs borne with LDIs assume the form of "accounts receivable" (financial assets) charged to the "State grantor", being initially recognised at fair value.

Financial assets are made up of the assets under concession, which include public railway domain property, to which IP only has access to provide "Infrastructure Management Services", added of the return on assets, following disposal or improvements, deducted of any subsidies received plus interest on loans allocated to the concession. As there is no defined maturity - which is due to the nonexistence of a formal concession contract - it is assumed that the amounts receivable will be due on the date they are charged. Consequently, as from that date the concessionaire (IP) is deemed to be entitled to accrued interest on the amounts due. The determination of the said interest is made based on the same terms of the loans obtained to directly finance this activity. The company thus charges interest and other financial expenses relating to the loans contracted to finance the concession.

LONG TERM INFRASTRUCTURES ("LTIs")

Tangible fixed assets classified as long duration infrastructures belong to the public railway domain, and IP only has access to them so as to provide the services associated with the Railway Infrastructure Management. Accordingly, they are recorded in the statement of financial position in caption "Grantor - State - Account receivable", since they do not qualify as assets controlled by the company. In addition to acquisitions and construction made after the split-off of CP, these assets further include the assets of extinguished departments, freight terminals and property transferred from CP, which are considered as "public domain assets".

e) TANGIBLE FIXED ASSETS

Tangible fixed assets are measured at cost deducted for accumulated depreciation and impairment losses. Cost includes the purchase price of the asset, costs directly attributable to its acquisition and costs incurred to prepare the asset to start operating. Cost incurred with loans obtained for the construction of tangible assets are recognised as part of the assets' construction cost.

Subsequent costs incurred with renovations and major repairs that increase the useful life or the production capacity of the asset are either added to the cost of the asset or recognised as a separate asset, with an adequate derecognition of the replaced components of the asset; this only occurs when future economic benefits are likely to flow to the entity and when costs can be measured reliably; Accordingly, the replaced part is derecognised from the Statement of financial position.

Costs with current repairs and maintenance are expensed in the period in which they occur.

Expenses to be incurred with the disassembling, dismantling or removal of assets, when significant, are included in the acquisition cost of the asset.

Land is not depreciated. The remaining tangible fixed assets are depreciated on a straight-line basis. The estimated useful lives for the most significant tangible fixed assets are as follows:

	Average %
Buildings and other constructions	2
Basic equipment	3.3
Transport equipment	25
Tools	12.5
Administrative equipment	12.5
Other fixed assets	12.5

Useful lives of assets are reviewed at the end of each year so that depreciation complies with the asset consumption patterns.

Gains and losses arising from the disposal of tangible fixed assets are determined as the difference between the assets' sales value and net book value, and are recognised in the statement of comprehensive income.

LEASES

Classification of lease operations as financial leases or operating leases takes into consideration the substance of the transaction rather than its legal form. A lease is classified as finance lease if it substantially transfers all the risks and rewards incidental to ownership of an asset to the lessee.

Assets used under lease contracts relative to which the Group does not assume all the risks and rewards of ownership of the leased asset are classified as operating leases, in accordance with IAS 17 – Leases, and therefore they are not recorded as tangible fixed assets.

Rents are registered at cost in the respective periods of the lease term (Note 23).

f) INTANGIBLE ASSETS

Intangible assets are measured and recognised according to the transactions that gave rise to them, as explained below.

INITIAL RECOGNITION

Intangible assets are recorded at acquisition cost minus depreciation and impairment losses.

Pursuant to IFRIC 12, assets resulting from the Road Right Concession attributed to under the Road Concession Contract entered with the State classify as intangible assets.

The Road Concession Right was recognised by virtue of a business combination at the time the merging company's corporate object was changed (EP).

The remaining intangible assets result from separate acquisition transactions, their cost reflecting the following:

- the purchase price, including costs related to intellectual property rights and taxes on non-refundable purchases, after deducting trade discounts and rebates; and
- any cost directly attributable to the preparation of the asset for its intended use.

SUBSEQUENT RECOGNITION

The company values its intangible assets, after the initial recognition, according to the cost model, as defined by IAS 38 – Intangible Assets.

The Road Concession Right is increased by the development of the activity of management of the national road network infrastructure, which includes, among others, the construction, financing and operation of the National Road Network (including the Concessioned Network) and the Future National Road Network, namely as a result of:

(i) Provision of construction services

This increases upon completion of each significant component of the Future National Road Network in line with respective execution value. Construction may be done directly by the company or through sub-concession.

Until completion of each component, a share of the estimated execution value of the works is recognised as intangible asset using the percentage of completion method, determined based on the actual progress of each works.

Expenses incurred by the company in connection to the launching of sub-concession tenders are recognised as intangible assets until they are billed to the sub-concessionaire.

(ii) Acquisition of future rights over the Concessioned Network

Increases through payments net of receipts relative to the Concessions, accumulated up to the initial term of each concession, after which the company is entitled to the underlying economic benefits of the corresponding stretch.

Up to the initial term they are recognised under intangible assets in progress, when spent.

EP's Concession Contract gives the following definitions to the three fundamental components of the Concession Undertaking:

"**Concessioned Network** — designates the roads included in the National Road Network that on the signature date of the Concession Contract are subject to a Concession Contract with the State, or those which the State included in a public tender still under way viewing their concession."

"**National Road Network** — designates the "Itinerários Principais" (trunk roads), "Itinerários Complementares" (secondary roads), National Roads and Regional Roads included in the PRN 2000 (National Road Plan) in operation or with construction started on the signature date of the Concession Contract." "The construction of "Itinerários Principais", "Itinerários Complementares", National Roads and Regional Roads is deemed to have started upon award by the State or by EP — Estradas de Portugal, S. A. of the contract viewing their construction".

"**Future National Road Network** — designates the "Itinerários Principais", "Itinerários Complementares", National Roads and Regional Roads foreseen in the PRN 2000 or any bill that modifies or replaces it and comes into force up to 5 (five) years prior to the term of the Concession Contract, that are not built on the signature date of the Concession Contract. "Itinerários Principais", "Itinerários Complementares", National Roads and Regional Roads foreseen in the PRN 2000 are considered as not having been built if on the signature date of the Concession Contract their construction has not been awarded by the State or by EP — Estradas de Portugal, S. A."

AMORTISATION

IP amortises the Concession Right based on its best estimate of the consumption pattern of the economic benefits associated to the asset, i.e., in accordance with the units of production method as defined in IFRIC 12.

The unit of production corresponds to the best estimate of revenues directly associated to the rights already acquired by the company, which excludes revenues from the collection of tolls before the initial terms of the underlying concessions.

Any changes in estimates are corrected prospectively, affecting the value of amortisations of future years.

The amortisable value of the Concession Right, which is revised on an annual basis according to the company's best estimates, corresponds to the total overall amount of the costs incurred and responsibilities assumed within the scope of the general concession of the national road infrastructure.

The remaining intangible assets are amortised on a systematic basis from the date on which they are available for use over the estimated useful life.

CAPITALISATION OF COSTS WITH CONTRACTED LOANS

The company capitalises the borrowing costs associated to the acquisition, construction or production of qualifying assets.

IP considers as qualifying assets those which take a period of more than 12 months to be concluded for their intended use; its most significant qualifying asset is the Concession Right to the road infrastructure network. Any component of the National Road Network or Future National Road Network is considered a component of that same qualifying asset provided that estimated duration of construction exceeds twelve months.

The components of the Concession Right that qualify for the capitalisation of loan expenditures are essentially those resulting from:

(i) Provision of construction services

Provision of construction services usually takes more than one year and therefore the costs associated to the loans obtained to provide such services are considered eligible, regardless of whether they are provided directly by IP or by a sub-concession.

(ii) Acquisition of future rights over the Concessioned Network

Payments made for the acquisition of future rights over the Concessioned Network up to the initial term of each section of the current Concessioned Network.

Direct borrowing costs are considered as a cost of the specific component that was financed. When borrowing costs cannot be directly attributed to each component of the network in progress, the average weighted rate of the outstanding loans during the period is applied to the expenditure incurred with the development of said network.

Components whose construction was funded through subsidies or those ready to enter into operation, regardless of whether the works in which they are included are completed or not, are not considered in the calculation of the basis for the capitalisation of costs of loans obtained.

g) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are initially recognised at fair value on trade date (IAS 39). Subsequent to initial recognition the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments.

Recognition of changes in the fair value of hedge instruments in results for the period will depend on the nature of the hedged risk and the efficacy of the hedging.

The fair value of derivative financial instruments will correspond to their market value, when available; where not available, it will be determined by external entities based on valuation techniques.

HEDGE ACCOUNTING

Derivative financial instruments are designated as hedging instruments in accordance with provisions of IAS 39, as to their documentation and effectiveness.

Changes in the fair value of derivative financial instruments which are contracted for financial hedging purposes in accordance with the Group's risk management policies but which do not comply with requirements of IAS 39 to qualify for hedge accounting are classified as "derivatives held for trade" and are recorded in the Statement of Comprehensive Income for the period in which they occur.

As of 31 December 2016, IP had no derivative financial instrument.

h) FINANCIAL ASSETS

IP classifies its investments on their trade date according to the objective that determined their acquisition, in the following categories: financial assets at the fair value through income (held for trading and fair value option); loans and receivables; assets held until maturity; and financial assets available for sale, according to what is recommended by IAS 39 - Financial instruments.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

This category includes: (i) financial assets held for trading, which are those acquired mainly for the purpose of being sold in the short term and (ii) financial assets that are designated at fair value through profit or loss at inception. Financial assets at fair value through profit or loss are subsequently carried at fair value and gains, and losses arising from changes in their fair value are included in the income statement in the period in which they arise.

This category includes derivative financial instruments that do not qualify for hedge accounting purposes. Changes to their fair value are recognised directly in income for the year.

HELD-TO-MATURITY INVESTMENTS

These investments are non-derivative financial assets with fixed or determinable payments and specified maturities, for which there is the intention and capacity of holding them until maturity.

Held-to-maturity investments are carried at amortised cost using the effective interest method, net of any impairment losses.

Impairment losses are recorded based on the evaluation of estimated losses associated with doubtful receivables at the date of the financial statements.

For held-to-maturity investments the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (considering the recovery period) discounted at the financial asset's original effective interest rate.

These assets are recorded in the Statement of Financial Position, net of any recognised impairment.

LOANS AND ACCOUNTS RECEIVABLE

These correspond to non-derivative financial assets with fixed or determined payments, for which there is no active securities market. They arise from normal operation activities, in the supply of goods or services, and are not meant for negotiation.

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

Impairment losses are registered when there are indicators that IP will not receive all the amounts to which it is entitled according to the original terms of the signed contracts. Various indicators are used to identify impairment situations, namely: i) default analysis; ii) default for over 6 months; iii) debtor's financial difficulties; iv) probability of insolvency or bankruptcy of debtor.

When receivables due from clients or other debtors are subject to a renegotiation of the respective terms, they will no longer be considered as due but will be treated as new credit.

For held-to-maturity investments the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (considering the recovery period) discounted at the financial asset's original effective interest rate.

These assets are recorded in the Statement of Financial Position, net of any recognised impairment.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets which:

- IP does not intend to maintain for an indefinite time;
- are designated as available for sale at the time of their initial recognition or;
- do not fit into the above categories.

Available-for-sale financial assets are also subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognised directly in equity, under Fair Value Reserves, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement

In the absence of a market value, the assets are maintained at acquisition cost, although impairment tests should be performed.

Interest earned from fixed income instruments, where classified as available-for-sale assets, and differences between the acquisition cost and the nominal value (premium or discount), are recorded in income according to the effective interest rate method.

Equity holdings that are not holdings in subsidiaries, associates or joint undertakings are classified as available-for-sale financial assets.

i) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

In determining the fair value of a financial asset or liability, if an active market exists, the market price is applied. This constitutes level 1 of the hierarchy of fair value, as defined in the IFRS 7, as followed by IP.

If there is no active market, which is the case for some financial assets and liabilities, valuation techniques generally accepted in the market will be applied, based on market assumptions. This constitutes level 2 of the hierarchy of fair value, as defined in the IFRS 7, as followed by IP.

In this level 2 of the hierarchy of fair value IP includes unlisted financial instruments, such as derivative financial instruments as financial instruments at fair value through income. The valuation models most frequently used are discounted cash flow models and option evaluation models which include, for example, interest rate curves and market volatility.

In relation to certain more complex types of derivative financial instruments, the valuation models used are advanced models containing assumptions and data that are not directly observable in the market. This constitutes level 3 of the hierarchy of fair value, as defined in the IFRS 7.

j) IMPAIRMENT OF ASSETS

In accordance with IAS 36 – Impairment of assets, whenever an asset’s accounting value exceeds its recoverable amount, its value is reduced to the recoverable amount, and the loss by impairment is recognised in income for the year. The recoverable value corresponds to the highest value between the utilisation value and the fair value, and is determined whenever there are indicators of lost value.

The asset utilisation value is determined based on the current value of estimated future cash flows, deriving from continued use and the sale of the asset at the end of its useful life. To determine future cash flows, assets are allocated at the lowest level for which identifiable separate cash flows exist (cash generating units).

Non-financial assets, for which impairment losses were recognized, are valued at each reporting date, on the possible reversal of the impairment losses.

In the event of recording or reversal of impairment, the assets' amortisation and depreciation are re-determined prospectively, in accordance with recoverable value.

k) INVENTORIES

The acquisition or production cost includes all purchase costs, conversion costs and other costs incurred to place the inventories at the location and in their condition for use or sale. Net realisable value is the estimated sale price during the normal period of activity minus the respective sale costs, as stipulated in IAS 2 - Inventories.

Goods leaving the warehouse (consumption) are valued at the weighted average cost.

At its warehouses, IP has materials purchased for the sole specific purpose of its Long Duration Infrastructure Investment Activity.

l) CASH AND CASH EQUIVALENTS

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the amounts recorded in the Statement of Financial Position, including cash and deposits with banks and with Agência de Gestão da Tesouraria e da Dívida Pública – IGCP, E.P.E (IGCP).

Cash and cash equivalents include cash, bank deposits and other short-term applications of high liquidity and with initial maturity of up to 3 months.

Accounting overdrafts are presented in the Statement of Financial Position, current liabilities, under “Loans”.

m) FINANCIAL LIABILITIES

The financial liabilities represent payable obligations against cash or other financial assets, regardless of their legal form. They are initially recorded at fair value minus transaction costs and subsequently at amortised cost, based on the effective rate method.

n) NON-CURRENT LOANS

The company recognises non-current bank loans as financial liability according to IAS 39 – Financial instruments. These financial liabilities are recorded as follows: (i) They are initially recorded at fair value minus transaction costs and (ii) subsequently at amortised cost, based on the effective rate method.

IP has non-current loans in the form of bilateral and bond loans to finance the construction of long duration infrastructures (LDI) and the management of road and railway infrastructure.

o) SUPPLIERS AND OTHER ACCOUNTS PAYABLE

The balances of suppliers and other creditors are recorded at amortised cost

p) PROVISIONS

Provisions are set up whenever there is an obligation (legal or implicit) arising from a past event and whenever it is probable that a reasonably estimated decrease in resources, which include economic benefits, will be required to liquidate the obligation.

Provisions are revised on the date of each reporting period and are adjusted to reflect the best estimate at that date.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks that are specific to the obligation.

q) Employee benefits

Former EP had granted early temporary retirement pensions and complementary retirement and survival benefits to a restricted and closed group of employees.

These post-employment supplements are paid to the employees by Caixa Geral de Aposentações (civil servants pension fund) and subsequently charged to Group IP until such time as the employees in question meet the conditions for retirement under the general law.

The liabilities related to the payment of these benefits are reviewed on an annual basis. The present value of the obligation is determined using the immediate life income method, by deducting future benefit payments using the interest rate of highly rated bonds denominated in the same currency in which the benefits would be paid and with a maturity approaching the maturity of the assumed liability.

Liabilities recognised in the Statement of financial position correspond to the present value of the benefit obligation determined at the date of the consolidated statement of financial position.

r) RECOGNITION OF REVENUE

Revenue is recorded in the period to which it refers, irrespectively of when it is received, in line with the accrual concept of accounting. The differences between the amounts received and the corresponding income are registered in caption “other receivables”.

IP's revenue includes:

Infrastructure management: fees due by railway operators for the use of the infrastructure, traction power, shunting, capacity requested but not used and other services in the Network Directory available at IP's website, under the terms of Decree-law 270/2003, as amended by Decree-law 231/2007, specifically Section III of Chapter IV and Regulation 630/2011. The Directory views to provide railway transport companies the information they may need to access and use the national railway infrastructure managed by IP;

Revenues from road activity result from the road concession contract (hereinafter “the Contract”) which the State entered with former EP on 23 November 2007, the bases of which were approved by Decree-Law no. 380/2007, of 13 November, as amended by Law no. 13/2008 of 29 February, Decree-Law no. 110/2009, of 18 May, and Decree-Law no. 44-A/2010, of 5 May.

The object of this contract, which terminates at 24 hours on 31 December 2082, is the concession by the Portuguese State to EP of the following:

- Design, construction, financing, maintenance, operation, rehabilitation and enlargement of the roads included in the National Road Network;

- Design, project, construction, financing, maintenance, operation, rehabilitation and enlargement of the roads included in the Future National Road Network;
- Financing, operation, maintenance, renovation and widening of the roads comprised in the National Road Network or the Future National Road Network but which also comprise the Concessioned Network, such responsibilities being however subject to the initial term of the concession contracts currently in force between the State and third parties. The initial term also marks the end of the company's assumption of all payments due and receipts to be collected by the State within the scope of said contracts.

Under the concession contract, which was entered into for a period of 75 years starting in 2008, the following, among others, are IP own revenues:

i. Road Service Contribution (RSC)

The RSC, created by Law no. 55/2007, of 31 August, is the consideration paid by the users for the use of the national road network. It is levied on gasoline, auto diesel and LPG (as from 2014) subject to tax on oil and energy products ("ISP) that are not exempt from such tax.

Monetary setting has a time lag of around two months relative to collection date and therefore the revenue is recognised on an accrual basis.

ii. Other Revenues arising from the Concession Contract

In order to pursue its corporate object, the company must provide construction services in connection to the development of the national road infrastructure network.

The result of the construction of each new component of the National Road Infrastructure Network is recognised using the percentage of completion method.

The revenue to be recognised is calculated as the percentage of completion multiplied by the total value of the works. The total value of the works is the amount agreed with the grantor (the State), or, when an amount has not been agreed, the sum of the expenditure components specifically concerning the works in question, both internal and external.

The amount receivable from the provision of construction services within the scope of the Concession is exchanged for the Concession Right.

When the total value of the works has been agreed with the Grantor, whenever the sum of the specific expenditures incurred and to be incurred exceeds the agreed revenue, the estimated loss is immediately recognised in results.

iii. The value of toll rates - Roads under the company's management or sub-concessioned

Toll collection on roads included in the network managed by the company or the sub-concessioned network is recognised in the year's results according to the real tolls in the period, in so far as these tolls are charged in roads over which IP already has full concession rights.

iv. The value of toll rates - Roads under sub-concessioned management

Toll collection on roads included in the Concessioned Network is recognised according to the real tolls in the period, with the resulting amount being deducted to IP's investment in the acquisition of rights over said Concessioned Network, as stipulated in the Concession Contract entered with the Portuguese State

s) INCOME TAX

Income tax for the period comprises current and deferred tax. Income tax is recognised in the income statement, except when it concerns gains or losses recognised directly in equity, in which case it is also recognised directly in equity. The amount of current income tax payable is determined based on results before tax, adjusted to the tax criteria in force at reporting date.

Deferred tax is recognised when there are differences between the book value of assets and liabilities at a specific moment and their value for tax purposes, using estimated tax rates in force at the time of the reversal of temporary differences.

Deferred tax liabilities are generally recognised for all taxable temporary differences, while deferred tax assets are only recognised for:

i) taxable temporary differences which are expected to be reversible in the future, or

ii) when there are deferred tax liabilities the reversal of which is estimated to occur at the same time as the deferred tax assets.

Temporary differences underlying assets and liabilities are reassessed on a regular basis in order to recognise or adjust them based on expectations for their future recovery.

TAX GROUP

In March 2014 Group IP adopted the special taxation system for holding companies (“RETGS”).

The tax group comprises all companies registered in Portugal in which IP (parent company of Group IP) holds a stake of at least 75%, under the terms of provisions in article 69 and following of the Corporate Tax Code (IRC), specifically the following:

Infraestruturas de Portugal, S.A.

IP Património - Administração e Gestão imobiliária, S.A.

IP Telecom – Serviços de Telecomunicações, S.A.

IP Engenharia, S.A.

GIL – Gare Intermodal de Lisboa, S.A.

The companies included in IP Tax Group determine and record their income tax as if they were taxed on an individual basis. Liabilities arising therefrom are recognised as due by IP, which will determine and settle the overall tax due.

Any tax advantage arising out of the application of the RETGS will revert to IP.

t) SUBSIDIES

Subsidies received from the Portuguese State and the European Union are recognised at fair value when there is reasonable certainty that the terms for receiving the subsidy will be complied with, except for those relating to LDI, which are recognised only when they are received.

Non-refundable subsidies obtained for investment in tangible and intangible fixed assets are recognised as deferred income.

These subsidies are subsequently credited to the Statement of comprehensive income, under "Other income and gains", pro-rata to the depreciation/amortisation of the subsidized assets.

Subsidies obtained to finance assets acquired/built in long term infrastructures are recognised in the Statement of Financial Position under caption "Grantor-State-Account Receivable", since as they are awarded within the scope of the activity under concession, they represent the repayment of part of the expenses incurred and are deducted in the amount to be received from the Grantor.

Non-refundable operating subsidies are recognized in the Statement of comprehensive income in the same period as the associated expenses are incurred.

u) SEGMENT REPORTING

BUSINESS SEGMENTS

An operating segment is a component of an entity which develops a business activity: i) that can generate revenue and incur costs; ii) whose operating income is regularly reviewed by the chief decision maker of the entity; and iii) which supplies distinct financial information.

IP appointed as responsible for operational decision-making the Board of Directors, i.e. the body which reviews the internal information prepared so as to assess the performance of the company’s activities and the allocation of its resources. The determination of the operational segments was carried out based on information reviewed by the Executive Board of Directors.

An entity should report the information concerning each identified business segment separately, which results from the aggregation of two or more segments with similar economic characteristics, or which exceeds the quantitative parameters stipulated in the IFRS 8 – Business Segments.

v) RELATED ENTITIES

Revision of IAS 24 – "Related parties: disclosure" establishes the obligation to disclose transactions with the State and State-related entities (i.e. equally held by the State).

