



ANNUAL REPORT & ACCOUNTS 2013



AdP - Águas de Portugal, SGPS, S.A.
Annual Report & Accounts 2013



The Águas de Portugal Group celebrated its 20th anniversary in 2013.

Over the last two decades, our ability to plan and execute, our experience in operational and financial management and the strong commitment and dedication of our employees have made Águas de Portugal the largest business group in the environment sector in Portugal, with highly positive, concrete impacts on quality of life in the country.



1993

Creation of the multi-municipal system and first access by private capital to concessions in the sector. Creation of the first multi-municipal systems.

Foundation of IPE - Águas de Portugal.

1995

Incorporation of concessionaire companies in the multi-municipal water supply systems set up in 1993.

Creation of the first multi-municipal wastewater system.



1996

Approval by the European Union of the first applications to the Cohesion Fund, which allowed the new companies to make the necessary investments in infrastructure.

1997

Incorporation of Aquapor to operate in the municipal system market and assist in the Group's operations in international markets.

First EIB funding operation.



Corporate Governance



AdP Group Operations



Financial Statements

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Chairman's message



Afonso Lobato de Faria
Chairman of the Board of Directors

The mandate given to the Board of Directors of AdP SGPS to guarantee the sustainability of the Group guided all the activity carried out in 2013 and we can congratulate ourselves on the results achieved.

The mandate given to the AdP SGPS Board of Directors to ensure the sustainability of the Group guided all the activity carried out in 2013 and we congratulate ourselves on the results achieved at various levels, although we are aware that we have a long path to reach the proposed objectives.

The consolidated financial statements for 2013 show this positive trend, particularly with the improvement in the, mainly non-recurring, financial results of more than 26 million euros, contributing to an increase in the net profit, which was around 104.7 million euros. I would also highlight the growth in EBITDA, which reached 367.3 million euros, given that this improvement, which was negatively influenced by the increase in staff costs arising from having to reinstate the 13th month salary payment for Christmas and the 14th month payment for the holidays, has resulted mainly from an increase in turnover.

With regard to the reduction of costs, the measures implemented in 2013, linked to the alteration in the economic climate, placed the AdP Group at the start of 2014 in a more balanced economic and financial position, notwithstanding the persistence of problems regarding the debts of municipalities and the accumulation of tariff deficits. With regard to these aspects, I must underline, however, that growth in client debt in 2013 was almost zero which was largely due to the greater cooperation provided by our municipal partners as well as the implementation of the Programme to Support the Local Economy (PAEL). As for the tariff deficit, which at the end of 2013 recorded an accumulated value greater than

564 million euros, it showed an increase of 55.9 million euros during the 2013 financial year, a value lower than the increase recorded in 2012.

Given that the recovery of the tariff deficits was one of the assumptions of the economic and financial models for aggregating the multi-municipal systems for water supply and wastewater sanitation involved in the restructuring which is underway, I would like to highlight the work carried out in 2013 involving studies of the respective models. Within this it's very important for the Group the development and implementation of the respective legal and judicial framework, of note in July being the publication of the Decree-Law concerning the regime for operating and managing the multi-municipal systems for water abstraction, treatment and distribution for public consumption, the collection, treatment and discharge of effluents and the collection and treatment of municipal solid waste.

At the same time, and with the aim of providing a solution to the situation involving a lack of economic and financial balance in which the AdP Group found itself at the beginning of 2012, this Board of Directors implemented the costs reduction programme, of note in this regard being the reduction in the ratio of total costs and turnover, which in 2013 enabled an annual saving of 74 million euros in ESS and staff with regard to comparable activity in 2009. As such, and given that turnover grew 6.4%, I would like to highlight the success of the voluntary programme of friendly terminations which contributed to a significant reduction of 257 employees in 2013, as well as savings in ESS which, with most of these involving energy costs, which essentially depend on variables outside the control of AdP, showed a reduction of 4.5 million euros regarding comparable activity in 2011.

This management, motivated by the search for the Group's economic and financial sustainability, is also involved in the rescheduling of contractual investments, which started in 2011, with it being certain that the level of the reduction of costs is a guarantee of compliance with legal and contractual obligations, particularly concerning the quality and reliability of the provision of essential public services for the population, such as the supply of water, the drainage and treatment of wastewater and the treatment and recovery of urban waste.

In addition to the studies and works concerning aggregations of the current multi-municipal systems for water supply and wastewater treatment, other studies were developed and presented concerning the public partnerships for the municipal systems, with 2013 witnessing the drawing up of the partnership and management contract with Noroeste.

As far as the privatisation of the EGF envisaged in the Government programme is concerned, it is also necessary to highlight its relevance for the AdP Group and the issuing of various legal diplomas and legislative initiatives in 2013, particularly the alteration of the so-called Law Delimiting Sectors, which sought to enable the divestiture of equity to private agents in the urban waste sector; the revision of the legal system for the operation and management of concessions, as a public service regime, and multi-municipal systems for treatment and separate collection of urban waste,

awarded to entities with exclusively or mainly private capital. This process made it possible in 2014 for the publication of the decree-law regarding the terms of the privatisation of the EGF, and to consider a privatisation model through the block sale of the AdP SGPS holding through an international public tender and, subsequently, the respective tender specifications.

Within the area of the restructuring of the sector I would like to further highlight certain initiatives carried out at the start of 2014, particularly the reinforcement of the powers and independence of the regulatory authority, such that the AdP Group has prepared for a level of regulation even more demanding than that currently practised, as well as the approval of the detailed invoice law, which will enable us to tackle with more efficiency the accumulation of client debts with our companies.