Following internal analysis, the Executive Board of Directors did not deem relevant, taking into account its overall business, to disclose balances and transactions with other parties, except for those referred to hereinbelow:

Related entities are those which control (Portuguese State) or are controlled by IP (subsidiaries), or which are under common control (joint ventures) and other entities (railway operators).

IP discloses balances and transactions with related entities in Note 33.

w) SUBSEQUENT EVENTS

Events occurred between the date of the Statement of Financial Position and the Date on which the Financial Statements were approved that provide evidence of conditions that existed at the date of the Statement of Financial Position are reflected in the Financial Statements.

Events occurred between the date of the Statement of Financial Position and the Date on which the Financial Statements were approved that provide evidence of conditions that emerged following the date of the Statement of Financial Position will be disclosed in Note 40, if material.

2.3 MAIN ESTIMATES USED FOR PREPARING THE FINANCIAL STATEMENTS

In the preparation of the separate financial statements according to IFRS, the Executive Board of Directors of IP uses judgements, estimates and assumptions which affect the application of policies and reported amounts. Estimates and judgements are continually evaluated based on the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates used are based on the best information available during the preparation of consolidated financial statements, however, events may occur in subsequent periods that were not expectable as of the date of this statements and therefore, were not considered in such estimates. Changes to estimations after these financial statements date will be prospectively corrected through profit or loss in accordance with IAS 8.

The Executive Board of Directors believes that the estimates made by it are appropriate and that the financial statements adequately present the financial position of IP and the results of its operations and cash flows in all material respects.

The most relevant accounting estimates reflected in the financial statements are as follows:

ROAD CONCESSION RIGHT

IP amortises its Concession Right by the equivalent units method, as described in Note 2.2. This amortisation is therefore based on the estimated total revenue to be generated by the Concession up to its term and the valuation of all the investments to be made by IP.

These two parameters are defined based on the Board of Directors' best judgement concerning the assets and businesses in question, also taking into account the practices adopted by international peer companies.

ESTIMATED PATTERN OF REVENUES

Establishing the amount and timing of future revenues is essential to determine the equivalent units method, on which the calculation of the amortisation of the Road Concession Right is based.

This pattern is estimated based on performance in the recent past on and on IP's Executive Board do Directors' best outlook for the future, having the same calculation base of the revenues introduced in the multi-annual financial model, with the changes considered in the following paragraphs.

The company also made a sensitivity analysis of the evolution of revenues over the Contract's life and their impact on the amortisation for the year. These analyses were based on the following assumptions:

a) Real increase in toll revenue after the initial term of the concession contracts of 0%, real increase in the RCS according to the Business Plan and Budget for 2016 and 2017 and 0% after 2018, with growth remaining in line with the CPI;

b) Real increase in toll revenue after the initial term of the concession contracts of 1% up to 2039 and 0% as from 2040, real increase in the RCS according to the Business Plan and Budget from 2016 to 2020 and 0.5% after 2021, with growth remaining in line with the CPI;

c) Real increase in toll revenue after the initial term of the concession contracts of 1% and real increase in the RCS according to the Business Plan and Budget for 2016 and 2017, of 0% in the period from 2018 to 2020 and 1% after 2021, with growth remaining in line with the CPI.

The results of these different analyses in 2016 are shown in the table below:

(€m)

Sensitivity analysis to RSC and Toll revenue growth	Scenario a)	Scenario b)	Scenario c)
Amortisation and depreciation for the year	266	241	195
Amortisation of subsidies	- 64	- 59	- 50
	202	**182**	**144**
Difference		**- 20**	**- 57**

REGULAR MAINTENANCE OF ROADS AND ENGINEERING STRUCTURES

The annualised cost of the programmed maintenance works required to maintain the network's average quality index at the same level as when the network was received (a stipulation of IP's Concession Contract) is calculated based on technical assessments of repair needs and an index of the average quality of road and engineering structures.

PROVISIONS

The Company periodically examines any obligations arising from past events that warrant recognition or disclosure.

The subjectivity in determining the likelihood that internal resources may be required for the settlement of obligations, and the amount thereof, may lead to significant adjustments, both due to changes in the assumptions used and due to the future recognition of provisions previously disclosed as contingent liabilities.

Provisions resulting from lawsuits in progress are periodically assessed by IP's internal and external lawyers in charge of those proceedings.

With regards to the Provision for Disqualified Roads, IP determines if its booked value is adequate, based on a comprehensive survey of all roads still under its responsibility and a technical assessment of the cost involved in preparing them for delivery to the municipalities.

As a result of the developments in the VAT process described in Note 13, a provision in the amount corresponding to the estimated impact of an unfavourable decision to former EP (the entire VAT deducted by EP in activities financed by the RSC) has been set up (Note 16).

CONSTRUCTION VIA SUB-CONCESSIONS

Construction through Sub-Concessions is recognised to reflect the effective evolution of the works, based on percentage of completion data obtained from the sub-concessionaires and validated by IP.

INCOME TAX

Deferred tax assets are recognised only when there is strong assurance that there will be future taxable income available to use the temporary differences or where there are deferred tax liabilities whose reversal is expected to take place in the same period in which the deferred tax assets are reversed. The assessment of deferred tax assets is undertaken by management at the end of each reporting period taking account of the expected future performance of IP. Deferred taxes are determined based on the tax legislation in force or legislation published for future application. Changes in the tax legislation may influence the amount of deferred taxes, and this is carefully taken into account by the Management.

2.4 MAIN JUDGEMENTS IN THE APPLICATION OF RELEVANT ACCOUNTING POLICIES

DEPRECIABLE VALUE OF THE CONCESSION RIGHT

The value taken as the amortisable value of the Concession Right must take into account the value of works and programmed maintenance up to the term of the concession.

Changes in planned, contracted and executed values may vary due to factors outside the company's control, impacting the amortisable value to be recorded in the future.

3. FINANCIAL RISK MANAGEMENT POLICIES

FINANCIAL RISKS

IP's activity is subject to risk factors of financial nature, namely exchange rate risk, credit risk, liquidity risk and interest rate risks associated with loan payment cash flows.

Decree-law 133/2013 of 3 October introduced changes to the autonomy of reclassified public companies (EPR) in what concerns access to funding with the financial system, and the use of derivative financial instruments for risk management purposes.

In fact, Article 29 of the said Decree-law determines that an EPR cannot access funding with financial institutions, unless it is a multilateral financial institution (e.g. European Investment Bank), while article 72 established the transfer of these companies' derivatives portfolios to the Public Debt and Treasury Management Agency (Agência de Gestão da Tesouraria e da Dívida Pública – IGCP, EPE (IGCP).

EXCHANGE RISK MANAGEMENT

IP's activities are not subject to significant exchange rate risk.

CREDIT RISK MANAGEMENT

IP is subject to credit risk.

Credit risk is associated with the risk of another party defaulting on its contractual obligations, resulting in a financial loss for IP.

IP's revenues stem mainly from the Road Service Contribution (RSC), which is charged by and delivered to EP by the Tax and Customs Authority ("AT"), and in toll revenue, where the customer base is diversified and the amount of each transaction is small. IP therefore does not incur in significant credit risk.

Credit risk resulting from railway activity is basically related with any failure by railway operators to fulfil their obligations. CP is the main counterparty as exclusive passenger transport operator for the entire network, except for the 25 de Abril Bridge crossing, which is operated by Fertagus. Therefore, although the credit risk is strongly concentrated in CP, it is mitigated by the legal nature of this entity which is 100% publicly owned, and, as from 2015 onwards, given its EPR circumstance.

Impairment adjustments for accounts receivable are calculated on the basis of the counterparty's risk profile and financial condition.

As for credit risk associated with financial activity, IP is exposed to the national banking sector through its demand deposits balances and to the international banking sector with which it has contracted derivative financial instruments. This exposure is decreasing since 2010 due to the implementation of the legal regime of the State Treasury to public companies, which established the concentration of cash and liquid assets and financial applications at IGCP. IP's cash and liquid assets are almost entirely (99%) deposited with the IGCP.

To date, IP did not incur into any impairment resulting from non-compliance of contractual obligations by banks.

The following table provides a summary as of 31 December 2016 and 2015 of the credit quality of deposits:

Rating	31-12-2016	31-12-2015
< =BBB+	204	183
< =BB+	278 108	157 388
No rating	28	86
	278 341	**157 656**

Note: Caption Cash is not included.

Ratings above were provided by Standard and Poor's at reporting date.

LIQUIDITY RISK MANAGEMENT

IP is subject to liquidity risk.

This type of risk is measured by the capacity to obtain financial resources to face liabilities undertaken with different stakeholders, namely suppliers, banks, the capital market, and others. This risk is measured by the company's available liquidity to face the said liabilities as well as its capacity to generate cash flow from its business activity.

IP sets out to minimise the probability of a breach of commitment by means of a stringent and thoroughly planned business management. A conservative management of liquidity risk implies the maintenance of an adequate level of cash and cash equivalent to face existing liabilities. Following REFER's and EP's integration into the State's consolidation perimeter in 2011, these companies became directly financed by the Portuguese State; as result, the liquidity risk reduced significantly.

Table below presents the liabilities of IP by residual and contractual maturity levels. The amounts presented in the tables are non-discounted cash flows as of 31 December 2016.

	Less than 1 year	1 to 5 years	+ than 5 years
Loans			
- interest and repayment of loans	224 943	2 018 446	2 052 350
- interest and repayment of shareholder funding / Shareholder's loans	4 098 725	827 365	-
Suppliers and other accounts payable	882 422	2 616 557	-
Guarantee	5 574	20 920	9 142
	5 211 664	**5 483 288**	**2 061 493**

INTEREST RATE RISK MANAGEMENT

IP is subject to interest rate risk as long as it holds loans contracted with the financial system and the State to finance its activity.

The main objective of interest rate risk management is to provide protection against interest rate rises, insofar as the companies' revenues are immune to this variable and, thus, prevent any natural hedging.

The Group does not use interest rate hedging instruments.

Presently, the purpose of the interest rate risk management is basically to monitor interest rates affecting Euribor-based financial liabilities.

INTEREST RATE SENSITIVITY TEST

Group IP uses sensitivity analysis on a regular basis to measure the extent to which results would be influenced by the impact of interest rate variations on the fair value of its loans. These analyses have helped decision-making in interest rate risk management. The sensitivity test is based on the following assumptions:

i. At 31 December 2016 Group IP had not recognised any loan obtained at a fair value;
ii. Changes to the fair value of loans and financial liabilities are estimated by discounting future cash flows, using market rates at the time of reporting;
iii. Based on these assumptions, at 31 December 2016 an increase or decrease by 0.5% in Euro interest rate curves would result in the following variations in the fair value of the loans, with consequent direct impact on results:

Increase/(decrease) in the fair value of loans		
	Change in the Interest rate curve	
	-0.50%	**0.50%**
EUR	81,677	202,514
	Net effect on results	
EUR	-81,677	-202,514

CAPITAL RISK MANAGEMENT

IP's goal in terms of capital risk management, which is a broader concept than the capital shown on the Statement of Financial Position, is to safeguard the ongoing business operation.

The key instrument to manage this risk is the funding plan (or financial plan) of IP whereby funding sources are identified, such as the strengthening of the capital structure promoted by the shareholder since 2014, with capital increases in cash or conversion into capital of the funding/partner’s loans granted by the shareholder.

IP was set up with a share capital of €2,555,835 thousand represented by 511,167 shares, with the nominal value of €5 thousand per share. At 31 December 2016, the share capital amounted to €4,045,375 thousand.

In 2016 IP carried out capital increases, in cash, in the total amount of €950,00 thousand, as follows:

	2016	2015
Share capital increases	**950,000**	**1,617,258**
Investment	711,656	766,416
Debt Service	238,344	850,842

It should be noted that in 2016, although the conversion into share capital of the debt service for the year relating to loans contracted with the Portuguese State in the amount of €3,416.6 million had been initially planned, it did not occur.

According to information received from the Directorate-General of the Treasury (DGTF) in notice 3168, of 21 June 2016, the repayment of the said debt service due on May 31, was postponed to 30 November 2016.

Under the terms of office 493 of 18 January 2017 of the Directorate-General of the Treasury (DGTF) payment of the debt service of loans due on 30 November 2016 and 31 May 2017, was postponed to 30 November 2017, effective as from 30 November 2016.

The deferral now granted will not accrue interest.

4. SEGMENT REPORTING

The company has the following business segments:

- **High Performance;**
- **Road Infrastructure Management Activity**
- **Railway Infrastructure Investment Activity**
- **Railway Infrastructure Management Activity;**

Segment 'High Performance' corresponds to the entire activity relating to "High Performance Roads" and includes all motorways managed pursuant to public-private partnership (PPPs), namely State concessions and sub-concessions, and remaining high performance roads currently directly managed by IP.

Segment 'Road Infrastructure Management Activity" includes the whole National Road Network not included in the previous segment, and covers road and road related structures' construction and repair, maintenance and improvement of the safety of the network.

Segment 'Railway infrastructure Investment Activity" includes the different investments associated to new infrastructures and/or expansion of the network; modernisation and renovation, deployment of new technologies; and, replacement, which includes long term improvements or improvements likely to increase the value and/or useful life of the asset though not altering its operating conditions;

As described hereinabove, the financing required for the investments made is obtained by the company and may be in the form of loans with financial institutions and the financial market, suppliers, capital contributions and subsidies.

Segment "Railway Infrastructure Management Activity" corresponds to the rendering of a public service, covering tasks such as conservation and maintenance of infrastructures, management of capacity, management of the regulation system, and traffic safety, command and control, including other complementary activities to infrastructure management.

Financial information relating to the assets and liabilities of the segments above as of 31 December 2016 and 2015 is as follows:

31-12-2016	Rail Infrast. Investment Activit.	Rail Infrast. Manag. Activit.	High Performance	Rail Infrast. Investment Road	Total
Revenue from sales and services	19 992	80 682	375 979	683 355	1 160 008
Impairments	-	12 685	-	3 323	16 008
Provisions	-	- 4 277	-	- 15 715	- 19 992
Other income	-	55 037	9 010	69 608	133 655
Other expenses	- 18 848	- 201 303	- 300 933	- 153 597	- 674 681
EBITDA	**1 143**	**- 57 176**	**84 056**	**586 975**	**614 999**
Amortisation and depreciation	- 1 143	- 2 739	- 267 419		- 271 301
EBIT	**0**	**- 59 914**	**403 612**		**343 698**
Financial expenses	- 114 707	- 35 672	- 262 427		- 412 806
Financial income	114 707	363	582		115 652
EBT	**0**	**- 95 224**	**141 768**		**46 544**
Income tax	-		- 20 224		- 20 224
Net Income	**0**		**26 320**		**26 320**

31-12-2015	Rail Infrast. Investment Activit.	Rail Infrast. Manag. Activit.	High Performance	Rail Infrast. Investment Road	Total
Revenue from sales and services	15 808	82 801	426 534	795 945	1 321 088
Impairments	-	- 10 758	-	585	- 10 173
Provisions	-	2 541	-	- 8 437	- 5 896
Other income	-	47 649	9 478	70 410	127 537
Other expenses	- 14 907	- 169 528	- 330 508	- 265 445	- 780 388
EBITDA	**901**	**- 47 296**	**105 504**	**593 059**	**652 169**
Amortisation and depreciation	- 901	- 2 534	- 257 299		- 260 735
EBIT	**0**	**- 49 830**	**441 263**		**391 433**
Financial expenses	- 119 782	- 59 930	- 302 696		- 482 408
Financial income	119 782	161	108		120 052
EBT	**0**	**- 109 599**	**138 675**		**29 077**
Income tax	-		- 16 541		- 16 541
Net Income	**0**		**12 536**		**12 536**

31-12-2016	Rail Infrast. Investment Activit.	Rail Infrast. Manag. Activit.	High Performance	Rail Infrast. Investment Road	Total
Assets					
intangible	-	1 960	19 824 956		19 826 916
Grantor	5 496 216	-	-	-	5 496 216
Other assets	23 732	176 076	56 469	1 802 416	2 058 693
Total assets	**5 519 948**	**178 036**	**21 683 841**		**27 381 825**
Liabilities					
Borrowings	3 124 886	2 679 779	2 539 349	-	8 344 014
Subsidies	-	-	10 221 365		10 221 365
Other liabilities	26 185	90 713	3 465 601	1 149 712	4 732 211
Total Liabilities	**3 151 071**	**2 770 492**	**17 376 027**		**23 297 590**

31-12-2015	Rail Infrast. Investment Activit.	Rail Infrast. Manag. Activit.	High Performance	Rail Infrast. Investment Road	Total
Assets					
intangible	-	1 306	19 625 015		19 626 321
Grantor	5 407 589	-	-	-	5 407 589
Other assets	54 717	244 425	110 834	1 616 503	2 026 479
Total assets	**5 462 305**	**245 731**	**21 352 352**		**27 060 388**
Liabilities					
Borrowings	3 055 071	2 764 494	2 582 640	-	8 402 205
Subsidies	-	-	10 450 148		10 450 148
Other liabilities	68 508	581	3 926 144	1 104 888	5 100 121
Total Liabilities	**3 123 579**	**2 765 075**	**18 063 820**		**23 952 474**

5. TANGIBLE FIXED ASSETS

Movements in tangible fixed assets as of 31 December 2016 and 2015 are as follows:

	Land and Natural Resources	Buildings and other construction	Basic equipment	Transport equipment	Administrative equipment	Other tangible fixed assets	Work in progress	Total
01 January 2016								
Acquisition cost	5 940	73 846	33 254	11 666	19 402	5 972	1 363	151 444
Cumulative Depreciation	-	- 34 339	- 25 537	- 11 346	- 18 420	- 5 874	-	- 95 516
Net value	**5 940**	**39 508**	**7 717**	**320**	**981**	**99**	**1 363**	**55 928**
Increases	-	-	900	2	88	148	1 626	2 763
Transfers	-	-	1 026	-	-	-	- 1 263	- 237
Disposals /Corrections	-	- 85	-	- 190	- 156	- 4	-	- 435
Depreciation for the year	-	- 1 708	- 1 847	- 113	- 395	- 20	-	- 4 082
Depreciation - Write-downs/Corrections	-	61	-	190	156	4	-	411
Net value	**5 940**	**37 776**	**7 796**	**210**	**675**	**226**	**1 726**	**54 348**
31-12-2016								
Acquisition cost	5 940	73 762	35 180	11 479	19 334	6 116	1 726	153 535
Cumulative Depreciation	-	- 35 986	- 27 384	- 11 269	- 18 659	- 5 890	-	- 99 187
Net value	**5 940**	**37 776**	**7 796**	**210**	**675**	**226**	**1 726**	**54 348**

	Land and natural Resources	Buildings and other construction	Basic equipment	Transport equipment	Administrative equipment	Other tangible fixed assets	Work in progress	Total
01 January 2015								
Acquisition cost	4 948	34 998	24 127	6 479	9 316	1 029	924	81 820
Cumulative Depreciation	-	- 14 110	- 18 314	- 6 171	- 8 810	- 961	-	- 48 366
Net value	**4 948**	**20 888**	**5 813**	**308**	**506**	**67**	**924**	**33 454**
Merged assets	992	38 635	8 439	5 057	9 396	4 902	128	67 549
Increases	-	-	757	131	796	35	366	2 084
Transfers	-	213	16	-	27	7	- 55	207
Disposals /Corrections	-	-	- 83	-	- 133	-	-	- 216
Assets Integrated following merger - Cum. Dep.	-	- 18 479	- 5 431	- 5 021	- 9 289	- 4 897	-	- 43 116
Depreciation for the year	-	- 1 751	- 1 875	- 155	- 454	- 15	-	- 4 250
Depreciation - Write-downs/Corrections	-	-	83	-	133	-	-	216
Net value	**5 940**	**39 508**	**7 717**	**320**	**981**	**99**	**1 363**	**55 928**
31-12-2015								
Acquisition cost	5 940	73 846	33 254	11 666	19 402	5 972	1 363	151 444
Cumulative Depreciation	-	- 34 339	- 25 537	- 11 346	- 18 420	- 5 874	-	- 95 516
Net value	**5 940**	**39 508**	**7 717**	**320**	**981**	**99**	**1 363**	**55 928**

IP owns several plots of lands resulting from land expropriations in connection to the construction of the National Road Network (NRN). Since the possibility of using or marketing these plots of land is dependent on several legal and/or commercial contingencies, the company considers that they represent contingent assets and does not register or disclose them until it is probable that they will generate an inflow of economic benefits for the company, at which time they are recognised as Assets held for sale or Investment properties, according to the use they are given.

6. INTANGIBLE ASSETS

At 31 December 2016 and 31 December 2015, the detail of intangible assets was as follows:

	Concession right	Software	Other	Total
01 January 2016				
Acquisition cost	21 399 876	26 341	1 887	21 428 104
Cumulative Amortisation	- 1 776 002	- 24 468	- 1 313	- 1 801 783
Net value	**19 623 874**	**1 873**	**574**	**19 626 321**
Increases	630 949	755	269	631 973
Transfers	-	237	-	237
Write-downs /Corrections	-164 402	-	-	-164 402
Amortisation for the year	- 266 215	- 979	- 19	- 267 213
Net value	**19 824 205**	**1 887**	**824**	**19 826 916**
31 December 2016				
Acquisition cost	21 866 422	27 333	2 156	21 895 912
Cumulative Amortisation	- 2 042 217	- 25 447	- 1 332	- 2 068 996
Net value	**19 824 205**	**1 887**	**824**	**19 826 916**

	Concession right	Software	Other	Total
01 January 2015				
Acquisition cost	-	20 684	1 261	21 945
Cumulative Amortisation	-	- 18 258	- 1 100	- 19 358
Net value	**-**	**2 426**	**161**	**2 587**
Merged assets	20 717 499	5 375	112	20 722 986
Increases	682 377	282	513	683 172
Assets Integrated following merger - Cum. Dep.	- 1 521 243	- 4 643	- 61	- 1 525 947
Amortisation for the year	- 254 759	- 1 567	- 153	- 256 479
Net value	**19 623 837**	**1 858**	**412**	**19 626 107**
31 December 2015				
Acquisition cost	21 399 876	26 341	1 887	21 428 104
Cumulative Amortisation	- 1 776 002	- 24 468	- 1 313	- 1 801 783
Net value	**19 623 874**	**1 873**	**574**	**19 626 321**

The amount of intangible assets relates mainly to the right deriving from the Road Concession Contract. The value of this right is increased following the investments made within the scope of the Contract.

Assets are made up of the percentage of finished work in relation to each work, regardless of the company performing the work, i.e. EP or pursuant to a PPP agreement.

The amount of €631 million in investment made in 2016 includes approximately €49.4 million relating to the construction of sub-concessions, €575,7 million relating to payments net of receivables from State concessions and €5.9 million of own works of IP.

These figures include capitalised financial expenses in the amount of €63.9 million in 2016.

Corrections recorded in the amount of €164.4 million correspond to investment subsidies to Transmontana Sub-concession, following a revision of respective construction cost by an equivalent amount.

The amortisations for the year are calculated under IFRIC 12 according to the equivalent units method, on the value of total investment already made or to be made in the future within the scope of the Concession between IP and the State, based on the estimated economic and financial flows during the period of the Concession. These amounts have the same base of IP's multi-annual financial model, with changes described in Note 2.3.

The total investment of the Concession was estimated based on the following main assumptions:

- The annual costs with the formerly toll-free motorways (former SCUT) are effective until 2032 and represent the best estimate based on the renegotiated contracts by the Negotiation Committee and the Concessionaires;

- The costs of construction under the Sub-Concession Contracts, valued at the cost of each base case, including the changes resulting from the Memoranda of Understanding;

- Expenses with the modernisation and maintenance of IP's own network;

- IP's other investments concern the installation and improvement of equipment, studies, projects, supervision and assistance;

- Costs with regular maintenance reflect the guidelines set forth in 2014 by former EP, resulting from implementation of the strategic plan;

- The National Road Plan 2000 is deployed until 2040.

The total investment is amortised according to the best estimate of revenues generated during the concession period.

Annual revenues were estimated based on the following main assumptions:

- The Road Service Contribution (RSC) until 2017 is the best management estimate for those years. From 2018 onwards, the RSC will increase based on the assumption that the annual consumption of gasoline and auto diesel increases by 0% and the unit price per litre consumed increases in accordance with the CPI (2%/year).

- The sub-concessions' toll revenues are based on the base cases, or in more recent traffic surveys prepared by specialised consultants and available at the time of review and approval of the economic and financial flows for the period of the Concession. After the sub-concessions revert to IP, the growth rate considered is that of the CPI, based on the last year of these surveys and base cases;

- After the ex-SCUT motorways revert to IP the growth rate considered is that of the CPI, based on the more recent traffic surveys prepared by IP specialised consultants;

- In the State Concessions of tolled motorways, after they revert to the State, the growth rate considered is that of the CPI, based on the last year of the respective base cases or in the more recent traffic surveys prepared by IP specialised consultants;

- In general, the remaining operating revenues (from service areas, telematics equipment and other) were estimated in 2016 within the scope of the revision of the economic and financial model for the period of the concession.

Based on these assumptions the estimated amortisation in 2016 was €266 million.

7. INVESTMENTS IN SUBSIDIARIES

In 2016 and 2015 changes in this caption were as follows:

Subsidiaries	31/12/2016	31/12/2015
Opening balance		
Acquisition cost	20 152	20 152
Cumulative impairments	- 11 242	- 7 278
Net value	**8 909**	**12 874**
Change for the year:		
Impairments	560	- 3 964
Total	**560**	**- 3 964**
Closing Balance		
Acquisition cost	20 152	20 152
Cumulative impairments	- 10 682	- 11 242
Net value	**9 469**	**8 909**

The change in caption "Impairment Losses" concerns the reversal of the correction relating to investment IP Património, in the amount of €560 thousand (2015: increase by €3,964 thousand), via the positive results recorded by IP Património in 2016 (Note 28).

Investment in GIL is fully adjusted, following the successive losses of this company over the past few years.

Investments in subsidiaries are as follows:

Companies	31/12/2016		31/12/2015	
	% holding	Value of equity holding	% holding	Value of equity holding
IP Engenharia, S.A. Rua José da Costa Pedreira nº11 - Lisboa	98.4300	2 589	98.4300	2 589
IP Património - Administração e Gestão imobiliária, S.A. Av. de Ceuta - Estação de Alcântara Terra - Lisboa	99,9997	5 880	99,9997	5 320
IP Telecom – Serviços de Telecomunicações, S.A. Rua Passeio do Báltico, 4 -Lisboa	100,0000	1 000	100,0000	1 000
GIL - Gare Intermodal de Lisboa, S.A. Av. D. João II, Estação do Oriente, lote 1.15 - Lisboa	100,0000	-	100,0000	-
		9 469		**8 909**

8. LOANS GRANTED

During the current year, IP provided accessory capital to GIL in the amount of €24,800 thousand, through the conversion of the said amount previously recorded as treasury loan to subsidiary GIL. (Note 11.3) Given the risk of recovery, an impairment was set up for the full amount (Note 28).

9. DEFERRED TAX ASSETS AND LIABILITIES

The amounts of deferred tax assets and liabilities recognised in the consolidated financial position as at 31 December 2016 and 2015 are stated by their gross value.

The Executive Board of Directors is confident that the tax results generated in the future will permit the full reversal of the deferred tax assets recognised.

The impact of movements in the deferred tax headings in 2015 and 2014 was as follows:

	31/12/2016	31/12/2015
Net impact on the income statement		
Deferred tax assets	- 13 214	7 005
Deferred tax liabilities	- 23	179
	- 13 238	**7 184**

Changes occurred in deferred tax assets and liabilities during the years are as follows:

DEFERRED TAX ASSETS

31 DECEMBER 2016

Deferred tax assets	Adjustment Clients	Employee Benefits	Provision for Social plan	Provision for disqualified roads	Tax losses	Provision for VAT	Regular maintenance	Pensions	Other adjustments	TOTAL
Balance as at 31/12/2015	**4**	**255**	**0**	**1 842**	**2 004**	**53 565**	**57 818**	**383**	**1 765**	**117 636**
Set-up / (Reversal)	5	- 179	-	-	- 561	4 019	11 851	- 44	- 1 019	14 073
Changes in tax rate	-	-	-	- 3	-	- 98	- 118	- 1	- 1	- 221
Revision of estimate	-	-	-	-	- 637	-	-	-	-	- 637
Balance as at 31/12/2016	**9**	**76**	**0**	**1 839**	**806**	**57 486**	**69 550**	**339**	**745**	**130 850**

31 DECEMBER 2015

Deferred tax assets	Adjustment Clients	Employee Benefits	Provision for Social plan	Provision for disqualified roads	Tax losses	Provision for VAT	Regular maintenance	Pensions	Other adjustments	TOTAL
Balance as at 31/12/2014	**0**	**315**	**0**	**0**	**22 333**	**0**	**0**	**0**	**0**	**22 648**
Balances integrated via merger	41	-	567	1 842		49 252	48 054	472	1 765	101 993
Set-up / (Reversal)	- 37	- 69	- 567	-	- 10 877	4 313	9 764	- 89	-	2 438
Changes in tax rate	-	9	-	-	-	-	-	-	-	9
Revision of estimate	-	-	-	-	- 9 452	-	-	-	-	- 9 452
Balance as at 31/12/2015	**4**	**255**	**0**	**1 842**	**2 004**	**53 565**	**57 818**	**383**	**1 765**	**117 636**

DEFERRED TAX LIABILITIES

31 DECEMBER 2016

DEFERRED TAX LIABILITIES	Other
Balance as at 31/12/2015	**179**
Set-up / (Reversal)	- 23
Changes in tax rate	0
Balance as at 31/12/2016	**156**

31 DECEMBER 2015

DEFERRED TAX LIABILITIES	Other
Balance as at 31/12/2014	**0**
Set up	179
Balance as at 31/12/2015	**179**

OTHER DIFFERENCES NOT GIVING RISE TO DEFERRED TAXES

At 31 December 2016, there existed other deductible temporary differences which are not expected to be reversed in future years, and will not, therefore, give rise to deferred tax assets. Note should be made of existing impairments on subsidiaries. loans and other account receivable and inventories.

According to the tax law in force, tax losses likely to be deducted to taxable profit of future years are as follows:

Years	Final reporting date	Amount	Deferred tax base	Not expected to be recovered
2012	**2017**	1 211	510	701
2013	**2018**	8 034	3 329	4 705
		9 244	**3 839**	**5,406**

10. DEFERRALS

As of 31 December 2016 and 2015, the company recorded under deferrals the following balances:

Deferrals	Notes	31-12-2016	31-12-2015
Current expenses to recognise			
Other services		763	512
		763	**512**
Non-current income to recognise			
Investment Subsidies - Road Concession Right	10,1	10 221 365	10 450 148
Greater Lisbon Concession Fee		22 166	23 333
Douro Litoral Concession Fee		130 687	138 374
Term Sale - Brisa Concession		152 300	152 300
		10 526 518	**10 764 155**
Current income to recognise			
Greater Lisbon Concession Fee		1 167	1 167
Douro Litoral Concession Fee		7 687	7 687
Other income		1 160	1 310
		10 014	**10 164**

Expenses to recognise concern payments of services already contracted but not yet provided. Income to recognise result mainly from investment subsidies in the amount of €10,221 million (see note 10.1) and advanced payments from concessions in the amount of €314 million to be recognised as income throughout the period of respective concession.

10.1 INVESTMENT SUBSIDIES - ROAD CONCESSION RIGHT

This caption includes investment subsidies received by IP to finance the intangible asset relating to the Concession Right and not yet recognised via results.

Changes occurred during the period ended as of 31 December 2016 are as follows:

	Investment subsidies
01 January 2016	**10 450 148**
Increases	525
Write-downs	- 164 990
Assigned to income (Note 2.3)	- 64 317
31 DECEMBER 2016	**10 221 365**

Investment subsidies for the development of the road infrastructure recorded an increase in 2016 by €525 thousand, corresponding mainly to the funding from the Cohesion Fund to repay expenses relating to investment projects (Marão Tunnel and CRIL - Buraca/Pontinha) within the framework of the 2007- 2013 National Strategic Reference Framework (NSRF).

The financial contribution obtained from the Cohesion Fund to finance the investment project of AE Transmontana in the amount of €164,402 thousand was deducted in 2016 to caption investments, since this contribution was transferred to AE Transmontana, as provided in the financing contract, and the construction amount of the sub-concession was revised accordingly.

11. CLIENTS AND OTHER ACCOUNTS RECEIVABLE

At 31 December 2016 and 31 December 2015 this caption was made up as follows:

HEADINGS	31/12/2016	31-12-2015
Non-current		
Clients	12 219	17 107
	12 219	**17 107**
Current		
Other accounts receivable	199 001	186 764
Clients	88 488	100 797
Advances to suppliers	-	27 522
	287 489	**315 083**

11.1 OTHER ACCOUNTS RECEIVABLE

At 31 December 2016 and 2015 the balance of other accounts receivable was made up as follows:

OTHER ACCOUNTS RECEIVABLE	Notes	31-12-2016	31-12-2015
Increase Income – Cont. Road Service		92 983	112 425
Subsidiaries	33	7 925	7 316
Treasury loans	11,3	52 140	66 488
Railway Operators	33	11 429	863
Sundry		92 596	74 155
Cumulative impairments		- 58 073	- 74 484
		199 001	**186 764**

Caption Increase in Income - Road Service contribution corresponds to the recognition of revenue for the last two months of the accounting period, since the RSC is invoiced and charged with that same time lag. The decrease results from the fact of an amount of €19.6 million concerning income relating to November 2016 was received in December.

Caption Other accounts receivable – Sundry concerns the following, but not limited to:

- Provision of guarantee (cash collateral) in the amount of €28,126 thousand relating to proceedings brought by the Tax Authorities concerning 2012 VAT.
- Protocols with various municipalities for the construction and renovation of roads, namely in Aveiro, Viana do Castelo, Cascais, Fundão, Lisboa and Coimbra, in the amount of €25,104 thousand, of which €t13,725 thousand concern the protocol for the Construction of the new Aveiro Railway Station - Road/Railway Interface, dating from 2011;

11.2 CLIENTS

As at 31 December 2016 and 31 December 2015, caption "Clients" was made up as follows:

CLIENTS	Notes	31-12-2016	31-12-2015
Non-current			
Sundry		12 219	17 107
		12 219	**17 107**
Current			
Other related entities	33	17 244	36 443
Subsidiaries	33	8 177	7 209
Sundry		37 441	48 551
Tolls		28 418	11 058
Cumulative impairments		- 2 792	- 2 465
		88 488	**100 797**
TOTAL		**100 707**	**117 904**

Debits to clients - other related entities (CP) and Clients - Railway Operators (Fertagus, Takargo and Medway) include, mainly, user fees charged to operators, and debits to operators for services rendered in commercial activities, shunting, capacity requested and not used, parking of rolling stock and other services.

In 2015 IP and Medway negotiated the settlement of credit in the amount of €24,487 thousand over a period of 60 months, through fixed instalments plus interest of at least 1.5%, plus the 6-month Euribor.

At 31 December 2016 and 2015 the seniority of balances with clients was as follows:

Seniority of balances at 31-12-2016	Total due	Up to 30 days	30 to 180 days	181 to 360 days	More than 361 days
Clients	97 914	17 326	32 449	2 690	45 449
Doubtful receivables	2 792	-	-	-	2 792
Total	**100 707**	**17 326**	**32 449**	**2 690**	**48 241**

Seniority of balances at 31-12-2015	Total due	Up to 30 days	30 to 180 days	181 to 360 days	More than 361 days
Clients	115 439	23 747	38 395	5 642	47 655
Doubtful receivables	2 465	-	-	-	2 465
Total	**117 904**	**23 747**	**38 395**	**5 642**	**50 120**

In relation to the analysis of the likelihood of collection, it is considered that the sums due by Municipalities, Local Councils and other public entities or entities benefiting from direct or indirect participation of the State are likely to be fully recovered, despite their default, as they are recognised by such entities.

11.3 TREASURY LOANS

Loans granted to companies in which IP has equity holdings - which are not equity instruments of those entities, are as follows:

	Notes	31-12-2016	31-12-2015
Loans to subsidiaries	33	52 140	66 488
Impairment of loans to subsidiaries		- 52 140	- 66 488
Total		**0**	**0**

Loans granted concern exclusively GIL.

In 2016 loans to GIL were increased, via the transfer of funds, in the amount of €10,452 thousand (2015: €10,359 thousand); Additionally, GIL converted part of the partners' loans (€24,800 thousand) into accessory capital, and the balance was transferred to non-current assets - loans granted (note 8).

In line with previous years, these loans are being adjusted (note 7), taking into account the risk of GIL not being able to repay them in the future.

12. GRANTOR - STATE - ACCOUNT RECEIVABLE

The breakdown of the financial asset underlying to the railway concession at 31 December 2016 and 31 December 2015 is as follows:

Description	31/12/2016	31/12/2015
Assets under Concession (LDI)	8 768 837	8 716 887
Subsidies	- 4 409 117	- 4 334 166
Return on assets	- 6 581	- 3 503
Charged Interest	1 448 278	1 333 571
Impairments	- 305 200	- 305 200
	5 496 216	**5 407 589**

Concessioned assets classified as long duration infrastructures (LDI) belong to the public railway domain, and IP only has access to them to provide the infrastructure management services (MI). Accordingly, they are recorded in the statement of financial position in caption “Grantor”, since they do not qualify as assets controlled by the company.

In addition to the acquisitions and construction made subsequently to the merger of CP – Comboios de Portugal, E.P.E., as provided in Decree-Law No. 104/97, of 29 April, these assets include the property belonging to extinct cabinets (Gabinete do Nó Ferroviário de Lisboa, Gabinete do Nó Ferroviário do Porto and Gabinete de Gestão das Obras de Instalação do Caminho-de-Ferro na Ponte sobre o Tejo) and property transferred from the said company, deemed as public domain assets.

In what concerns the increase in subsidies granted directly to IP to develop the railway infrastructure, we point out the increase by €19,241 thousand stemming from the Cohesion Fund to repay expenditure relating to investment projects for the period of the NSRF plan (2007-2013). Adding to the above, note an increase stemming from the Connecting Europe Facility (CEF) in the amount of €51,878 thousand, corresponding to an advance on applications approved within the scope of the 2014-2020 Plan (CEF - General).

Caption Revenue from Assets results of the obligation as provided in joint order of the Ministries of Finance and Public Works to deduct the gains from the sale of assets de-allocated from the public domain to the amounts receivable from the Grantor. Accordingly, this caption includes the profitability of the public railway domain relating to the concession contract for a plot of land in the Railway Station of Viana do Castelo granted for a period of 75 years started on 19 March 2004 (in the amount of €3.089 thousand).Additionally, an amount of € 3,041thousand was recorded in 2016, relating to the “Compensation Agreement” between IP and EDP Produção – Gestão da Produção de Energia, S.A., pursuant to the national high hydroelectric potential dams plan, which implies the submersion of part of the railway channel of the Tua Line, which will then integrate the Public Hydric Domain.

During the current year, the amount of interest charged to the Grantor totalled €114,707 thousand (2015: € 119,782 thousand); they are recorded under caption Financial gains - interest earned - grantor - State (Note 29).

When REFER was created, its statutory capital was made up in specie, in the form of the railway infrastructure, which at the date was estimated at €th62,350. From 1998 to 2001 the Portuguese Government increased the statutory capital of REFER by €th 242,850, with the purpose of financing the investments in long duration railway infrastructures, as provided in each joint ministerial order.

At the date of inception public domain assets were recorded as fixed assets (tangible fixed assets, according to the accounting plan in force at the time – POC) of REFER; therefore, the capital contribution was the recognition of such assets. Pursuant to IFRIC 12, these amounts are recorded as repayment made in due time concerning expenditure in long duration infrastructure made by concessionaire REFER, totalling €th 305,200 (initially via contribution in kind, added of the capital increases carried out from 1998 to 2001)

As result, this sum will no longer be reimbursed by the State/Grantor, and was recorded as impairment in the amount of €th 305,200.

13. GOVERNMENT AND OTHER PUBLIC BODIES

At 31 December 2016 and 31 December 2015, this caption was made up as follows:

	31-12-2016		31-12-2015	
	Payable	Receivable	Payable	Receivable
Assets and liabilities for current tax				
Corporate Income Tax (CIT)	16	25 804	21 373	-
	16	**25 804**	**21 373**	**-**
Government and other public bodies				
IRS – Withholdings	-	1 461	-	1 437
VAT	1 237 003	-	1 017 550	-
Contributions to SS, CGA and ADSE	-	5 035	-	4 922
Other taxes and levies	98	10	136	11
	1 237 101	**6 506**	**1 017 687**	**6 371**

The payable/receivable balance of corporate income tax is made up as follows:

Description	31-12-2016		31-12-2015	
	Payable	Receivable	Payable	Receivable
Withholdings	-	- 6	58	-
Special advance tax payment	16	- 38	69	-
Advance tax payment	-	- 6 979	29 762	-
Tax estimate	-	32 885	- 9 058	-
"RETGS" Effect	-	- 57	542	-
Total assets and liabilities for current tax	**16**	**25,804**	**21,373**	**0**

IRS, Social Security and CGA balances correspond to December 2016 wages processed that year but settled in January 2017.

Caption State and other public entities includes VAT receivable in the amount of €1,237,003 thousand; the company has applied for tax refund in the amount of €227,562 thousand in 2009, relating to the period from January 2008 to October 2009. This balance to be recovered mainly concerns VAT deducted by former EP in its activity. The company considers it is entitled to make this deduction since the State collected VAT on a revenue of former EP - the Road Service Contribution -, which in accordance with the legally established mechanisms, was paid to the company by the fuel distributors.

IP has filed two lawsuits, currently pending, one claiming the reimbursement of VAT up to June 2009 and the other the reimbursement of VAT from July to September and the deduction of October 2009.

The first case, concerning the claim for the reimbursement of VAT up to June 2009, was rejected by the Tax and Customs Authority (TA), which notified the company concerning additional payments of VAT and interest in the amount of €th 277,124 and €th 11,697, respectively.

As it did not agree with these additional payments which it considered as undue, on 30 November 2010 former EP contested the hierarchical appeal with the Administrative and Tax Court of Almada. However, this request was refused in the first instance in January 2013. Former EP did not agree with this ruling and appealed against it on 6 March 2013.

The second case, concerning the reimbursement of VAT from July to September and the deduction of October 2009, was also rejected by the TA, which notified the company to pay additional VAT and interest in the amount of €th64,506 and €th763, respectively. On 29 July 2011, former EP contested the hierarchical appeal with the Administrative and Tax Court of Almada. However, this request was refused in the first instance in January 2013. EP did not agree with this ruling and appealed against it on 11 March 2013. Former EP did not agree with this ruling and appealed against it on 11 March 2013.

As a result of the referred developments in the VAT proceedings, in 2016 IP reinforced the provision by €15,938 thousand to €333,968 thousand at 31 December 2016. This corresponds to the amount of VAT which former EP estimates it would cease to receive from the TA if it were considered that the RSC is not subject to VAT (Note 17).

In the course of former EP's tax inspection process occurred in 2015 relating to 2011 the TA issued their Tax Inspection Report including notices for additional VAT payments and interest in the amounts of €195,514 thousand and €29,412 thousand, respectively. In what concerns the payment of interest, as the amount of the correction was deducted to the existing report, which results that no payment is due, the corrections concerned cannot give rise to the payment of interest; therefore, the company requested its cancellation.

IP considers these tax assessments as undue and therefore has appealed against them, requesting their cancellation.

In the course of former EP's tax inspection process relating to 2012 the TA issued their Tax Inspection Report including notices for additional VAT payments and interest in the amounts of €188,756 thousand and €2,867 thousand, respectively.

IP considers these tax assessments as undue and therefore has appealed against them, requesting their cancellation.

In addition, it should be noted that the amounts corrected by the TA and not provisioned for by IP concern mainly deducted VAT relating to the State Concession Network, therefore, if the TA thesis should be accepted in Court, the additional consideration payable by IP will always be an increase in its Intangible Assets, with no direct impact on the results for the year, and impact only in the results of future years, via an increase in the depreciation and amortisation of such assets.

14. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents shown in the cash flow statement for the years ending 31 December 2016 and 2015 are reconciled with the amounts shown in the captions of the statement of financial position, as follows:

Description	31.12.2016	31.12.2015
Bank deposits	278 341	157 656
Other applications	-	265 000
Cash	206	192
Cash and cash equivalent in the Statement of Financial Position	**278 547**	**422 848**
Accounting overdrafts	- 444	- 6 706
Cash and cash equivalent in the Cash Flow Statement	**278 103**	**416 142**

These cash amounts can be operated freely.

Accounting overdrafts in the Statement of Financial Position, are recorded under in liabilities, under caption "Loans".

15. SHARE CAPITAL AND RESERVES

i) SOCIAL CAPITAL

The share capital is represented by registered dematerialised shares belonging to the Portuguese State, and held by the Directorate-General of the Treasury.

At 31 December 2015, the share capital of IP was €3,095,375 thousand, fully subscribed and paid up by its shareholder, corresponding to 619,075 shares with the nominal value of €5 thousand per share.

During 2016, the share capital was increased in March, July and December 2016 by respectively, €400,000 thousand, €400,000 thousand and €150,000, through the issue of 80,000, 80,000 and 30,000 new shares; the share capital is presently of €4,045,375 thousand, corresponding to 809,075 shares fully subscribed and paid up.

Basic/diluted earnings per share are as follows:

	31.12.2016
Results attributed to shareholders (in Euro)	26 319 781
Average number of shares in the period	728 242
Average number of diluted shares in the period	728 242
Basic earnings per share (in Euro)	36.14
Diluted earnings per share (in Euro)	36.14

Basic and diluted earnings per share are of €36.14 as there are no dilution factors.

IP determines its basic and diluted earnings per share using the weighted average of the shares issued during the reporting period, as follows:

	(No. of shares)
January 2016 to February 2016	619 075
March 2016	699 075
July 2016	779 075
December 2016	809 075
Average number of outstanding shares	728 242

ii) RESERVES

Reserves are made up as follows:

	31-12-2016	31-12-2015
Merger reserves	4	4
Legal reserve	627	-
	631	**4**

Commercial legislation establishes that at least 5% of annual net profit must be appropriated to a legal reserve until the reserve equals at least 20% of the share capital. This reserve is not available for distribution, except upon liquidation of the company, but can be used to absorb losses once the other reserves have been exhausted, or to increase capital.

16. PROVISIONS

The evolution of provisions for other risks and charges in 2016 and 2015 is as follows:

	General risks	Land Expropriations	Contract works	Employee benefits	Disqualified roads	Emp. Negotiation phase	VAT proceedings	Total
01 January 2016	**37 872**	**49 110**	**41 199**	**1 299**	**409 535**	**561**	**318 030**	**857 606**
Allocation	9 364	2 114	746	-	-	-	15 938	28 162
Decrease	-2 996	-14 923	-8 729	- 148	- 255	-	-	-27 050
As of 31 December 2016	**44 240**	**36 301**	**33 216**	**1 151**	**409 280**	**561**	**333 968**	**858 718**
Non-current balance	44 240	36 301	33 216	1 151	409 280	561	333 968	858 718
	44 240	**36 301**	**33 216**	**1 151**	**409 280**	**561**	**333 968**	**858 718**

	General risks	Land Expropriations	Contract works	Employee benefits	Disqualified roads	Social plan	Works under Negotiation phase	VAT proceedings	Total
01 January 2015	**24 312**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**24 312**
Increases via merger	20 551	62 575	59 094	1 601	410 526	1 921	561	301 846	858 676
Allocation	9 227	2 080	3 047	-	-	-	-	16 184	30 538
Decrease	-16 218	-15 545	-20 942	- 302	- 991	-1 921	-	-	-55 919
As of 31 December 2015	**37 872**	**49 110**	**41 199**	**1 299**	**409 535**	**-**	**561**	**318 030**	**857 606**
Non-current balance	37 872	49 110	41 199	1 299	409 535	-	561	318 030	857 606
	37 872	**49 110**	**41 199**	**1 299**	**409 535**	**0**	**561**	**318 030**	**857 606**

PROVISIONS FOR ONGOING LEGAL PROCEEDINGS

GENERAL RISKS:

The analysis made by the Company's Legal Department admitted a risk of €44,240 thousand at 31 December 2016 relating to potential liabilities with legal lawsuits not linked to contract works.

LAND EXPROPRIATIONS:

This provision was set up to deal with the risk of IP having to make additional payments in connection to land expropriation proceedings in litigation. The provision reflects the consultations made by the Company's General Litigation department to the external and internal lawyers dealing with the proceedings.

From the total €14,923 thousand reduced to this provision, €10,054 thousand concern payments relative to proceedings concluded during the year, of which €10,021 thousand concern State concessions' expropriation proceedings and only €33 thousand relate to IP own works.

Note that on account of their nature all the increases and reductions of this provision are offset against intangible assets in progress.

CONTRACT WORKS:

In the case of General Litigation Proceedings related to Contract Works, the analysis made by the external and internal lawyers concluded that there was an estimated risk of €33,216 thousand. This value is influenced by the reduction of the provision in 2016 of approximately €8,729 thousand, of which €1,193 thousand correspond to the release of provisions for proceedings concluded, where the cost borne by IP was lower than the amount of the risk provisioned for and an increase by €746 thousand corresponding to the risk associated to new proceedings opened but not closed during the year. Note that on account of their nature all the increases and reductions of this provision are offset against intangible assets.

VAT PROCEEDINGS:

For conservative reasons, and considering the developments in the VAT proceedings described in Note 13, it was decided to set up a provision for the estimated impact of an unfavourable decision concerning these proceedings.

Since the issue that gave rise to the difference between former EP and the TA was whether the RSC was accepted as a revenue subject to VAT, the provision created corresponds to the entire VAT deducted by former EP in activities financed by the RSC. It should be noted that this provision was offset based on the accounting classification of the expense that originated the deductible VAT, i.e., the provision for VAT deducted from expenditures in the year was made against expenses (€13,624 thousand) and the provision for VAT deducted on the acquisition or construction of assets was made against intangible assets (€2,314 thousand).

PROVISIONS FOR OTHER NON-CONTENTIOUS SITUATIONS

PROVISION FOR DISQUALIFIED ROADS:

IP is required to transfer disqualified roads within the National Road Plan to the responsibility of municipalities, having set up a provision which reflects the best estimate to fulfil the obligations of renovating disqualified roads still under the company's responsibility. The entering of the transfer protocols with the Municipalities led to the utilisation of this provision in the amount of €255 thousand in 2016.

PROVISION FOR CONTRACTS UNDERGOING NEGOTIATION:

This provision corresponds to payments foreseen to settle claims relating to road contracts, which are still being negotiated.

EMPLOYEE BENEFITS:

IP grants temporary early retirement benefits and retirement and survival pension benefits to its employees, which at 31 December 2016 totalled €1,151 thousand.

The complementary retirement and survival pension benefits attributed to the employees constitute a defined benefit plan under which IP pays early retirement pensions to a closed group of employees covered by the plan until such time as they retire under the Caixa Geral de Aposentações system.

The provision covers the responsibilities for benefits attributed to an already quite small group of employees (31), for a limited period of time. It was therefore the Executive Board of Directors' opinion that it was not necessary to have the annual responsibilities assessed by a specialised firm, as this could be done internally.

17. BORROWINGS

17.1 BORROWINGS

The breakdown of current and non-current borrowings as of 31 December 2016 and 31 December 2015 is as follows:

Description	31-12-2016	31-12-2015
Non-current loans		
Borrowings	3 315 668	3 420 846
Current loans		
Borrowings	161 975	155 416
	3 477 643	**3 576 261**

Repayment terms and conditions of the loans are as follows:

Activity	Name	Date of signature	Amount	Principal due	Repayment			Interest rate regime	Interest rate	Periodicity
					Opening date	Closing date	Periodicity			
Railway	CP III Linha do Norte-B	14-07-1997	49.880	19.952	15-06-2008	15-06-2022	Annual	EIB variable, cannot exceed Euribor 3M+0.15%	0,000%	15-mar 15-jun 15-set 15-dez
Railway	Tejo-B railway crossing	14-11-1997	99.760	6.651	15-09-2003	15-09-2017	Annual	EIB variable, cannot exceed Euribor 3M+0.15%	0,000%	15-mar 15-jun 15-set 15-dez
Railway	Trav. Tejo-C1 railway crossing	26-11-1998	25.000	4.400	15-09-2004	15-09-2018	Annual	1st fixed dis.	4,670%	15-set
	Trav. Tejo-C2 railway crossing	26-11-1998	25.000	4.668	15-09-2004	15-09-2018	Annual	2nd fixed dis.	5,800%	15-set
	Trav. Tejo-C3 railway crossing	26-11-1998	49.760	6.635	15-09-2004	15-09-2018	Annual	3rd fixed dis. EIB variable, cannot exceed Euribor 3M+0.15%	0,000%	15-mar 15-jun 15-set 15-dez
Railway	Minho Line-A1	26-11-1998	25.000	4.400	15-09-2004	15-09-2018	Annual	1st fixed dis.	4,670%	15-set
	Minho Line-A2	26-11-1998	25.000	4.668	15-09-2004	15-09-2018	Annual	2nd fixed dis.	5,800%	15-set
	Minho Line-A3	26-11-1998	24.820	3.309	15-09-2004	15-09-2018	Annual	EIB variable, cannot exceed Euribor 3M+0.15%	0,000%	15-mar 15-jun 15-set 15-dez
Railway	CP III Linha do Norte-D	10-11-2000	25.937	15.562	15-09-2011	15-09-2020	Annual	EIB variable, cannot exceed Euribor 3M+0.15%	0,000%	15-mar 15-jun 15-set 15-dez
Railway	Connection to Algarve-A	08-10-2001	90.000	60.000	15-09-2012	15-09-2021	Annual	EIB variable, cannot exceed Euribor 3M+0.12%	0,000%	15-mar 15-jun 15-set 15-dez
Railway	Minho Line-B	08-10-2001	59.856	39.904	15-09-2012	15-09-2021	Annual	EIB variable, cannot exceed Euribor 3M+0.12%	0,000%	15-mar 15-jun 15-set 15-dez
Railway	CPIII/2 L. Norte-A	02-10-2002	100.000	80.000	15-03-2013	15-03-2022	Annual	EIB variable, cannot exceed Euribor 3M+0.12%	0,000%	15-mar 15-jun 15-set 15-dez
Railway	CPIII/2 L. Norte-B	02-06-2004	200.000	170.000	15-12-2014	15-12-2023	Annual	EIB variable, cannot exceed Euribor 3M+0.15%	0,000%	15-mar 15-jun 15-set 15-dez
Railway	Suburban	28-10-2004	100.000	61.905	15-06-2009	15-06-2024	Annual	EIB variable, cannot exceed Euribor 3M+0.15%	0,000%	15-mar 15-jun 15-set 15-dez
Railway	Suburban B	14-12-2005	100.000	66.667	15-09-2010	15-09-2025	Annual	Revisable rate	3,615%	15-set
	To be forwarded		**1.143.666**	**548.719**						

	Name	Date of signature	Amount	Principal due	Repayment			Interest rate regime	Interest rate	Periodicity
					Opening date	Closing date	Periodicity			
	To be forwarded		**1.143.666**	**548.719**						
Railway	Suburban C	12-10-2006	55.000	39.286	15-03-2011	15-03-2026	Annual	Revisable rate	4,247%	15-mar
Railway	Connection to Algarve-B	02-10-2002	30.000	22.000	15-03-2013	15-03-2022	Annual	EIB variable, cannot exceed Euribor 3M+0.12%	0,000%	15-mar 15-jun 15-set 15-dez
Railway	CP III 2 Linha do Norte-C	11-12-2009	100.000	100.000	15-06-2017	15-06-2026	Annual	Revisable rate	1,887%	15-jun
Railway	CP III Linha do Norte-D	12-07-2007	100.000	100.000	15-12-2017	15-12-2026	Annual	Euribor 3M+0.435%	0,172%	15-mar 15-jun 15-set 15-dez
Road	EIB- Estradas 2009-2019	17-12-2009	200.659	167.216	15-06-2014	15-06-2029	Half-year	Fixed	2,189%	15-jun 15-dez
Railway	Refer V	04-08-2008	160.000	136.000	15-03-2014	15-03-2033	Annual	Revisable rate	2,653%	15-mar
Railway	Refer VI	10-09-2009	110.000	88.000	15-09-2013	15-09-2032	Annual	Revisable rate	2,271%	15-set
Railway	Eurobond 06/26	10-11-2006	600.000	599.292		16-11-2026	Bullet	Fixed	4,047%	16-nov
Railway	Eurobond 09/19	13-02-2009	500.000	499.342		18-02-2019	Bullet	Fixed	5,875%	18-fev
Railway	Eurobond 09/24	16-10-2009	500.000	498.688		16-10-2024	Bullet	Fixed	4,675%	18-out
Railway	Eurobond 06/21	11-12-2006	500.000	498.050		13-12-2021	Bullet	Fixed	4,25%	13-dez
Road	Eurobond 10/30	09-07-2010	125.000	120.602		13-07-2030	Bullet	Fixed	6,450%	13-jul
	External Loans	**TOTAL**	**4.124.325**	**3.417.195**						
	Accrued interest			**60.003**						
	Accounting overdrafts			**444**						
	TOTAL			**3.477.643**						

Interest on these loans is paid in arrears on a quarterly, half year or annual basis.

In what concerns the EIB loan, the principal will be repaid on a regular basis following the grace period. Remaining loans (Eurobonds) will be fully repaid at maturity (bullet).

17.2 SHAREHOLDER FUNDING / SHAREHOLDER LOANS

As at 31 December 2016 and 31 December 2015 the breakdown of Shareholder Loans was as follows:

Description	31-12-2016	31-12-2015
Non-current loans		
State Loans	796 252	1 478 345
Current loans		
State Loans	4 070 120	3 347 598
Total	**4 866 371**	**4 825 943**

The purpose of these shareholder loans was to meet IP's borrowing requirements since 2011.

In 2016, the shareholder did not grant new loans to IP, having provided for its requirements through capital increases. See Note 15.

These loans pay interest at various fixed annual nominal rates, as agreed with the DGTF according to the amount and dates of the disbursements. The breakdown is as follows:

Name	Date of signature	Amount	Principal due	Repayment Opening date	Repayment Closing date	Repayment Periodicity	Interest rate regime	Interest rate	Periodicity
State Loan	30-12-2011	2 062 772	1 031 386	31-05-2013	30-11-2016	Half-year	Fixed	2,770%	31-mai 30-nov
State Loan	14-02-2012	75 000	56 250	31-05-2014	30-11-2017	Half-year	Fixed	3,420%	31-mai 30-nov
State Loan	14-02-2012	198 400	148 800	31-05-2014	30-11-2017	Half-year	Fixed	3,250%	31-mai 30-nov
State Loan	26-06-2012	118 284	88 713	31-05-2014	30-11-2017	Half-year	Fixed	2,740%	31-mai 30-nov
State Loan	26-06-2012	152 436	114 327	31-05-2014	30-11-2017	Half-year	Fixed	1,830%	31-mai 30-nov
State Loan	03-10-2012	206 246	154 684	31-05-2014	30-11-2017	Half-year	Fixed	1,760%	31-mai 30-nov
State Loan	03-10-2012	49 960	37 470	31-05-2014	30-11-2017	Half-year	Fixed	1,590%	31-mai 30-nov
State Loan	24-05-2013	282 937	282 937	31-05-2015	30-11-2020	Half-year	Fixed	2,100%	31-mai 30-nov
State Loan	24-05-2013	21 723	21 723	31-05-2015	30-11-2020	Half-year	Fixed	2,270%	31-mai 30-nov
State Loan	24-05-2013	23 394	23 394	31-05-2015	30-11-2020	Half-year	Fixed	2,350%	31-mai 30-nov
State Loan	24-05-2013	102 488	102 488	31-05-2015	30-11-2020	Half-year	Fixed	2,440%	31-mai 30-nov
State Loan	24-05-2013	20 000	20 000	31-05-2015	30-11-2020	Half-year	Fixed	2,150%	31-mai 30-nov
State Loan	13-11-2013	37 000	37 000	31-05-2015	30-11-2020	Half-year	Fixed	1,860%	31-mai 30-nov
State Loan	13-11-2013	293 000	293 000	31-05-2015	30-11-2020	Half-year	Fixed	1,880%	31-mai 30-nov
State Loan	13-11-2013	24 000	24 000	31-05-2015	30-11-2020	Half-year	Fixed	1,960%	31-mai 30-nov
State Loan	27-05-2014	15 000	15 000	31-05-2016	30-11-2021	Half-year	Fixed	2,430%	31-mai 30-nov
State Loan	27-05-2014	15 000	15 000	31-05-2016	30-11-2021	Half-year	Fixed	2,330%	31-mai 30-nov
State Loan	27-05-2014	20 000	20 000	31-05-2016	30-11-2021	Half-year	Fixed	2,220%	31-mai 30-nov
State Loan	27-05-2014	14 000	14 000	31-05-2016	30-11-2021	Half-year	Fixed	2,010%	31-mai 30-nov
State Loan	30-12-2011	1 705 000	852 500	31-05-2013	30-11-2016	Half-year	Fixed	2,770%	31-mai 30-nov
State Loan	27-01-2012	204 000	153 000	31-05-2014	30-11-2017	Half-year	Fixed	3,690%	31-mai 30-nov
State Loan	27-01-2012	230 000	172 500	31-05-2014	30-11-2017	Half-year	Fixed	3,440%	31-mai 30-nov
State Loan	27-01-2012	75 000	56 250	31-05-2014	30-11-2017	Half-year	Fixed	2,930%	31-mai 30-nov
State Loan	27-01-2012	28 000	21 000	31-05-2014	30-11-2017	Half-year	Fixed	2,690%	31-mai 30-nov
State Loan	30-05-2012	44 000	33 000	31-05-2014	30-11-2017	Half-year	Fixed	2,690%	31-mai 30-nov
State Loan	30-05-2012	80 000	60 000	31-05-2014	30-11-2017	Half-year	Fixed	2,700%	31-mai 30-nov
State Loan	30-05-2012	33 500	25 125	31-05-2014	30-11-2017	Half-year	Fixed	1,980%	31-mai 30-nov
State Loan	26-09-2012	156 800	117 600	31-05-2014	30-11-2017	Half-year	Fixed	1,810%	31-mai 30-nov
State Loan	29-10-2012	16 000	12 000	31-05-2014	30-11-2017	Half-year	Fixed	1,710%	31-mai 30-nov
State Loan	29-10-2012	13 300	9 975	31-05-2014	30-11-2017	Half-year	Fixed	1,590%	31-mai 30-nov
State Loan	29-01-2013	85 000	85 000	31-05-2015	30-11-2020	Half-year	Fixed	2,750%	31-mai 30-nov
To be forwarded		**6.402.239**	**4.098.122**						

Name	Date of signature	Amount	Principal due	Repayment Opening date	Repayment Closing date	Repayment Periodicity	Interest rate regime	Interest rate	Periodicity
Forwarded:		**6 402 239**	**4 098 122**						
State Loan	29-01-2013	135 600	135 600	31-05-2015	30-11-2020	Half-year	Fixed	2,420%	31-mai 30-nov
State Loan	29-01-2013	17 400	17 400	31-05-2015	30-11-2020	Half-year	Fixed	2,150%	31-mai 30-nov
State Loan	08-03-2013	25 654	25 654	31-05-2015	30-11-2020	Half-year	Fixed	2,150%	31-mai 30-nov
State Loan	08-03-2013	266 405	266 405	31-05-2015	30-11-2020	Half-year	Fixed	2,180%	31-mai 30-nov
State Loan	08-03-2013	28 042	28 042	31-05-2015	30-11-2020	Half-year	Fixed	2,610%	31-mai 30-nov
State Loan	04-09-2013	26 202	26 202	31-05-2015	30-11-2020	Half-year	Fixed	2,190%	31-mai 30-nov
State Loan	04-09-2013	25 000	25 000	31-05-2015	30-11-2020	Half-year	Fixed	2,180%	31-mai 30-nov
State Loan	04-09-2013	17 943	17 943	31-05-2015	30-11-2020	Half-year	Fixed	2,070%	31-mai 30-nov
State Loan	09-10-2013	3 688	3 688	31-05-2015	30-11-2020	Half-year	Fixed	2,100%	31-mai 30-nov
State Loan	09-10-2013	21 805	21 805	31-05-2015	30-11-2020	Half-year	Fixed	1,870%	31-mai 30-nov
State Loan	09-10-2013	49 891	49 891	31-05-2015	30-11-2020	Half-year	Fixed	1,970%	31-mai 30-nov
Total shareholder financing		**7.019.867**	**4.715.750**						
Accrued interest			**150.621**						
	TOTAL		**4.866.371**						

FALT-RATE FINANCING

As of 31 December 2016, the fair value of the fixed rate debt was as follows:

Name	Nominal Value	Principal due	Fair value	Interest rate
EIB - Minho A1	25 000	4 400	4 547	4.670%
EIB - Minho A2	25 000	4 668	4 865	5.800%
EIB - Tejo C1	25 000	4 400	4 547	4.670%
EIB - Tejo C2	25 000	4 668	4 865	5.800%
EIB - Suburbans B	100 000	66 667	73 397	3.615%
EIB - Suburbans C	55 000	39 286	48 264	4,247%
EIB - REFER V	160 000	136 000	157 488	2.653%
EIB - REFER VI	110 000	88 000	99 412	2.271%
EIB - CPIII2 Northern Line C	100 000	100 000	104 352	1.887%
EIB- Estradas 2009-2019	200 659	167 216	185 415	2.189%
Eurobond 06/26	600 000	600 000	593 542	4.047%
Eurobond 09/19	500 000	500 000	553 134	5.875%
Eurobond 09/24	500 000	500 000	523 482	4.675%
Eurobond 06/21	500 000	500 000	526 167	4.250%
Eurobond 10/30	125 000	125 000	123 298	6.750%
State Loan	2 062 772	1 031 386	1 069 230	2.770%
State Loan	75 000	56 250	59 756	3.420%
State Loan	198 400	148 800	162 540	3.250%
State Loan	118 284	88 713	93 170	2.740%
State Loan	152 436	114 327	118 221	1.830%
State Loan	206 246	154 684	159 759	1.760%
State Loan	49 960	37 470	38 586	1.590%
State Loan	282 937	282 937	295 692	2.100%
State Loan	21 723	21 723	22 822	2.270%
State Loan	23 394	23 394	24 638	2.350%
State Loan	102 488	102 488	108 239	2.440%
State Loan	20 000	20 000	20 934	2.150%
State Loan	37 000	37 000	38 380	1.860%
State Loan	293 000	293 000	304 118	1.880%
State Loan	24 000	24 000	24 973	1.960%
State Loan	15 000	15 000	16 103	2.430%
State Loan	15 000	15 000	16 009	2.330%
State Loan	20 000	20 000	21 201	2.220%
State Loan	14 000	14 000	14 658	2.010%
State Loan	1 705 000	852 500	883 780	2.770%
State Loan	204 000	153 000	163 271	3.690%
To be forwarded:	**8 691 298**	**6 345 975**	**6 662 852**	

Name	Nominal Value	Principal due	Fair value	Interest rate
Transport	**8 691 298**	**6 345 975**	**6 662 852**	
State Loan	230 000	172 500	183 313	3.440%
State Loan	75 000	56 250	59 266	2.930%
State Loan	28 000	21 000	21 892	2.690%
State Loan	44 000	33 000	34 628	2.690%
State Loan	80 000	60 000	62 971	2.700%
State Loan	33 500	25 125	26 048	1.980%
State Loan	156 800	117 600	121 563	1.810%
State Loan	16 000	12 000	12 383	1.710%
State Loan	13 300	9 975	10 272	1.590%
State Loan	85 000	85 000	90 624	2.750%
State Loan	135 600	135 600	143 120	2.420%
State Loan	17 400	17 400	18 213	2.150%
State Loan	25 654	25 654	26 852	2.150%
State Loan	266 405	266 405	279 106	2.180%
State Loan	28 042	28 042	29 770	2.610%
State Loan	26 202	26 202	27 459	2.190%
State Loan	25 000	25 000	26 192	2.180%
State Loan	17 943	17 943	18 734	2.070%
State Loan	3 688	3 688	3 854	2.100%
State Loan	21 805	21 805	22 625	1.870%
State Loan	49 891	49 891	51 930	1.970%
TOTAL	**10 070 526**	**7 556 053**	**7 933 666**	

18. SUPPLIERS AND OTHER ACCOUNTS PAYABLE

18.1 SUPPLIERS

This caption comprises the following amounts:

Description	Notes	31-12-2016	31-12-2015
General suppliers		15 656	30 327
Clients - Other related parties	33	2 701	1 109
Clients -Subsidiaries	33	404	6 675
Total balance suppliers - current		**18 762**	**38 111**

18.2 OTHER ACCOUNTS PAYABLE

As at 31 December 2016 and 2015, the detail of impairment is as follows:

Description	31/12/2016	31-12-2015
Non-current		
Sub-concessions	2 616 557	2 998 086
	2 616 557	**2 998 086**
Current		
Sub-concessions	508 425	538 907
Regular road maintenance	236 163	195 991
Accrued expenses	55 196	41 867
Suppliers of capital goods	36 181	59 178
Advances to be forwarded to Sales	18 434	17 226
Remuneration payable	18 023	11 074
Sundry creditors	10 000	11 353
	882 422	**875 597**
	3 498 980	**3 873 683**

This caption includes the liability of IP to sub-concessionaires for construction, operation and maintenance services carried out by these companies and not yet invoiced, in the amount of €3,124,982 thousand, remunerated at rates of 5% to 9%, of which €508,425 thousand are payable within 12 months.

Caption Suppliers of Investment refers mainly to the amounts invoiced for the execution of works in own works and the amount payable for State Concessions and Sub-concessions.

The increase in this caption essentially includes mainly the amounts payable by IP relating to its Concession Contract with the State, in the amount of €24 million.

Caption Regular Road Maintenance IP's responsibility for maintaining or restoring certain service levels in the infrastructure, and is build up throughout the period running up to the scheduled start of works.

19. INVENTORIES

At 31 December 2016 and 31 December 2015 this caption was made up as follows:

Description	Notes	31-12-2016	31-12-2015
Raw materials, subsidiary materials and consumables.		48 866	50 288
Impairment in inventories	25	- 1 119	- 1 043
Inventories		**47 746**	**49 245**

Caption raw materials, subsidiary materials & consumables concerns various types of materials included in railway infrastructure maintenance and road construction.

As of reporting date, a physical inventorying was carried out viewing to quantify the adjustment in losses on inventories. The impairment refers to:

i. materials that are obsolete and technically depreciated and cannot be used for IP's activities (they may be sold should an interested buyer emerge); and

ii. a comparison between the market value of materials and their book value;

Expenses with railway material totalled €12,032 thousand (€8,773 thousand in 2015).

Following the analysis made at the end of 2016 it was decided to increase impairment adjustments by €76 thousand (Note 25).

20. SALES AND SERVICES

In 2016 and 2015 Sales and Services were as follows:

Description	NOTES	31-12-2016	31-12-2015
Road Service Contribution	33	673 967	671 040
Tolls		281 054	258 783
Construction contracts and capitalised financial expenses		97 841	286 128
Utilisation of slots (fees)		68 414	69 829
State Grantor - Revenue LDI		19 992	15 808
Other		18 741	19 500
Total sales and services		**1 160 008**	**1 321 088**

i. Road Service Contribution

The amount of the Road Service Contribution (consideration paid buy road users) in 2016 did not change as compared to 2015, standing at €87/1000 litres for gasoline, €111/1000 litres for diesel and €123/1000 kg for LPG. The change in the year reflects the increase in fuel consumption.

ii. Tolls

Ministerial Order 196/2016, of 20 July entered into force on August 1, which reduced toll rates by 15% (less €0.30 in average) in the A22, A23, A24 and A25 motorways (corresponding to the Algarve, IP/Beira Interior, Interior Norte e Beira Litoral e Alta concessions) and the A4, belonging to the AE Transmontana sub-concession.

Notwithstanding, IP’s toll revenues in 2016 increased by 8.6% over the previous year. Part of this increase (approximately €5 million) stems from tolls charged in the Marão Tunnel.

iii. Construction contracts

Construction contracts reflect IP's income from its activity of building the NRN, as established in the Concession Contract. It includes all IP's construction activities, whether carried out directly or sub-concessioned.

The breakdown of construction contracts for the periods under review is as follows:

Description	31-12-2016	31-12-2015
Capitalized financial expenses	63 876	84 307
Sub-concessioned network - construction	30 388	82 858
Construction of new infrastructures	3 577	118 963
Construction contracts	**97 841**	**286 128**

The change recorded reflects the completion of the construction of the Marão Tunnel (open to traffic on May 7), and the final phase of construction of A26 - Autoestrada do Baixo Alentejo and renovation works in EN 125 – Algarve Litoral.

The amounts of New Infrastructure Construction concern construction activities under IP’s direct management, and are calculated based on monthly monitoring reports stating the state of progress of the works and the expenses directly attributable to preparing the assets for their intended use.

The construction of the Sub-Concessioned Network is determined based on the construction values contracted for each sub-concession and the percentage of completion reported to IP by each sub-concessionaire. It therefore reflects the physical evolution of the works and is independent from the turnover flow.

Capitalised borrowing costs correspond to IP's borrowing costs during the phase of construction, comprising the costs of bank loans used to finance the acquisition of the State's Concessioned Network, and the accounting remuneration of the sub-concessionaires' debt (corresponding to the stretches still in construction), to which the rate implicit in the base case of each contract (resulting from the mismatch of financial flows with the physical evolution of the works) is applied. These theoretical rates vary between 5% and 9%.

iv. Use of slots

The change in revenues from the use of slots (Minimum Access Package) stems exclusively from the freight segment, specifically the reduction in the capacity used by operator Medway (former CP Carga), which was partially offset with an increase in TKs performed by Takargo.

21. COMPENSATORY ALLOWANCES

In compliance with Decree law 217/2015 of 7 October, transforming into national law EU Directive 2012/34/EU, of the EU Parliament and Council of 21 November 2012 and Council of Ministers Resolution 10-A/2016 of 11 March, on March 11, 2016 (with retroactive effect as of 1 January 2016) IP and the Portuguese State entered a Programme Contract which establishes the terms and conditions of the fulfilment by IP of its public service obligations concerning the management of the National Railway Network Infrastructure, including the compensatory allowances payable by the State during the 2016-2020 period.

The amount of these allowances in 2016 totalled €40,650 thousand.

22. COST OF GOODS SOLD

The detail of this caption is as follows:

Description		31-12-2016	31-12-2015
Capitalization Concession Tolls	i)	214 086	204 488
Sub-concessioned network - construction	iii)	30 034	82 579
Rail equipment	iv)	12 032	8 773
Construction of new infrastructures	ii)	3 577	118 013
Cost of goods sold		**259 728**	**413 854**

i) As referred in Note 2.2 q) (revenue), the amounts received by IP relative to tolls in State concessions (net of collection costs) are deducted to IP's investment in the acquisition of rights over this concessioned network. This deduction is offset in this caption.

ii) The construction of the Sub-Concessioned Network is determined based on the construction values contracted for each sub-concession and the percentage of completion reported to IP by each sub-concessionaire. It reflects, therefore, the physical evolution of the works and it is independent from the turnover flow.

iii) This caption concerns various types of materials included in the maintenance of railway infrastructures.

iv) The amounts corresponding to the construction of New Road Infrastructures concern construction activities under IP’s direct management, and are calculated based on monthly monitoring reports stating the state of progress of the works.

23. SUPPLIES AND SERVICES

As of 31 December 2016 and 2015, this caption was made up as follows:

Description	31-12-2016	31-12-2015
Railway maintenance	56 046	56 794
Regular road maintenance	53 000	53 000
Current Maintenance and Road Safety	47 899	42 398
Operation and Maintenance Sub-concessions	25 654	23 216
Collection costs Tolls	21 838	17 965
Electricity	15 350	13 498
Collection costs RSC	13 479	13 421
Surveillance and Safety	4 883	5 022
Rents and rentals	3 266	3 131
Specialised works	3 326	5 385
Cleaning, Hygiene and comfort	2 296	2 187
Maintenance and repairs	2 176	1 801
Fuel	1 994	2 061
Software licences	1 661	2 032
Other below €th1,000	4 161	4 297
External supplies and services	**257 028**	**246 207**

Expenses with Railway Maintenance concern mainly the sub-contracting of maintenance services: i) for carriageway in the amount of €21,159 thousand (€18,844 thousand in 2015), ii) signalling, in the amount of €14,311 thousand (€14,689 thousand in 2015), iii) telecommunications, in the amount of €8,210 thousand (€11,908 thousand in 2015) and iv) overhead line, totalling €5,058 thousand (€4,901 thousand in 2015).

Regular Maintenance of Roads - this cost corresponds to the recognition of the increase in IP's responsibility for the expenditure required to maintain the service level in roads and engineering structures imposed by the Concession Contract. It does not correspond to a need to invest in maintenance in the period but to the average annual investment amount required to maintain the service level of the network.

Current Maintenance and Safety - the expenses incurred in the year with current maintenance interventions in roads and road related structures and with road safety are booked in this caption.

The operation and maintenance costs of the sub-concessions translate the recognition in the accounts of the operation and maintenance carried out by the sub-concessionaires within the scope of the sub-concession contracts in force.

The RSC collection costs correspond to 2% of the RSC which is withheld by the TA for providing the service of calculating and collecting this contribution.

Caption rents and rentals includes €2,516 thousand (€2,376 thousand in 2015) relating to expenses with car leasing and €290 thousand (€357 thousand in 2015) with operating leases of administrative equipment.

As of the date of this report IP had 574 service vehicles (2015: 544 vehicles) under lease contracts.

Minimum, non-cancellable future lease instalments for operating leases entered into by IP are as follows:

Description	Less than 1 year	1 to 5 years
According to entered contracts		
Vehicles	2 461	378

24. STAFF COSTS

Staff costs for the years ended as of 31 December 2016 and 2015 were made up as follows:

Description	Notes	31-12-2016	31-12-2015
Wages		94 359	86 145
Wage expenses		19 960	19 528
Other staff costs		3 517	3 295
Indemnities		3 398	1 096
Occupational accidents insurance		708	613
Remuneration of the members of governing bodies		621	580
Social security expenses		666	522
		123 228	**111 779**

In 2016 IP's staff costs (€123.2 million) grew by approximately €11,4 million over 2015 (+10%). This increase is mainly explained by the provision set up to settle the historic of variable allowances in holiday pay (in the amount of €8.2 million), redundancy payments (€3.4 million in 2016, as against €1.1 million in 2015) and the reversal of the remuneration reduction (€2.6 million).

During the merger process, the redistribution of functions at IP and IP Engenharia led to the transfer of 50 employees from the parent company at the beginning of this year. However, in September, the creation of an Engineering Department at IP brought back 100 employees from IP Engenharia to IP. Nonetheless, IP's staff at the end of 2016 had less 86 employees than in 2015 (3,467 from 3,553).

The gradual reversal of Remuneration Reduction (RR) rates by 20% every three months until its elimination in October 2016 led to an increase of approximately €3.2 million in wages and related expenses.

25. IMPAIRMENT

The evolution of impairments for the years ended at 31 December 2016 and 31 December 2015 is as follows:

31 DECEMBER 2016

Description	Inventories (Note 19)	Clients (Note 11.2)	Other accounts receivable (Note 11.1)	Grantor (Note 12)	Total
Opening balance	1 043	2 465	74 485	305 200	383 193
Increase / (Reversal)	76	328	- 16 411	-	- 16 008
Closing Balance	**1 119**	**2 793**	**58 074**	**305 200**	**367 185**

31 DECEMBER 2015

Description	Inventories (Note 19)	Clients (Note 11.2)	Other accounts receivable (Note 11.1)	Grantor (Note 12)	Total
Opening balance	674	0	58 113	305 200	363 987
Balances integrated via merger	-	3 050	5 982	-	9 033
Increase / (Reversal)	370	- 585	10 389	-	10 173
Closing Balance	**1 043**	**2 465**	**74 485**	**305 200**	**383 193**

26. OTHER INCOME AND GAINS

The breakdown of this caption is as follows:

Description		31/12/2016	31/12/2015
Amortisation of investment subsidies	i)	64 317	62 388
Income from concession fees	ii)	8 854	8 854
Concessions and licences	iii)	6 267	7 545
Gains on the sale of tangible assets	iv)	1 333	4 210
Telecommunications	v)	3 136	3 200
Non-financial investments - accidents	vi)	2 067	3 142
Compensation for accidents - Third party liability	vii)	1	2 108
Other		7 029	5 163
Other Income and Gains		**93 005**	**96 610**

i) Income recognised on the amortisation of non-refundable subsidies to investment recognised under 'Deferrals' in liabilities (Note 10.1);

ii) Income from concession fees result of the recognition in the year of the share corresponding to the amount received on the signature of the Grande Lisboa and Douro Litoral Concessions.

iii) This item includes €4,255 thousand relating to the concession for the operation of public railway domain assets of IP.

iv) Capital gains on the sale of buildings and plots of land.

x) Income resulting from the revision of the contract for the operation and management of the telecommunications and IT infrastructures entered with IP Telecom, which maintains, under revised terms, the sub-concession for the operation of the telecommunications infrastructure and sub-contracts the operation of the Road Technical Channel (RCC) constructed or to be constructed, under the direction and management of IP.

v) Caption Non-Financial Investments - Accidents corresponds to income from the payment of damages caused to the National Road Network, particularly following accidents.

vii) the amount recorded in this caption in 2015 reflects mainly the agreement entered between IP and EDP Produção – Gestão da Produção de Energia, S.A., as compensation for the submersion of part of the rail channel of the Tua line (note 12).

27. OTHER EXPENSES AND LOSSES

Caption other expenses and losses is made up as follows:

DESCRIPTION	31/12/2016	31/12/2015
AMT - (TRIR and TRIF)	4 037	4 234
Irrecoverable debt	3 455	-
Other	3 055	3 310
Other indemnities	2 581	-
Compensation for material damages	1 024	754
Contributions	305	251
Other expenses and losses	**14 456**	**8 549**

The recorded under AMT – Autoridade da Mobilidade e dos Transportes, I.P. derives from the application of rates on revenues from user fees.

The amount of irrecoverable debt results from the derecognition of a balance fully recorded as impairment in previous years.

Caption Other indemnities includes the following:

- Indemnity in the amount of €1,009 thousand as reinstatement of the financial balance to IPE;
- Indemnity paid to Beltorres in the amount of €1,572 thousand.

28. INCOME/(EXPENSES) RELATING TO SUBSIDIARIES

The breakdown of income and expenses relating to subsidiaries for the periods ended 31 December 2016 and 2015 is as follows:

	31/12/2016	31/12/2015
(Increase / (Reversal) of impairments	- 24 240	- 3 964
Dividends	4 000	6 122
Income/(expenses) relating to subsidiaries	**- 20 240**	**2 158**

The (increase)/reversal of impairments concern an increase in impairment at subsidiary GIL in the amount of €24,800 thousand, as disclosed in note 8, deducted of the reversal of the impairment in IP Património in the amount of €560 thousand (2015: €3,964 thousand - Note 7)

29. FINANCIAL LOSSES AND GAINS

Caption financial losses and gains as of 31 December 2016 and 2015 is made up as follows:

Description	Notes	31/12/2016	31/12/2015
Financial losses		**412 806**	**482 409**
Interest paid:			
Loans		187 526	238 252
Sub-concessions		215 515	234 066
Other interest paid		4	96
Other financial losses		9 760	9 994
Financial gains		**115 652**	**120 052**
Interest earned			
Other interest earned		-	161
Interest earned - State Grantor		114 707	119 782
Other operating gains		945	108
Financial results		**- 297 154**	**- 362 357**

Interest expense concern interest incurred with the debt allocated to the segments of High Performance Roads, Railway infrastructure investment activity and railway infrastructure management activity.

Expenses with the financial revision of the debt to sub-concessionaires for works/services are recorded in Interest Paid Sub-concessions, which will be invoiced in the future, according to terms provided in respective Sub-Concession Contracts. This amount results from IP's responsibility to sub-concessionaires for construction works and road operation and maintenance services already carried out but not yet paid, in the amount of €3,124 million (indirectly managed debt), remunerated, in accounting terms, at rates of 5% to 9%.

Other financial losses concern expenses with the guarantee facility of the Portuguese State and with banking fees and expenses relating to bond issues.

Caption interest earned includes interest charged to the Grantor (Note 12).

30. INCOME TAX

The breakdown of income tax recognised in the financial statements in 2016 and 2015 is as follows:

Income tax	Note	31/12/2016	31/12/2015
Tax on current income		- 33 462	9 356
Tax on deferred income	9	13 238	7 184
		- 20 224	**16 541**

The tax rate used to determine the amount of tax for the year in the financial statements is as follows:

Income tax	31/12/2016	31/12/2016
Nominal tax rate	21.00%	21.00%
Municipal surcharge	1.45%	1.50%
State surcharge (1)	7.00%	7.00%
Tax on current income	**29.45%**	**29.50%**
Taxable temporary differences	29.45%	29.50%
Deductible temporary differences except tax losses	29.45%	29.50%
Tax applicable to tax losses	21.00%	21.00%

The reconciliation of the effective tax rate for the periods under review is as follows:

Conciliation of effective tax rate	31/12/2016	31/12/2015
Profit before tax	46 544	29 077
Nominal tax rate and municipal surcharge	22.45%	22.50%
	- 10 449	**- 6 542**
Accounting gains not tax-deductible in the year	- 26 244	- 13 640
Accounting income not subject to taxation	10 580	4 636
Tax losses deducted in the year	235	10 842
Excess / insufficient estimate	107	- 299
State surcharge	- 7 247	- 3 939
Autonomous taxation	- 444	- 416
Current tax	**- 33 462**	**- 9 357**
Deferred taxes	**13 238**	**- 7 184**
Tax expense	**- 20 224**	**- 16 541**
Effective tax rate	**43.45%**	**56.89%**

The variation in rate stems mainly from the following effects:

- Direct decrease in the municipal surcharge rate by 0.05% due to the change in the registered office of Group IP;
- Impact of undercapitalisation stemming from the transitional provisions, as the limit for deducting financial expenses decreased 10% in relation to the previous year, resulting in an increase in non-deductible expenses, whereas in the previous period there had occurred a deduction of expenses relating to previous years.
- Downward revision of estimated recovery of tax losses as result of the new Activity Plan and Budget, with direct impact on deferred taxes (Note 9).

31. FINANCIAL ASSETS AND LIABILITIES ACCORDING TO CLASS

The breakdown of assets and liabilities according to class is as follows:

31 DECEMBER 2016

	Loans and accounts receivable	Available for sale financial assets	Assets/Liabilities at fair value through results	Other financial assets and liabilities	Non-financial assets and liabilities	Total
Assets						
Available-for-sale financial assets	-	32	-	-	-	32
Clients	100 707	-	-	-	-	100 707
Grantor .- State - Account Receivable	5 496 216	-	-	-	-	5 496 216
Loans granted*	0	-	-	-	-	0
Other accounts receivable	147 644	-	-	-	51 357	199 001
Cash and cash equivalents	278 547	-	-	-	-	278 547
Total assets	**6 023 114**	**32**	**0**	**0**	**51 357**	**6 074 503**
Liabilities						
Borrowings	-	-	-	3 477 643	-	3 477 643
Shareholder funding/ loans	-	-	-	4 866 371	-	4 866 371
Other accounts payable	-	-	-	3 468 972	30 008	3 498 980
Trade payables	-	-	-	18 762	-	18 762
Total liabilities	**0**	**0**	**0**	**11 831 748**	**30 008**	**11 861 756**

31 DECEMBER 2015

	Loans and accounts receivable	Available for sale financial assets	Assets/Liabilities at fair value through results	Other financial assets and liabilities	Non-financial assets and liabilities	Total
Assets						
Available-for-sale financial assets	-	32	-	-	-	32
Clients	117 904	-	-	-	-	117 904
Grantor .- State - Account Receivable	5 407 589	-	-	-	-	5 407 589
Loans granted*	0	-	-	-	-	0
Other accounts receivable	179 788	-	-	-	6 976	186 764
Cash and cash equivalents	422 848	-	-	-	-	422 848
Total assets	**6 128 129**	**32**	**0**	**0**	**6 976**	**6 135 137**
Liabilities						
Borrowings	-	-	-	3 576 261	-	3 576 261
Shareholder funding/ loans	-	-	-	4 825 943	-	4 825 943
Other accounts payable	-	-	-	3 841 754	31 928	3 873 683
Trade payables	-	-	-	38 111	-	38 111
Total liabilities	**0**	**0**	**0**	**12 282 070**	**31 928**	**12 313 998**

*Loans granted comprise partners' loans to GIL, which are fully adjusted for (note 8 and 11.3)

32. REMUNERATION OF CORPORATE OFFICERS

EXECUTIVE BOARD OF DIRECTORS

The Executive Board of Directors of IP was elected at the General Meeting held on August 28, 2015, where the term of office and respective remuneration were also established.

During the year under review, the following members of the Executive Board of Directors resigned:

- Chairman: Mr. António Manuel Palma Ramalho (31 July 2016);
- Vice Chairman – Mr. José Luís Ribeiro dos Santos (9 August 2016);
- Members – Mr. José Carlos de Abreu Couto Osório (12 August 2016) and Mr. Adriano Rafael de Sousa Moreira (31 October 2016).

Following the resignations of the Chairman and Vice-Chairman mentioned above, Mr. António Carlos Laranjo da Silva (1 August 2016) and Mr. Carlos Alberto João Fernandes (16 August 2016), were appointed as Chairman and Vice-Chairman of the Executive Board of Directors, respectively, to complete the ongoing mandate (2015-2017), earning the remuneration established for these offices at the General Meeting held on 28 August 2015.

As the remuneration bases are established, the gross amounts determined were subject to reductions as provided in article 12 of Law no. 12-A/2010 of 30 June and article 2 of Law 75/2014 of 12 September, respectively of 5% and 10%; the latter reduction of 20% was subject to a reversal of 20%, in 2015 pursuant to provisions in article 4 of Law 75/2014, of 12 September, and in 2016 it was gradually reduced and finally cancelled, under the terms provided in Decree law 159-A/2015, of 30 December.

Provisions in article 20 of Law 7-A/2016 of 30 March were complied with, i.e. the Christmas bonus was paid in twelfths to the members of the Executive Board of Directors; respective amount was determined under the terms of no. 2 of the said law.

In relation to the holiday pay, provisions in Law 11/2013 of 28 January were applied, having remained in force in 2016 according to provisions in article 213 of Law 7-A/2016 of 30 March, specifically the payment on monthly twelfths to members of the Executive Board of Directors who did not oppose to this.

Likewise, provisions in article 41 of Law 82-B/2014, of 31 December, as amended by article 18, no. 1 of Law 7-A/2016, of 20 March were also complied, i.e. no management bonus were paid.

SUPERVISORY BOARD AND STATUTORY AUDITOR

The remuneration established at the general meeting of 28 August 2015 was subject to a reduction by 10% as provided in article 2 of Law 75/2014 of 12 September; this reduction of 20% was subject to a reversal of 20%, in 2015 pursuant to provisions in article 4 of Law 75/2014, of 12 September, and in 2016 it was gradually reduced and finally cancelled, under the terms provided in Decree law 159-A/2015, of 30 December.

(Figures in Euro)

Executive Board of Directors	31 December 2016	
	Remuneration	Empl. Discounts Social Security
António Carlos Laranjo da Silva	41 853	9 770
José Saturnino Sul Serrano Gordo	89 441	20 853
Carlos Alberto João Fernandes	32 965	7 707
Vanda Cristina Loureiro Soares Nogueira	80 694	18 774
Alberto Manuel de Almeida Diogo	80 618	18 774
Adriano Rafael de Sousa Moreira	78 451	18 164
António Manuel Palma Ramalho	74 059	17 336
José Luís Ribeiro dos Santos	56 588	13 201
José Carlos de Abreu e Couto Osório	60 971	14 171
	595 641	**138 749**

(Figures in Euro)

Executive Board of Directors	31 December 2015	
	Remuneration	Empl. Discounts Social Security
António Manuel Palma Ramalho	87 612	20 381
José Saturnino Sul Serrano Gordo	80 584	18 796
José Luís Ribeiro dos Santos	80 897	18 795
Alberto Manuel de Almeida Diogo	75 640	17 617
Vanda Cristina Loureiro Soares Nogueira	75 765	17 617
Adriano Rafael de Sousa Moreira	76 606	17 617
José Carlos de Abreu e Couto Osório	75 529	17 617
Rui Lopes Loureiro	12 100	3 051
José Rui Roque	9 569	2 392
Amílcar Álvaro de Oliveira Ferreira Monteiro	5 311	1 129
	579 613	**135 012**

(Figures in Euro)

	2016	
General and Supervisory Board	Remuneration	Empl. Discounts
José Emílio Coutinho Garrido Castel-Branco	10 082	-
Issuf Ahmad	21 253	4 314
Duarte Manuel Ivens Pita Ferraz	20 709	4 204
	52 044	**8 518**

(Figures in Euro)

	2015	
General and Supervisory Board	Remuneration	Empl. Discounts
Pedro Manuel Mota Carecho Grilo	7 639	-
Pedro Miguel do Nascimento Ventura	7 555	1 534
José Emílio Coutinho Garrido Castel-Branco	17 095	-
Issuf Ahmad	6 688	1 358
Duarte Manuel Ivens Pita Ferraz	6 239	1 267
	45 216	**4 158**

31 DECEMBER 2016

(Figures in Euro)

Entity	Value
Pedro Matos, Garcia Jr., P. Caiado & Associados, SROC	13 463

31 DECEMBER 2015

(Figures in Euro)

Entity	Value
Pedro Matos, Garcia Jr., P. Caiado & Associados, SROC	17 950

The sums shown above paid to Pedro Matos, Garcia Jr., P. Caiado & Associados, SROC, Lda. were paid as remuneration for "specialised works", and concern the fees of the Audit Firm and the External Auditor, subject to the terms and conditions agreed. Fees recorded in 2016 concern the audit of the half-year consolidated accounts and the follow-up of annual consolidated accounts relating to 2016 up to October.

On the 14th of October, the firm Pedro Matos, Garcia Jr., P. Caiado & Associados, SROC relinquished its duties of statutory auditor, as communicated to the relevant ministerial authorities by letter dated 20 October 2016.

Against this background, in accordance with provisions in sub-paragraph e) of article 21 of the Statutes of IP, the General and Supervisory Board promoted the development of a selection process of an audit firm for the auditing of half-year and annual separate and consolidated accounts to complete the ongoing mandate (2015 – 2017).

The General and Supervisory Board, after completing the selection process, submitted to the shareholder on February 6, 2017 its proposal for the appointment of the Statutory Auditor of IP by the General Meeting.

On 13 April 2017, the firm Vitor Almeida & Associados, SROC, Lda represented by its partner Vitor Manuel Batista de Almeida (ROC no. 691) was appointed for the purposes of auditing the e half-year and annual separate and consolidated accounts relating to 2016 and 2017.

33. DISCLOSURES RELATING TO RELATED PARTIES

IP's related entities as of 31 December 2016 and 2015, under the terms of IAS 24 – Related Party Disclosures are as follows:

31 DECEMBER 2016

	Relationship
Subsidiaries	
IP Engenharia	Control (IP controls 98.43% of share capital)
IP Património	Control (IP controls 99.997% of share capital)
IP Telecom	Control (IP controls 100.00% of share capital)
GIL	Control (IP controls 100.00% of share capital)
Joint Operations	
AVEP	Joint operation (IP stake equivalent to 50.00%)
AEIE CFM4	Joint operation (IP stake equivalent to 25.00%)
Other related entities	
Portuguese State	Shareholder
CP	Control relationship - State (Railway operators)

31 DECEMBER 2015

	Relationship
Subsidiaries	
IP Engenharia	Control (IP controls 98.43% of share capital)
IP Património	Control (IP controls 99.997% of share capital)
IP Telecom	Control (IP controls 100.00% of share capital)
GIL	Control (IP controls 100.00% of share capital)
Joint Operations	
AVEP	Joint operation (IP stake equivalent to 50.00%)
AEIE CFM4	Joint operation (IP stake equivalent to 25.00%)
Other related entities	
Portuguese State	Shareholder
CP	Control relationship - State (Railway operators)
Medway (former CP Carga)	Control relationship - State (Railway operators)

CP Carga, presently Medway, ceased to be considered a related party of the IP Group, because it was privatised, thus ceasing to be controlled by the State.

SIGNIFICANT BALANCES AND TRANSACTIONS WITH PUBLIC ENTITIES

IP is fully owned by the Portuguese State. The shareholder functions are carried out by the Directorate-General of the Treasury; the company is under the joint authority of the Ministry of Planning and Infrastructures and the Ministry of Finance.

The following table shows the main balances and transactions between IP and the State in the years ended at 31 December 2016 and 2015:

31 DECEMBER 2016

31/12/2016			Assets		Liabilities			
Nature	Caption value	Note	Current	Non-current	Current	Non-current	Income	Expenses
Grantor .- Account Receivable	Grantor - State - Account Receivable	12	5 496 216	-	-	-	-	-
State Grantor - Revenue LDI	Sales and services	20	-	-	-	-	19 992	-
Grantor	Interest and similar income	29	-	-	-	-	114 707	-
TRIR/F	Other expenses and losses	27	-	-	-	-	-	4 037
Collection costs RSC	External supplies and services	23	-	-	-	-	-	13 479
RSC	Rendered Services	20	-	-	-	-	673 967	-
Accrued income RSC	Other accounts receivable	11.1	92 983	-	-	-	-	-
Accrued expenses RSC	Other accounts payable		-	-	-	1 860	-	-
Shareholder's loans	Shareholder's loans	17.2	-	-	4 070 120	796 252	-	-
Financial expenses	Financial expenses and income		-	-	-	-	-	63 968
			5 589 200	**0**	**4 070 120**	**798 111**	**808 666**	**81 484**

31 DECEMBER 2015

31/12/2015			Assets		Liabilities			
Nature	Caption value	Note	Current	Non-current	Current	Non-current	Income	Expenses
Grantor .- Account Receivable	Grantor - State - Account Receivable	12	5 407 589	-	-	-	-	-
State Grantor - Revenue LDI	Sales and services	20	-	-	-	-	15 808	-
Grantor	Interest and similar income	29	-	-	-	-	119 782	-
TRIR/F	Other expenses and losses	27	-	-	-	-	-	4 234
Collection costs RSC	External supplies and services	23	-	-	-	-	-	13 421
RSC	Rendered Services	20	-	-	-	-	671 040	-
Accrued income RSC	Other accounts receivable	11.1	112 425	-	-	-	-	-
Accrued expenses RSC	Other accounts payable		-	-	-	2 249	-	-
Shareholder's loans	Shareholder's loans	17.2	-	-	3 347 598	1 478 345	-	-
Financial expenses	Financial expenses and income		-	-	-	-	-	107 270
			5 520 014	**0**	**3 347 598**	**1 480 593**	**806 630**	**124 925**

BALANCES AND TRANSACTIONS WITH SUBSIDIARIES

At 31 December 2016 and 2015, balances with subsidiaries were made up as follows:

Subsidiaries (Balances)	Notes	31/12/2016	31/12/2015
BALANCES RECEIVABLE			
GIL (*)		24 800	-
Financing Loans	8	**24 800**	**0**
IP Património		8 080	7 010
IP Telecom		35	30
IP Engenharia		62	156
GIL		-	13
Clients	11.2	**8 177**	**7 209**
IP Património		5 247	5 805
IP Telecom		2 361	1 334
IP Engenharia		168	97
GIL		149	80
Other accounts receivable	11.1	**7 925**	**7 316**
GIL (*)		52 140	66 488
Loans granted	11.3	**52 140**	**66 488**
IP Engenharia		-	1 520
Deferrals		**0**	**1 520**
		93 042	**82 533**
BALANCES PAYABLE			
IP Telecom		208	5 067
IP Engenharia		196	1 360
GIL		-	248
Trade payables	18.1	**404**	**6 675**
IP Património		1 890	1 941
IP Telecom		118	167
IP Engenharia		727	4 469
Other accounts payable		**2 734**	**6 577**
IP Telecom		543	-
Deferrals		**543**	**0**
		3 681	**13 252**

(*) The said balance is fully adjusted (notes 25 and 11.3).

Transactions with subsidiaries carried out in the 2016 and 2015 were as follows:

Subsidiaries (Transactions)	Notes	31/12/2016	31/12/2015
Investments			
IP Engenharia		7 730	7 060
IP Telecom		1 731	-
IP Património		135	46
		9 596	**7 106**
External supplies and services			
IP Engenharia		1 453	2 708
IP Telecom		6 449	11 939
IP Património		- 194	- 151
GIL		706	808
		8 415	**15 304**
Other expenses			
IP Engenharia		978	- 59
IP Telecom		- 19	- 61
IP Património		- 5	- 26
		954	**- 146**
Rendered Services			
IP Telecom		79	79
IP Património		67	17
		145	**96**
Other Income and gains			
IP Engenharia		103	500
IP Telecom		3 355	3 760
IP Património		4 732	6 797
GIL		41	41
		8 231	**11 098**
Gains on subsidiaries			
IP Telecom	27	4 000	6 122
		4 000	**6 122**

BALANCES AND TRANSACTIONS WITH RAILWAY OPERATORS

The breakdown of balances with railway operators at 31 December 2016 and 2015 is as follows:

Railway operators (balances)	Notes	31/12/2016	31/12/2015
BALANCES RECEIVABLE			
Medway (former CP Carga)		-	31 436
CP		17 244	22 114
Clients	11.2	**17 244**	**53 550**
CP		11 429	863
Other accounts receivable	11.1	**11 429**	**863**
BALANCES PAYABLE			
Medway (former CP Carga)		-	14
CP		2 701	1 095
Trade payables	18.1	**2 701**	**1 109**
Medway (former CP Carga)		-	2 286
Other accounts payable		**0**	**2 286**

The breakdown of transactions with railway operators at 31 December 2016 and 2015 is as follows:

Railway operators (transactions)	31/12/2016	31/12/2015
External supplies and services		
CP	2 303	2 671
Medway (former CP Carga)	-	295
	2 303	**2 966**
Other expenses		
CP	100	31
Medway (former CP Carga)	-	7
	100	**38**
Personnel expenses		
CP	1 968	1 564
	1 968	**1 564**
Rendered Services		
CP	63 185	62 685
Medway (former CP Carga)	-	12 807
	63 185	**75 492**
Other income		
CP	30	92
Medway (former CP Carga)	-	86
	30	**178**

JOINT OPERATIONS

Impacts of joint operations on the Group's financial statements at 31 December 2016 and 2015 are as follows:

Joint Operations	31/12/2016	31/12/2015
Assets	384	1 074
Liabilities	19	518
Revenue	272	751
Profit/(Loss) for the period/year	- 514	245

34. RECENTLY ISSUED ACCOUNTING STANDARDS AND INTERPRETATIONS

Change in Accounting Policies

New standards, interpretations and amendments effective as of 01 January 2016

- Amendment to IAS19 – Employee Benefits - The purpose of this amendment is to simplify the accounting of employee defined benefit plans where such plans are not linked to years of employment. This amendment will have no impact on Company's financial statements.
- Amendment to IAS16 and IAS38 – Acceptable methods of depreciation and amortisation - This amendment clarifies that the use of a revenue-based method is not considered to be an appropriate manifestation of consumption. This is because revenue represents the generation of expected economic benefits rather than the consumption of economic benefits. This amendment has no impact on the Company's financial statements, since as mentioned in note 2.3, it is considered that there is a high co-relation between generated revenues and the use of the infrastructure.
- Amendment to IAS16 and IAS41 – Agriculture: bearer plants – The amendment establishes that bearer plants should be accounted for within the scope of IAS 16, therefore reflected in terms of measurement, however, the produce growing on bearer plants will remain within the scope of IAS 41. This amendment is not applicable to the Company's financial statements.
- Amendment to IFRS11 – Acquisition of an interest in a joint operation - This amendment adds new guidelines as to the principles of business combination accounting when acquiring an interest

  in a joint operation that constitutes a business, which must be accounted for within the scope of IFRS3. No material impacts from the adoption of this amendment are expected.
- Amendment to IAS1 – Disclosure Initiative – The amendments to IAS 1 result from a revision to IFRS disclosures. The amendments relate to the following: materiality; order of the notes; subtotals; accounting policies; and disaggregation; and presentation of other comprehensive income items resulting from investments measured by the equity method. Any impact on the Company's financial statements arising from this amendment should be relevant.
- Amendments to IAS27 – Equity Method in Separate Financial statements - The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. No material impacts from the adoption of this amendment are expected.
- IFRS 10; IFRS 12; and IAS 28: Investment Entities - Exemption from Consolidation Changes to IFRS clarify that an investment entity is not required to prepare consolidated financial statements if, and only if, the parent company is also an investment entity which prepares financial statements where subsidiaries are measured at fair value. Additionally, it is clarified that a subsidiary of an investment

entity which is not an investment entity itself, but supplies supporting services to the investment entity, will consolidate. All remaining subsidiaries are measured at fair value. Amendments to IAS 28 clarify that an entity which is not an investment entity and applies the equity method in the valuation of associated or joint ventures which are investment entities may keep the valuation at fair value of these entities in their subsidiaries. This amendment is not applicable to the Company's financial statements.

Annual improvements introduced by IASB relating to the 2012-2014 cycle – Improvements include amendments to four international accounting standards, as follows:

- IFRS 5 – Noncurrent assets held for sale and discontinued operations - This improvement clarifies that when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued, such reclassifications should not be considered changes to a plan of sale or a plan of distribution to owners. Therefore, there is no interruption of the requirements provided by IFRS 5. It is not likely that these amendments will have impact on the company's financial statements.

- IFRS 7 – Financial Instruments – Disclosures - Offsets disclosures to condensed interim financial statements. Additionally, it clarifies that when an entity transfers a financial asset it can withhold the right to the provision of a service in relation to the financial asset, against a specific pre-determined consideration (for instance, a maintenance contract) and that, in these circumstances, for the purposes of determining the disclosures required it must analyse the continuing involvement resulting from such contract. It is not likely that these amendments will have impact on the company's financial statements.

- IAS 19 – Employee Benefits - This improvement clarifies that the discount rate must be determined taking into account high quality bonds existing in a regional market sharing the same currency (i.e., Euro zone) and not the markets where the bonds were issued. It is not likely that these amendments will have impact on the company's financial statements.

- IAS 34 – Interim Financial Reporting - Disclosures relating to significant events and transactions can be made directly in the interim financial statements or by cross reference to other accounting documents (e.g. management report or risk report). However, it is considered that interim financial statements are incomplete if respective users do not have access, in the same terms and at the same time, to the information included by cross reference. It is not likely that these amendments will have impact on the company's financial statements.

Amendments to standards published by IASB but not yet endorsed by the EU

- Amendments to IFRS10 and 12 and IAS28- Investment Entities: applying the consolidation exception – This amendment clarifies that the consolidation obligation is to be applied to an intermediate parent undertaking that creates a subsidiary out of an investment entity. It further clarifies the option of applying the equity method to entities that though not investment entities, hold interests in associates or joint undertakings classified as investment entities. The adoption of this amendment will have no material impact on the Company.

- Amendment to IAS7 – Disclosure Initiative - The standard establishes that an entity must disclose information on changes to liabilities related with financing activities, namely: (i) changes to cash flows of financing; (ii) changes resulting from gaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair value; and (v) other changes. The effects of this change will be analysed by the Company.

- Amendment to IAS12 – Recognition of deferred tax **assets** – The change clarifies how to account for deferred tax assets related to assets measured at fair value, how to estimate future taxable income when there are deductible temporary differences, and how to assess the recoverability of deferred tax assets, when there are restrictions in the tax law. The Company does not have assets measured at fair value generating temporary differences.
- Amendment to IAS2 – Classification and Measurement of Share-based Payment Transactions - These amendments integrate into the standard share-based payment transactions settled in cash. No material impact from the adoption of this amendment is expected.
- Amendments to IFRS15 – Revenue from contracts with customers - Only introduces clarifications about the transition but it makes no changes to its underlying principles. The adoption of this amendment will have no material impact on the Company.
- IFRS 14 - Regulatory deferral accounts - permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Not applicable to the Company since it has already adopted IFRS.

New standards published by IASB but not yet endorsed by the EU

- IFRS9 – Financial Instruments – Classification and Measurement – Views to replace IAS39 - financial instruments: recognition and measurement and introduces changes to: i) the classification and measurement of financial assets, introducing a simplification in the classification, based on the business model defined by management; ii) recognition of impairment on receivables, based on the estimated losses model instead of the incurred losses model; iii) recognition of the own credit risk component in the voluntary measurement of liabilities at fair value, and iv) hedging accounting rules, which are intended to be more aligned with the business rational of the risk hedging defined by Management. Any impacts from applying this standard will be reviewed by the Company.
- IFRS15 – Revenue from contracts with customers – This new standard only applies to contracts for the delivery of goods and services, and requires that the entity recognises revenue when the obligation to deliver assets or provide services is met and for the amount reflecting the consideration to which the entity is entitled.
- IFRS16 – Leases - The standard establishes how to recognise, present and disclose leases, defining one sole accounting model. Except for contracts with a duration of less than 12 months, leases will be accounted for as asset and liability. Any impacts from applying this standard will be reviewed by the Company.
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration - This interpretation clarifies that when determining the spot exchange rate to be used on the initial recognition of an asset, an expense or the income (or part) associated to the derecognition of non-monetary assets or liabilities relating to advance consideration, the date of the transaction is the date on which the transaction first qualifies for

recognition. Any impacts from applying this standard will be reviewed by the Company.

- Transfers of investment properties (amendments to IAS 40) - Amendments clarify when an entity should transfer a property, including property under construction or development into, or out of, investment property.

The amendments determine that the change in use occurs if property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. Any impacts from applying this standard will be reviewed by the Company.

Annual improvements introduced by IASB relating to the 2014-2016 cycle – IASB introduced five improvements in three standards that may be summed up as follows:

- IFRS 1 - First-time adoption of IFRS - this improvement deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose (which concerned some exemptions of disclosures provided in IFRS 7, exemptions in terms of employee benefits and exemptions at investment entity level). Not applicable to the Company since it has already adopted IFRS.
- IAS 28 - Clarification that the measurement of subsidiaries at fair value through profit or loss is a choice that is made on a case-by-base basis. The improvement clarified that:
- . An entity which is venture capital company or qualifies as one can choose, on initial recognition and on an investment to investment basis, to measure its investments in associates and/or joint ventures at fair value through profit or loss.
- . When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries. This option is taken separately for each investment on the later date between: (a) the initial recognition in such subsidiary; (b) such subsidiary becoming an investment entity; and (c) such subsidiary becoming the parent company.

Any impacts from applying this standard will be reviewed by the Company.

- IFRS 12 - Disclosures of interests in other entities - This improvement clarified that the disclosure requirements of IFRS 12, in addition to those provided in paragraphs B10 a B16, apply to interests of an entity in subsidiaries, joint ventures or associates (or part of its interest in joint ventures or associates) which are classified (or included in a group for sale which is classified) as held for sale. Any impacts from applying this standard will be reviewed by the Company.

35. GUARANTEES AND SURETIES

At 31 December 2016 loans secured by State guarantee totalled €2,801 thousand (2015: €2,906 thousand)

At 31 December 2016 liabilities for guarantees taken totalled €153,938 thousand (2015: €154,451 thousand); Of this amount, €148,593 thousand concern guarantees given the Tax Authority stemming from the VAT proceedings (note 13) and € 2,302 thousand are guarantees given to courts relating to lawsuits.

36. CONTINGENCIES

In accordance with current legislation, tax returns are subject to review and correction by the tax authorities during a period of four years (five years for social security), except where tax losses exist or tax benefits have been granted or inspections, claims or appeals are in progress, in which case, depending on the circumstances, the period can be extended or suspended. The Executive Board of Directors, based on information from its tax advisers, believes that any tax contingencies will not have a material impact on the financial statements as at 31 December 2016, taking into account the provisions set up and existing expectations as of this date, including the judicial claim relating to the VAT dispute.

PENDING LAWSUITS

As of 31 December 2016, pending lawsuits concerning railway expropriations totalled €1,618 thousand (2015: €1,989 thousand). This amount has no impact on the Statement of Financial Position. In these cases, deposits are made with Caixa Geral de Depósitos in the name of the courts judging the lawsuits, in an amount equivalent to the arbitrated amount; the settlement of these proceedings does not represent an expense of the Company but of the Grantor of the railway infrastructures.

The Company has pending lawsuits relating to railway accidents occurred on the railway infrastructures under management and for damages caused to third-party property. These lawsuits are covered by IP’s activity insurance.

Contingencies that may arise from lawsuits ongoing at the Labour Court were duly provisioned, as described in Note 16.

SUBSIDIES

Subsidies allocated to the concession were awarded according to relevant eligibility terms, however, they are subject to audits and possible correction by the relevant authorities. In what concerns applications to community funds, these corrections may occur within a period of five years following the final payment. As these are subsidies allocated to railway investment on behalf of the grantor, the return will only affect the grantor's account - amount receivable.

37. COMMITMENTS

IP's commitments basically concern those assumed under the Sub-Concession Contracts and those inherent to the company replacing the State for payments and receipts from the Concessioned Network.

IP's net costs with the State's Road Concessions and Sub-Concessions (including the toll revenues after the end of the State's Concession Contracts with its private partners, which are IP revenues in accordance with the Concession Contract) at constant prices and including VAT (these figures were sent to the Directorate-General for the Treasury and Finance and were used as a basis for the corresponding table in the Report on the State Budget for 2017) are summarised in the table below:

Concessions and Sub-Concessions Expenses (€m)	2018	2019	2020	2021	2022	2023	2024	2025	2026
Gross expenses	1 484	1 381	1 387	1 343	1 332	1 198	1 153	1 014	910
Revenues	- 353	- 357	- 390	- 394	- 400	- 406	- 411	- 417	- 448
Net expenses	**1 131**	**1 024**	**997**	**948**	**932**	**792**	**741**	**597**	**462**

Concessions and Sub-Concessions Expenses (€m)	2027	2028	2029	2030	2031	2032	2033	2034	2035
Gross expenses	820	777	669	563	491	343	275	262	219
Revenues	-438	-444	-450	-323	-206	-145	-123	-127	-130
Net expenses	**382**	**333**	**219**	**240**	**285**	**198**	**151**	**135**	**89**

Concessions and Sub-Concessions Expenses (€m)	2036	2037	2038	2039	2040	2041	2042
Gross expenses	200	189	201	37	10	1	-
Revenue	-77	-65	-66	-25	-5	-	-
Net expenses	**123**	**123**	**135**	**12**	**4**	**1**	**0**

38. INFORMATION REQUIRED BY LAW

a) Under the terms of article 21 no. 1 of Decree Law No 411/91, of 17 October, the Company the company hereby confirms that it does not have any overdue contributions to the Social Security, or overdue debts to the Tax Administration.

b) Impact of IP's activity on the National Accounts and Public Accounts (Basis 12, number 3, paragraph c) of Decree-Law no. 110/2009 of 18 May).

a. National accounts:

After consulting with the National Statistics Institute ("INE"), it was considered that all IP's accounting items had a direct impact on the national accounts. All flows between IP and units outside the General Government perimeter shall have a direct impact on general government aggregates (deficit and/or debt), such impact and the magnitude thereof depending on the operations in question. By way of example, when IP earns interest from financial applications outside the public administration perimeter, it contributes positively to the balance of public administrations. When IP pays for services provided by entities outside the public administration perimeter, it is increasing public expenditure, and consequently the deficit; if IP borrows from the financial sector or the Rest of the World, it is increasing public debt.

Due to the nature of the national accounts system, the estimated impact of a single unit must be taken as merely indicative. In so far as this is an integrated system, in order to evidence the underlying economic relations in a more explicit way, the national accounts methodology establishes that the operations of a unit or set of units be sometimes subject to transformations the analytic effect of which only makes sense within the broader scope of the accounts.

b. Public accounts:

Financial reporting on a public accounts basis uses the so-called cash basis where financial flows - payments and receipts - are registered.

IP is included in the Reclassified Public Entities on an equal standing with the Autonomous Services and Funds, thus becoming integrated in the State Budget universe.

c) Prospective financial information - commitments assumed and multi-annual forward-looking information for the concession period concerning the concessionaire's activity, namely in terms of results, funding needs, dividends payable to the shareholder and income tax (Base 12, number 4, paragraph b) of Decree-Law no. 110/2009 of 18 May):

PROVISIONAL INFORMATION

Table 1 provides provisional information on IP's future financial flows as at 31 December 2016, taking into account the commitments already assumed by the company. Note that compliance with the PRN 2000 requires making investments during the period of EP's Concession Contract, the financial inflows and outflows of which are not taken into account in the following table. The figures already factor in the estimated impact of the ongoing renegotiation of the Concession and sub-concession contract. Annual net income, annual borrowing requirements, dividends payable and income tax figures were projected.

PROVISIONAL INFORMATION

Figures at current prices.

€th		2017	2018	2019	2020	...	2025	...	2035	...	2045	...	2055	...	2065	...	2075	...	2082
Net Income		8,100	104,059	150,897	156,301	...	158,717	...	893,826	...	2,140,036	...	2,972,473	...	3,964,850	...	5,218,699	...	6,277,364
Annual borrowing requirements		934,262	1,054,797	1,427,752	858,967	...	552,612	...	0	...	0	...	0	...	0	...	0	...	0
Dividends payable	(a)	0	0	0	0	...	0	...	0	...	2,061,535	...	2,972,473	...	3,964,850	...	5,218,699	...	6,277,364
Income tax	(b)	-60,818	-60,261	-60,754	-58,355	...	-73,145	...	-346,058	...	-824,452	...	-1,143,074	...	-1,522,992	...	-2,002,855	...	-2,407,947
Financial flows with the State	c)	604,079	646,969	657,085	673,840	...	735,258	...	400,182	...	-2,085,555	...	-3,316,620	...	-4,755,360	...	-6,569,103	...	-8,098,538

PROVISIONAL INFORMATION

Figures at current prices.

€th		2017	2018	2019	2020	...	2025	...	2035	...	2045	...	2055	...	2065	...	2075	...	2082
Net Income		8,100	102,521	146,470	148,741	...	136,801	...	632,002	...	1,241,322	...	1,414,424	...	1,547,700	...	1,671,170	...	1,749,985
Annual borrowing requirements		934,262	1,039,209	1,385,864	817,418	...	476,307	...	0	...	0	...	0	...	0	...	0	...	0
Dividends payable	(a)	0	0	0	0	...	0	...	0	...	1,195,788	...	1,414,424	...	1,547,700	...	1,671,170	...	1,749,985
Corporate Income tax	(b)	-60,818	-59,371	-58,971	-55,532	...	-63,045	...	-244,689	...	-478,221	...	-543,921	...	-594,508	...	-641,369	...	-671,281
Financial flows with the State	c)	604,079	637,408	637,807	641,246	...	633,733	...	282,959	...	-1,209,721	...	-1,578,183	...	-1,856,280	...	-2,103,606	...	-2,257,687

(a) Exclusively for these activities and since the equity restriction exercise was not carried out, it is assumed that the cash flow available following repayment of debt may be distributed as dividends, though not for a higher amount than the year's net income.

(b) For these activities only and from a cash flow standpoint.

(c) From IP's standpoint. Includes outflows: CIT, Concession Rent and Dividends; and inflows ISP (oil tax) reduction (through creation of the RSC), from a cash flow standpoint.

39. OTHER RELEVANT FACTS

Compensations, reservation of rights, requests for reinstatement of financial balance (RFB) and challenging of fines in the Sub-concessions and Service Provision Contracts.

Under the terms of the Sub-Concession Contracts, before any specific request for a reinstatement of financial balance (RFB) is made, IP's counterparty must issue a so-called 'reservation of rights', i.e., it must inform IP that it considers that a given fact is eligible for RFB purposes. Only after the reservation has been issued can requests for RFB can be made. Note also that it the reservation of rights is not issued within 30 from the date of the event, the presumed right to the RFB will forfeit.

Up to 31 December 2016 the following RFB requests were submitted:

Sub-concessions	Type of request made	Fact generating request	Stock of the situation
Auto-Estrada Transmontana (AEXXI)	Reinstatement of financial balance	Delay in refusing authorisation	SC renounced the request, by agreement. Formalisation of renunciation is pending
Baixo Tejo (AEBT)	Reinstatement of financial balance	Legal changes of specific nature DL 112/2009, of 18/5; Order 314-B/2010, of 14/6 and DL 111/2009, of 18/05 and Order 1033-C/2010 of 06/10	Arbitrage pending agreement
Litoral Oeste (AELO)	Reinstatement of financial balance	Legal changes of specific nature DL 112/2009, of 18/5; Order 314-B/2010, of 14/6 and DL 111/2009, of 18/05 and Order 1033-C/2010 of 06/10	Arbitrage pending agreement
Litoral Oeste (AELO)	Reinstatement of financial balance	SC alleges various facts for the claim: changes to the project; environmental hindrances (existence of cork trees); unpredictable geological and geotechnical conditions; delays in the planning of the contract works due to insurmountable problems created by IP and Expropriations.	Arbitrage pending agreement
Pinhal Interior (Ascendi PI)	Reinstatement of financial balance	Specific change in law - Law 46/10, of 7/9; Law 55-A/2010, of 31/12, Law 64-B/2011, of 31 /12	Pending decision of Negotiation Committee
Pinhal Interior (Ascendi PI)	Reinstatement of financial balance	Archaeological remains - Sra. Da Alegria	
Pinhal Interior (Ascendi PI)	Reinstatement of financial balance	Construction of Peral, Alvaiázere and Almalaguês junctions	
Pinhal Interior (Ascendi PI)	Reinstatement of financial balance	Archaeological remains - Peral Junction	

SERVICE PROVIDER AGREEMENT	Type of request made	Fact generating request	Stock of the situation
Ascendi O&M Costa de Prata and Grande Porto	Reinstatement of financial balance	Specific change in law - Law 55-A/2010, of 31/12 introducing changes to the Sanction Regime established by Law 25/2006	Under partial review
Ascendi O&M Costa de Prata and Grande Porto	Reinstatement of financial balance	1 - Removal of 4 Toll Collection Points (2 in Costa de Prata and 2 in Grande Porto)	Under review
		2 - conversion of VTC into ETC and virtual EPD´s support	Under review
		3.- Device for technical improvement of the vehicle classification system in the MLFF system to support the post-obligatory EPD).	Under review
		4 - Device to support the Positive Discrimination Regime - Order no 1033- A/2010, de 06/10 (specific change in the law).	Under review
		5 -Support device to the Discrimination Regime for goods vehicles: Order no. 41/2012, of 10 February (specific change in the law).	Completed
ViaLivre - Norte Litoral	Reinstatement of financial balance	Specific change in the law: Amendment to Law no. 25/2006 stemming from the Law that approved the 2011 State Budget - Law 55-A/2010, of 31 December	IP accepted the expenses presented as eligible, and these will be approved or rejected on a case-by-case basis.
ViaLivre - Norte Litoral	Reinstatement of financial balance	Specific change in the law: Order no.135-A/2011	Rejected
ViaLivre - Norte Litoral	Reinstatement of financial balance	Specific change in the law: Order no. 41/2012, of 10 February	Rejected
ViaLivre - Norte Litoral	Reinstatement of financial balance	Orders SEOPTC DE 28.12.2012, 29.01.2013 E 12.02.2013	Rejected
ViaLivre - Norte Litoral	Reinstatement of financial balance	Specific change in the law: Amendment to Law no. 25/2006 pursuant to approval of Law 64-B/2011, of 30 December	IP accepted the expenses presented as eligible, and these will be approved or rejected on a case-by-case basis.

COMPENSATIONS, RESERVATION OF RIGHTS AND REQUESTS FOR THE REINSTATEMENT OF THE FINANCIAL BALANCE IN STATE CONCESSIONS

These are State concessions, which were negotiated by the State. Hence IP is not aware of any reservations of rights and/or requests for reinstatement of financial balance since, even if they exist, they are not submitted to it because IP is not a counterparty in these contracts. Within the scope of its Concession Contract with the State, IP may be called to pay such RFBs, if the Grantor so deems convenient.

In 2016 IP paid approximately €39.4 million in contributions, compensations and RFBs, including:

i) Payment of compensation to concessionaire Brisal - Auto-Estradas do Litoral, S.A. In the amount of €6.8 million resulting from the fall in traffic following the introduction of tolls in Costa da Prata motorway.
ii) Payment of €28.9 million to Auto-Estradas do Atlântico, S.A. as indemnity for tolls in Costa da Prata e Beira Litoral and Alta concessions.

APPROVAL OF FORMER REFER ACCOUNTS RELATING TO 2014

The separate and consolidated financial statements and corresponding reports of the executive board of directors of former REFER relating to 2014 were approved by the shareholder on 18 May 2016.

APPROVAL OF FORMER REFER ACCOUNTS RELATING TO 2015

The separate and consolidated financial statements and corresponding reports of the executive board of directors of former REFER relating to 2015 were approved by the shareholder on 19 April 2017.

40. SUBSEQUENT EVENTS

Pursuant to a unanimous written corporate resolution dated 22 February 2017, the share capital of IP was increased by €600 million, through the issue of 120,000 shares with the nominal value of €5,000 per share, subscribed and paid up by the Portuguese State, as shareholder, as follows:

- On 22 February 2017, the amount of €460 million;
- On 20 April 2017, the amount of €140 million.

On 17 March 2017, the Company entered an agreement with the Municipality of Aveiro, pursuant to the legal framework on municipal financial recovery, following the said Municipality's adhesion to the Municipal Support Fund (FAM).

Almada, 19 April 2017

The Executive Board of Directors

Financial Manager

Maria do Carmo Duarte Ferreira

The Official Auditor

Diogo Mendonça Lopes Monteiro

Chairman	António Carlos Laranjo da Silva
Vice-chairman	José Saturnino Sul Serrano Gordo
Vice-chairman	Carlos Alberto João Fernandes
Member	Alberto Manuel de Almeida Diogo
Member	Vanda Cristina Loureiro Soares Nogueira

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LEGAL CERTIFICATION OF THE ACCOUNTS

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have examined the financial statements **INFRAESTRUTURAS DE PORTUGAL, S.A.,** which comprise the Statement of Financial Position at 31 December 2016 (showing a total of €27,381,825 thousand and total equity of €4,084,234 thousand, including a net profit of €26,320 thousand), the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the financial year ending on that date, as well as the notes to the financial statements, which include a summary of the relevant accounting policies.

In our opinion, the financial statements attached hereto present in a true and appropriate manner, in all materially relevant respects, the consolidated financial position of **INFRAESTRUTURAS DE PORTUGAL, S.A.,** at **31** December **2016** and its financial performance and cash flows in the year ended on the said date, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

BASES OF THE OPINION

Our audit was conducted in accordance with the International Standards on Auditing (ISA) and the technical and ethical standards of the Certified Auditors Association (Ordem dos Revisores Oficiais de Contas). Our responsibilities as provided in the said standards are described in section "Auditor's responsibilities for the audit of the financial statements" hereinbelow. We are independent from the Entity, under the terms of the law, and comply with relevant ethical requirements under the terms of the Code of Ethics of the Certified Auditors Association.

We believe that the audit evidence obtained is sufficient and appropriate to provide a base for our opinion.

EMPHASES

1. As disclosed in Note 13 of the Financial Statements, caption "State and other Public Entities" in current assets, in the amount of €1,237,101 thousand, includes €1,237,003 thousand relating to VAT - Value Added Tax to be recovered; the company has already requested the reimbursement of €227,562 thousand relating to 2008 and up to October 2009.

Following tax inspections, the Tax Authority issued additional VAT settlements, in the amount of €725,900 thousand (including €341,630 thousand relating to 2008 and 2009 and €384,270 thousand relating to 2011 and 2012). Adding to the above, the Tax Authority is charging a total amount of €44,739 thousand in interest, determined as of the date of the said additional settlements, to which the company is legally objecting to, via administrative claims and other, which is why the amount was not recognised for accounting purposes.

These additional settlements result from the fact of the Tax Authority assuming, conversely to the Entity's understanding, that the Road Sector Contribution is not a revenue subject to VAT, thus not eligible for the deduction of the VAT on activities financed by this revenue.

Adopting a prudential standpoint, and as disclosed in Note 16 to the financial statements, the Entity includes in Caption 'Non Current Liabilities', under heading 'Provisions', the amount of €333,968 thousand (including an increase in the period of €15,938 thousand) relating to VAT deducted over the years, associated with activities funded by the Road Sector Contribution, though not including any interest that may arise if the final decision is unfavourable to the Entity.

However, should the understanding of the Tax Authority prevail, the impact resulting from a possible non reimbursement of the VAT deducted over the years would have as result its recognition as a component of the acquisition cost of the Intangible Asset, therefore not resulting in any immediate consequences in terms of result for the period concerned, but merely diluted over the remaining period of the concession, via depreciation and amortisation to be recognised in each of the remaining years of the road concession, i.e. 2082.

2. As referred in the Notes to the Financial Statements, specifically in notes 2.2.-d) and f), 2.3., 2.4. and 6., particularly in what concerns the accounting recognition of Intangible Assets - Road Concession Right, in the net amount of €19,824,205 thousand as of 31 December 2016, the accounting model adopted, in addition to recognising the expenses already borne, allows to consider a set of assumptions which sustain the integration in the value of this asset of the estimated amount of future expenditure in the road network until the end of respective concession contract, as well as, with regard to the determination of the amortisation for each period, the projected income from these assets, until the end of the concession. These assumptions and estimates are based on the business plan prepared and annually revised by the Management Body, adjusted for accounting purposes, from a business stability standpoint.

However, we alert to the fact that future events often do not occur as expected due to facts external to the Entity, namely the evolution of macroeconomic variables, political guidelines or social and economic changes, with potentially significant impact on the economic and financial performance of the Entity.

As we consider that the procedures adopted by **INFRAESTRUTURAS DE PORTUGAL, S.A.,** described in this section do not affect the appropriate presentation of its financial position and performance, according to the relevant accounting standards, our opinion is not changed in relation to these matters.

RELEVANT AUDIT MATTERS

Relevant audit matters are those which, in our professional judgement, had larger importance in the audit of the financial statements for the current year. These matters were considered in the context of the audit of the financial statements as a whole, and when forming our opinion, we do not issue a separate opinion on these matters.

Description of the more significant risks of material misstatement analysed	Summary of the answer provided to the risks of material misstatement
Recognition of the Intangible Asset - Road Concession Right The Entity entered a concession agreement with the State (sole shareholder), whereby the recognition of a Road Concession Right is established until the end of 2082. In accordance with the said Contract, the Entity recognises this concession right as an intangible asset, in accordance with provisions in IFRIC12, which is increased by the investment already made and the estimated expenditure to be made in the National Road Network and the Network under Concession, corresponding therefore to the overall amount of the costs incurred and liabilities assumed within the scope of the general concession for the national road network.	In order to mitigate the risks of material misstatement in the Intangible Asset - Concession Right, the adjusted audit methodology developed is based on the understanding of the controls and procedures implemented and maintained by the Entity and in the development of a set of relevant audit procedures, which include the following: - Analysis of the information supporting accounting operations, validation of underlying assumptions and replication of the calculations of increases and decreases in gross assets and respective depreciation;

Description of the more significant risks of material misstatement identified	**Summary of the answer provided to the more significant risks of material misstatement analysed**
The depreciation of intangible assets is based on the production unit method, where production unit is deemed to be the best estimate of the revenues directly associated with the rights already acquired by the Entity. Taking into account the considerable number of judgements and estimates to be considered over the large time horizon of the road concession, which are based on macroeconomic and management assumptions and policies relating to future expenditure, this set of subjects is considered to be a relevant audit matter.	- Analysis of the Entity's business model supporting the measurement of the intangible asset and the recognition of its depreciation, with particular attention to the coherence and consistency of the underlying assumptions and respective evolution as compared to the previous year; - Analysis of contracts and respective relevant annexes, including validation of their consistency and compliance with values recognised for accounting purposes; - Documentary check, on a sampling basis, of the amount of investment in the year, and the capitalisation of financial expenses with construction; - Validation of the external confirmation of Concessionaire and Sub-concessionaires, including respective balances and review of the reconciliation made.
Recognition of the Financial Asset - Account receivable - State Grantor (Railway) The Entity is responsible for the construction and renewal of long term railway infrastructures, according to Government Directives, with funding provided through capital, subsidies and loans most of which guaranteed by the State, which acts as agent with regard to this activity. Based on this understanding, the effects relating to this activity are recognised and measured in accordance with IFRIC 12 - Concession Arrangements, considering that the activity	In order to mitigate the risks of material misstatement with regard to Financial Assets - Account receivable - State Grantor (Railway), we developed the following audit procedures: - Analysis of the supporting information to accounting operations associated with the assumption of this responsibility by the Entity, validation of underlying assumptions and replication of the calculations of increases and decreases in the financial asset;

Description of the more significant risks of material misstatement identified	Summary of the answer provided to the more significant risks of material misstatement identified
of investment in long duration infrastructures (LDIs) considers the existence of a concession with the State, in the form of "accounts receivable" (financial asset) charged to the "State Grantor", and initially recognised at fair value. The financial asset, which amounted to €5,494,216 thousand, in net terms, at the end of 2016, reflects the net value receivable from the State, generated by the expenses borne with the investment made in the railway infrastructure, added of the interest on loans which are considered as charged to the concession, and deducted of the sale value of these assets, where applicable, and the subsidies received, relating to such assets. Considering that the financial asset results from the direct allocation of expenses associated with the investment in the National Railway Network, including financial expenses, made unilaterally by the Entity, the associated risk derives from the allocation of such amounts to the State Grantor, and respective recognition by the latter, thereby being considered a relevant audit matter.	- Analysis of the contracts and validation of their consistency and compliance with calculations and assumptions; - Documentary check, on a sampling basis, of the amount of investment made in LDI in the year; - - Documentary check and analysis of the funding considered as allocated to funding of LDI, and allocation of respective financial expenses; - Confirmation of the approval of the consolidated financial statements relating to 2015 by the shareholder State, which is also the grantor of the railway infrastructure, assuming that by approving these financial statements, it is implicitly recognising the amount of expenses borne with investment in LDI which was not reimbursed to the Entity by the State.
Recognition of income associated with relevant activities developed by the Entity Note the amount of €1,059,334 thousand in revenues relating to the road sector, stemming mainly from the Road Sector Contribution (63%) and from toll revenues (27%), although	In order to mitigate the risks of material misstatement in the recognition of income from the relevant activities developed by the Entity, the audit methodology developed is based on the understanding of the controls and procedures

Description of the more significant risks of material misstatement identified	Summary of the answer given to the risks of material misstatement identified
such toll revenues are partly recognised as expenses and, consequently deducted to the cost of the Intangible Asset - Concession Right, which will occur until the end of the initial period of each one of the concessions operated by private concessionaires, which are comprised in the Entity's concession. Note the revenue recognised in 2016 in the amount of €100,674 thousand stemming mainly from the management of the railway infrastructure, added of the compensatory allowance granted in the year, in the amount of €40,650 thousand.	implemented and maintained by the Group and in the development of a set of relevant audit procedures, which include the following: - External confirmation of the revenue charged concerning the Road Sector Contribution and replication of the calculations. - Validation of the external confirmation of sub-concessionaires with respective accounting calculations; - Documentary check, on a sampling basis, of the amount of income recognised relating to the management of the railway infrastructure and its compliance with accounting records.

RESPONSIBILITIES OF THE MANAGEMENT BODY AND THE SUPERVISORY BODY FOR THE FINANCIAL STATEMENTS

The management body is responsible for:

- - preparing financial statements which give a true and appropriate view of the financial position of the Group, its financial performance and cash flows, in accordance with the International Financial Reporting Standards (IFRS), as adopted in the European Union;
- - preparing a management report according to the relevant legal and regulatory terms;
- designing, implementing and maintaining an appropriate internal control to allow the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- - selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances;
- - assessing the Entity's ability to continue as going concern, disclosing, where applicable, any subject that may cast significant doubt upon their ability to continue as a going concern.

The General Supervisory Board is responsible for the supervision of the preparation and disclosure of the financial information of the Entity.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our responsibility is to obtain reasonable assurance about whether the financial statements taken as a whole are free of material misstatement, whether caused by fraud or error, and issue a report expressing our opinion.

Reasonable assurance is a high level of assurance; however, it is not a guarantee that an audit conducted according to ISAs will always detect a material misstatement if it exists. Misstatements may originate from fraud or error and they are considered material if separately or jointly, they could influence the economic decisions of users of the financial statements.

As part of an audit conducted according to ISAs, we make professional judgements and maintain professional scepticism during the audit and:

- we identify and assess the risks of material misstatement of the financial statements due to fraud or error, we design and perform audit procedures which respond to such risks, and we 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 not detecting one resulting from error, as fraud may involve collusion, forgery, deliberate failure to record transactions, or intentional misrepresentations or overriding of internal control procedures;

- we obtain an understanding of the relevant internal control for the audit with the purpose of designing audit procedures that are appropriate in the circumstances, but not to express an opinion on the efficacy of the internal control of the Entity;

- we assess the adequacy of the accounting policies used and the reasonability of accounting estimates and respective disclosures made by the management body;

- we conclude as to the appropriate use by the management body of the going concern assumption and, based on the audit evidence obtained, as to whether any material uncertainty exists relating to events or conditions that may cast significant doubt upon the ability of the Entity to continue as a going concern. If we conclude that a material uncertainty exists, we must draw attention in our report to related disclosures included in the financial statements or, if such disclosures are not appropriate, we must alter our opinion. Our conclusions are based on audit evidence obtained until the date of our report. However, future events or conditions may cause the Entity to cease to continue as going concern;

- we assess the presentation, structure and overall contents of the financial statements, and whether such financial statements reflect the underlying transactions and events in order to achieve a fair presentation;

- amongst other issues, we communicate to governance officers, including the supervisory body, the scope and schedule of the audit, and the relevant conclusions of the audit, including any relevant internal control deficiency identified during the audit.

- Amongst the issues communicated to governance officers, including the supervisory body, we determine those which were considered more important in the audit of the financial statements for the current year and which are relevant audit matters. We describe those matters in our report, except if the law or regulation prohibit their public disclosure;

- We declare to the General and Supervisory Board that we complied with the ethical requirements concerning independence and we communicate all relations and other matters that may be perceived as threatening our independence, and where applicable, respective safeguards.

Our audit also includes the verification that the financial information contained in the management report is consistent with the financial statements presented, as well as the verifications established in paragraphs 4 and 5 of article 451 of the Companies Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

THE MANAGEMENT REPORT

In compliance with provisions in article 451, no. 3, sub-paragraph e) of the Companies Code, it is our opinion that the management report was prepared according to the legal and regulatory requirements in force, and that the information contained therein is consistent with the financial statements audited, and taking into account our knowledge and assessment of the entity, we did not identify material misstatements.

THE CORPORATE GOVERNANCE REPORT

In compliance with article 451 no. 4 of the Companies Code, it is our opinion that the Corporate Governance Report includes the elements legally required under the terms of article 245-A of the Securities Code, and we did not detect any material misstatement in the information provided therein, complying with provisions in sub-paragraphs c), d), f), h), i) and m) of the said article.

ADDITIONAL ELEMENTS PROVIDED IN ARTICLE 10 OF (EU) REGULATION NO. 537/2014

Pursuant to article 10 of the European Parliament and of the Council of no. 537/2014 of 16 April 2014, in addition to the relevant audit matters referred to hereinabove, we point out the following:

- we were appointed as Statutory Auditor of the Entity for the first time on 13 April 2017, according to Corporate Written Resolution for the years 2016 and 2017.

- The management body has confirmed to us that it is unaware of any fraud or suspect of fraud with material impact on the financial statements. We planned and prepared our audit according to ISAs, maintaining our professional scepticism and we designed audit procedures to respond to the possibility of any material misstatement in the financial statements due to fraud. In our work, we did not identify any material misstatement in the financial statements due to fraud.

- We confirm that the audit opinion issued herein is consistent with the additional report which we prepared and submitted to the General and Supervisory Board on this same date.

- We warrant that we did not provide any services forbidden under the terms of article 77, number 8 of the Statutes of the Association of Statutory Auditors and that we maintained our independence in relation to the Entity throughout our audit.

- We inform that, except for the audit, we did not provide any other services to the Entity.

Compliance with the State's Treasury Unit principle

As disclosed in paragraph 10.15 of the Management Report, as of 31 December 2016 the Entity has approximately 99.99% of its liquid assets with the IGCP. Operations with commercial banking have a residual nature, namely the use of services not yet provided by the said entity, pursuant to authorisation obtained under Order 1249/16 - SEATF, in relation to the application for exception made.

Lisbon, 26 May 2017

VITOR ALMEIDA & ASSOCIADOS, SROC, LDA.

Represented by:

Vitor Manuel Batista de Almeida
(Registered with the OROC under number 691 and with CMVM under number 20160331)

Infraestruturas de Portugal

General and Supervisory Board

OPINION OF THE GENERAL AND SUPERVISORY BOARD

Separate and Consolidated Management Report and Accounts for 2016

1. In compliance with legal and statutory provisions applicable to Infraestruturas de Portugal, S.A. (IP), we issue our opinion on the "Separate Report and Accounts" and the "Consolidated Report and Accounts" of IP, both relating to the year ended at 31 December 2016, comprising the separate and consolidated financial statements and the proposal for appropriation of results.

2. During the year, we have followed the evolution of IP's activities, as and when deemed necessary. We have verified the timeliness and adequacy of the accounting records and supporting documentation, as well as the effectiveness of the internal control system, insofar as it was deemed relevant to audit the activity of IP, the presentation of separate and consolidated financial statements, the risk management system and the internal audit and compliance system. We have also ensured that the law and the Company's statutes were duly complied with.

3. Within the scope of the above, we report the following:

   - The Executive Board of Directors (EBD) issued the quarterly budget implementation reports, as required under the terms of article 13, number 1.f) of IP's Statutes and article 44, number 1i) of the RJSPE; as result, the GSB (General Supervisory Board) issued the corresponding reports.
   - In 2016 IP's indebtedness growth indicator stood at 6.79%, surpassing the amount set forth in Law 7A/2016, concerning the indebtedness growth of State-owned companies, which cannot exceed 3%. The amount

posted is consistent with the budget proposals included by IP in the State Budget for 2016.

- In what concerns the principle of the unity of the State treasury, IP kept its liquid assets deposited with the IGCP - Agência de Gestão da Tesouraria e da Dívida Pública.

4. Within the scope of our duties, we have examined the adequacy of the understanding of the financial situation of IP, its results, comprehensive income and cash flows on an individual basis, as expressed in respective financial statements and corresponding attached Notes, complemented with the Legal Certification of the Accounts issued by ”Vitor Almeida & Associados, SROC, Lda", and the Audit Report issued by RCA - Rosa, Correia & Associados SROC, S.A (RCA).

   The Net Result of IP in 2016 is of €26.3 million, improving by 110% as compared to 2015.

   The Executive Board of Directors proposes, under the terms and for the purposes of article 31, no. 1-b) and number 2 of article 376 and article 295 of the Companies Code, that the said result is allocated to the Legal Reserve (€26.3 million), with no dividend distribution, as this is adequate in the light if the Company's indebtedness level.

5. The consolidated financial information for the year ended as of 31 December 2016 includes the Consolidated Management Report for 2016, the Consolidated Statement of Financial Position for the year ended at 31 December 2016 (total assets of €27,507 million and total equity of €4,164 million, including Net Results of €37.7 million), and the Consolidated Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement for the year ended on the said date, as well as corresponding Notes. This information was complemented with the Legal Certification of the Accounts and the Audit Report issued by “Vitor Almeida & Associados, SROC, Lda." and RCA - Rosa, Correia & Associados SROC, S.A (RCA), respectively.

6. The GSB and its members, individually, state that to the best of their knowledge, the financial information examined (separate and consolidated accounts) was prepared in accordance with relevant accounting standards, and gives a true and fair view of the assets and liabilities, financial situation and results of issuer and that both Reports and Accounts adequately describe the evolution of IP's businesses, performance and position, providing a true account of the main risks and uncertainties which it faces.

   Based on the work developed, and taking into account what was said in paragraphs above, the General and Supervisory Board issues its favourable opinion on the Management Report and Separate Accounts of IP for the year ended at 31 December 2016, presented by the Executive Board of Directors in its appraisal of the year's accounts.

7. We followed the work developed by Statutory Auditors "P. Matos Silva, Garcia Jr. P. Caiado Associados, SROC" and "Vitor Almeida & Associados, SROC, Lda.' and External Auditor RCA - Rosa, Correia & Associados SROC, S.A (RCA), and appraised the Legal Certification of the Accounts and Audit Reports on the Separate and Consolidated Financial Information, as well as the relevant aspects in the audit of the separate and consolidated financial statements considered in the audit, which did not give rise to any separate opinion.

8. Both the Legal Certification of the Accounts and the Audit Reports on the Separate and Consolidated Financial Statements were issued with no reservations, though both contained emphases which must be considered as forming part of this Opinion, and with which we agree.

   Under these terms, taking into consideration the information received from the Executive Board of Directors and other bodies and departments of IP, and the opinions and emphases expressed in the Legal Certification of Accounts and Audit Reports, as well as the relevant auditing material on the separate and consolidated financial information, it is our opinion that the General Meeting should approve:

a. The separate management report and accounts for 2016, which comprise the separate financial statements and notes thereto;

b. The Consolidated Management Report for the year ended at 31 December 2016, which comprises the consolidated management report, the consolidated financial statements and the notes thereto;

c. The proposal for the appropriation of results.

Under the terms of no. 1 c) of article 376 of the Companies Code, it falls to the General Meeting to assess the management and supervision of the Company.

Pragal, 30th of May 2017

The General and Supervisory Board

José Emilio Ferraz	Castel-Branco Issuf Ahmad	Duarte Ivens Pitta

RCA AUDITORES ASSESSORES CONSULTORES
ROSA, CORREIA & ASSOCIADOS, SROC, S.A.

INFRAESTRUTURAS DE PORTUGAL, S.A.

AUDITOR'S REPORT
ON SEPARATED FINANCIAL STATMENTS

YEAR OF 2016

Praxity
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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AUDITOR'S REPORT

(Free translation from the Portuguese Original)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of INFRAESTRUTURAS DE PORTUGAL, S.A. (the Entity) which comprise the statement of financial position at 31 December 2016 (which shows a total assets of EUR 27.381.825 thousand and total shareholder's equity of EUR 4.084.234 thousand, including a net profit of EUR 26.320 thousand), the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, of the financial position of INFRAESTRUTURAS DE PORTUGAL, S.A. as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and other technical and ethical recommendations issued by the Portuguese Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section, below. We are independent of the Entity in accordance with the law and we have fulfilled with the other ethical requirements in accordance with the Code of Ethics issued by the Portuguese Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphases

As disclosed in Note 13 to the financial statements, the current assets recorded in State and other public entities correspond almost entirely to the VAT calculated under the road concession by the extinct company EP - Estradas de Portugal, S.A. and by the Entity since the merger with Refer, totaling 1,237,003 thousand euros. Due to the framework given by Tax Authority for the activity carried out by the Entity, particularly the Road Service Contribution (CSR), additional VAT assessments have been made, the amount of which for the years inspected up to 2012 amounts to 725,900 thousand of euros, which were subject to judicial claim (years before 2011) and administrative complaint (years 2011 and 2012). Considering the fundamentals of these assessments, as disclosed in note 16, the Entity has booked annually provisions corresponding to the total of VAT deducted in activities financed by CSR, the amount of which as at 31 December 2016 is 333,968 thousand euros. It should be noted that any risk associated with VAT deducted not considered under this provision has essentially an accounting impact on the cost of Intangible assets.

As disclosed in notes 2.2, 2.3, 2.5 and 6 to the financial statements, the financial reporting framework applicable to service concession arrangements and the model followed by the Entity with respect to the concession rights of the national road network (Concession) have underlying assumptions and estimates of great relevance, such as the total amount of the investments and the expected income until the end of the concession, as of 31 December 2082, which consist of economic and financial projections annually prepared and reviewed by the Entity. As often future events may not occur as expected, namely due to factors exogenous to the Entity, such as the evolution of macroeconomic variables, political decisions and socioeconomic mutations, the financial and economic performance of the Concession may be significantly affected if the assumptions change, as demonstrated in the sensitivity analysis disclosed in note 2.3 to the financial statements.

Our opinion is not modified in respect to these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion, and we do not provide a separate opinion on these matters.

Right of road concession	
Risk	**Audit approach summary**
As explained in notes 2.2 f), 2.3, 2.4 and 6 to the financial statements, the concession right, classified as an intangible asset under IFRIC 12 - Service Concession Arrangements, represents 72% of the Entity's assets and is measured at cost, being annually increased as a result of construction services, including financial charges, and the availability and service payments, net of tolls received, related to the concession network. The concession right is depreciated using the units of production method, which is based on estimates of costs and income to be materialized during the term of the concession agreement. Therefore annual depreciation is determined by applying the rate resulting from the proportion of eligible forecasted income for the period on the total eligible income forecast for the duration of the concession right. Identical criteria is followed in relation to the recognition of investment subsidies in results. The aforementioned revenues and costs, which support the depreciation for the period, are based on assumptions and estimates involving a high degree of judgment, which are included in economic and financial projections reviewed annually by the Board. Associated with the concession right, there is the obligation to maintain the average quality level of the road network, and an annual expense of 53 million euros is accrued (total of 236,163 thousand euros at the date of the statement of financial position) for periodic maintenance, which is based on internal estimates taking into account the typology of the network and specific intervention strategies. Considering the amounts involved and a high level of judgment, based on the assumptions used in determining the depreciation rate of the intangible asset, this subject is a key audit matter.	As a response to the risks of material distortion inherent to the right of road concession, due to the different variables that contribute to the measurement of the respective intangible asset and to the recognition of the related depreciation expense, a specific audit approach was carried out, based on the understanding of the controls and procedures implemented and maintained by the Entity and the development of substantive procedures, namely: - Obtaining and analyzing the model followed by the Entity in the measurement of the intangible asset and in the recognition of its depreciation, including verification of the coherence and consistency of its assumptions and variables, in relation to the previous year: - Obtaining and analyzing the attachments related with the availability payments inherent to the concession contracts (State Concessions) and sub-concession (own construction of the Entity) to validate the reasonability of annual remunerations; - Testing of the additions for the year registered in the concession right resulting from contractually established obligations, for State Concessions and sub-concessions; - Testing of reductions in the concession right resulting from tolls received; - Recalculation of depreciation expense of the concession right and the corresponding subsidy, taking into account the model and policies adopted; - Reading the minutes of the Executive Board of Directors; - Analysis of periodic maintenance costs charged to the year and the utilization of related accruals for expenses on works carried out in the year; - Obtaining written representations from the Executive Board of Directors confirming that the assumptions and estimates used have taken into consideration the best information available at the date of financial reporting.

Recognition of revenue from sales and services rendered

Risk	Audit approach summary
The Entity's revenue derives results mainly from the road concession agreement concluded with the State on 23 November 2007, effective since 2008, and from the management of the railway infrastructure, as per contract signed with the State on 11 March 2016. Accordingly, the 2016 revenue related to sales and services rendered comprises income from the Road Service Contribution (CSR), established by Law no. 55/2007, of 31 August, (673,967 thousand euros; 58.2% of total), road toll revenues (281,054 thousand euros; 24.2% of total), contracts for the construction of road infrastructures and capitalized financial charges (97,841 thousand euros; 8.4% of total), use of railways, i.e., fares (68,414 thousand euros; 5.6% of total) and long-term railway investments (ILD) charged to the Grantor - State (19,992 thousand euros; 1,7% of total) and other services (18,740 thousand euros; 1.6% of total). It should be noted that total toll revenue includes the amount of 233,976 thousand euros related to the concession network, which, until the end of the initial concession period, constitutes a reduction of the cost of the intangible asset, against expenses for the period. The collection of the income inherent to toll revenue is carried out by third parties, involving several operators. The relevance of the revenue in the context of financial information and the particularity of revenue from the concession network does not contribute to the results of the Entity, lead to this matter being relevant for audit purposes.	The approach taken to validate the accounting assertions inherent to revenue involved the following: - In the income from the CSR, its recognition was validated by verifying the transfers made by the General Directorate of the Treasury and Finance. In addition, the overall reconciliation of the revenue recognized in the period with the information available on the Tax Authority's website was made on the volume of fuels introduced into consumption; - Regarding revenue from tolls, audit procedures were developed to understand and evaluate the control processes implemented and maintained by the Entity to ensure full recognition of this revenue in the period to which it relates. In addition, external confirmations were made to the different operators, aiming the confirmation of the amounts recognized in the accounting period; - The revenue inherent to the construction activities of road infrastructure was validated by analyzing costs incurred and external confirmations; - The validation of revenue related to management of railway infrastructure was based on the combination of the analysis of integration of related billing and inherent cut off procedures with external confirmations of the balances of main clients at the date of the statement of financial position. It was also verified the accounting of the compensatory payments contracted for the fiscal year 2016.

Long-term railway infrastructure: Grantor - State – Account Receivable

Risk	Audit approach summary
As disclosed in notes 2.2 d) and 12 to the financial statements, it was assigned to the Entity the responsibility for construction and renewal of long-term railway infrastructure, an activity that is developed accordingly with the shareholder-State guidelines and financed by capital inflows, subsidies and loans mostly endorsed by the State, assuming the Entity the role of "Agent". These infrastructures belong to Railway Public Domain, and the Entity has access to them for the provision of public infrastructure management services. Given that the Entity has an unconditional right to receive money from the State for the investments made, this activity was framed within the scope of	In response to the identified risks of material misstatement, the following audit procedures were carried out: - Evaluation of existing controls on the acquisition of goods and services; - Execution of substantive procedures in relation to the main acquisitions recorded in the period as debt receivable from the Grantor; - Evaluation of the reasonableness and consistency of the criteria used to allocate financing costs to the long-term rail infrastructure and validation of the bases used and recalculation of the interest charged to Grantor - State account;

service concession arrangements (IFRIC 12), considering the financial asset model. The carrying amount of the financial asset (5,496,216 thousand euros at 31 December 2016 and 5,407,589 thousand euros at 31 December 2015) is essentially the value of the concession assets existing at the date of the merger plus the amount of assets subsequently acquired or constructed and of the financing interest charged to the Grantor - State (114,707 thousand euros in 2016, 119,782 thousand euros in 2015) deducted from subsidies received. This receivable amount does not have defined maturity, therefore is due when issued. The risk of material misstatement associated to this matter concerns the possibility of under allocation of the costs incurred with rail infrastructure, including financing costs.	- Confirmation of the approval of the financial statements for 2015 by the State as shareholder and grantor of railway infrastructure; - Reading the minutes of the Executive Board of Directors; - Obtaining written rerpesenatations from the Executive Board of Directors confirming the adequacy of the assumptions associated with this asset, namely the nature of the costs to be charged to the Grantor - State.

Other matters

Our appointment as auditors of the Entity for the purpose of the CMVM occurred in December 2016, and the financial statements for 2015 of INFRAESTRUTURAS DE PORTUGAL, S.A. were examined by other Auditors who issued an audit report on 28 April 2016 without qualifications and with emphases.

The Entity will independently present consolidated financial statements for the year 2016.

Responsibilities of management and supervisory body for the financial statements

The management body is responsible for:

- preparation of the financial statements that present fairly the financial position, financial performance and cash flows of the Entity in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;
- preparation of management report in accordance with the applicable law and regulation;
- implementation and maintenance of an appropriate internal control system to anable the preparation of financial statements free of material misstatement due to fraud and error;
- adoption of appropriate accounting policies and criteria in the circumstances; and
- assessment of the Company's ability to continue as a going concern, disclosing, as applicable, matters which may give rise to significant doubts on going concern of activities.

The supervisory body is responsible for supervising the process of preparation and disclosure of financial information of the Entity.

Auditor´s responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 those financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit and we also:

- identify and assess the risks of material misstatement of the 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;
- obtain an understanding of 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 Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management body;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding among other matters, the planned scope and timing of the audit and significant audit findings, including any significant weaknesses in internal control identified during our audit;
- of the matters, we have communicated to those charged with governance, including the supervisory board, we determine the most important ones in the audit of the financial statements of the current year, which are key auditing matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure;
- confirm to the supervisory body that we have complied with the relevant ethical requirements regarding independence and we have communicated all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the management report is consistent with the financial statements and the verification set forth in paragraphs 4 and 5 of article 451 of the Portuguese Commercial Companies Code.

Report on other legal and regulatory requirements

Management report

It is our understanding that the management report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the management report is consistent with the audited financial statements and, considering the knowledge and assessment about the Entity, no material misstatements were identified.

Corporate governance report

It is our understanding that the Corporate governance report includes the information required under article 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article 10 of the Regulation (EU) 537/2014

In accordance with article 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters referred to above, we also provide the following information:

- we were appointed auditors of the Entity for the first time in 7 December 2016 for the years 2016 and 2017.
- the management body has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. During the planning and execution of our audit under ISA we have maintained professional skepticism and design audit procedures to respond to the possibility of material misstatement of the financial statements due to fraud. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.
- we confirm that our audit opinion is consistent with the additional report prepared by us and issued to the Entity's supervisory body on this same date, 28 April 2017.
- we declare that we have not provided any services prohibited under article 77, number 8, of the Statute of the Institute of Statutory Auditors and that we have maintained our independence from the Group during the performance of the audit.
- we declare that we did not provide to the Entity any other services than audit.

Lisbon, 28 April 2017

RCA – Rosa, Correia & Associados, SROC, S.A.
Represented by Gabriel Correia Alves, ROC