It can thus be concluded that 2013 was a year of intense activity, particularly at the level of preparing various processes related to the restructuring started in 2012 which will produce more evident results in 2014.

Along with the processes of restructuring and of preparing for the reorganisation of the remaining water, wastewater and waste business areas, it is necessary to highlight the work carried out by the AdP Group in 2013 in the international area, which was marked by the development of new technical assistance projects in Angola, financed by the European Union, by the African Development Bank, by the World Bank and by the Angolan Government, and in Mozambique, as well as the project to reactivate the AdP Group in East Timor.

Equally of note was the work carried out in the area of research and development (with various projects related to new technologies for water and wastewater treatment, optimisation of the operational management of water and waste companies, sustainable use of water, and integration of new information systems and implementation of innovative support and decision systems, which has enabled the Group to continue to be located in the official ranking of the 100 companies with the largest R&D investment.

Aware that the greatest asset of any company or group of companies is its employees, we continue to invest in promoting the improvement of the Group's personnel and also in carrying out initiatives valuing the family component. In this regard, I would like to emphasise the setting up of the corporate project to award higher educational Study Scholarships to children of AdP Group employees, which enabled us to award ten scholarships in 2013.

Finally, I must underline the fact that 2013 marked the 20th anniversary of the AdP Group, which provided added meaning to a year in which, despite all the difficulties we had to face, we can be proud of the work carried out. The path of business excellence of this major Group has shown clear and recognised results, in the positive evolution recorded in the country in the areas of quality of life for the population and improvement in the environment and natural resources and this success should give us confidence for the future and motivation to carry out the goals of sustainability and efficiency.

The AdP Group

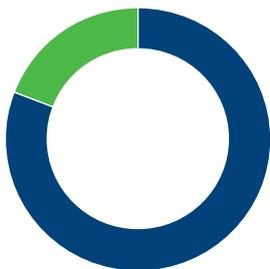
Group organization chart

On 31 December, 2013, the shareholder structure of AdP - Águas de Portugal, SGPS, S.A. included 41 companies, 39 of which were majority owned.



Shareholders

On 31 December 2013, the share capital of AdP - Águas de Portugal, SGPS, S.A. was owned by the following shareholders:



- Parpública, SGPS, S.A. 81%
- Parcaixa, SGPS, S.A. 19%

Main indicators

Economic and financial data

Unit: € million

	2011	2012	2013
Turnover	834.2	791.4	816.2
Tariff Deficit	112.3	65.2	43.7
Operating income ⁽¹⁾	287.6	248.8	238.9
EBITDA ⁽²⁾	345.8	357.2	367.3
Financial results	(90.6)	(76.3)	(50.3)
Net income for the year	89.6	93.8	104.7

(1) Results before interest and taxes

(2) OI + Amortisations + Provisions + Depreciation and reverse adjustments - Tariff deficits - Investment grants

Unit: € million

	2011	2012	2013
Tangible and intangible assets (net)	5,604.8	5,515.1	5,460.8
Investment	495.0	229.0	162.4
Customer debts ⁽¹⁾	438.1	555.2	559.8
Total current assets	7,493.0	7,598.1	7,595.5
Financial debt - Medium and long term	2,365.1	2,476.1	2,423.5
Financial debt - Short term	612.8	619.9	616.7
Financial debt - Total	2,977.9	3,096.0	3,040.2
Financial debt - Net	2,581.5	2,643.1	2,544.7
Investment grants	1,950.8	1,925.3	1,943.2
Liabilities	6,458.5	6,462.2	6,353.3
Equity ⁽²⁾	1,034.4	1,135.9	1,242.3
Non-controlling interests	278.1	307.0	325.3

(1) Without specifying the earnings

(2) Shareholder equity includes minority interests

Operating data

	2011	2012	2013
Volume of water produced ^{(1) (3)}	611.4	593.6	590.3
Volume of water distributed ^{(1) (4)}	80.3	77.4	76
Volume of wastewater treated ⁽¹⁾	485.0	450.6	505.1
Volume of municipal solid waste treated ⁽²⁾	3.5	3.2	3.1
Number of employees	5,285	5,246	4,988

(1) Unit: millions of m³ | (2) Unit: millions of tons | (3) Includes water produced by EPAL and UNA-PD | (4) Includes water distributed by EPAL, AdRA and AdSA

Economic and financial data

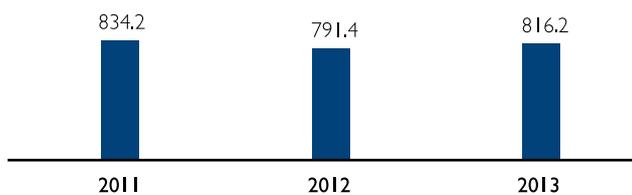
	2011	2012	2013
Financial structure ⁽¹⁾	2.9	2.7	2.4
Solvency ⁽²⁾	0.5	0.5	0.5
Financial autonomy ⁽³⁾	0.4	0.4	0.4
Turnover growth ⁽⁴⁾	5.0%	0.6%	6.4%
EBITDA margin ⁽⁵⁾	47.9%	49.2%	47.5%
ROCE before tax ⁽⁶⁾	4.2%	4.4%	4.7%

(1) Bank debt/ Equity | (2) (Equity + Investment grants)/ Liabilities | (3) (Equity + Investment grants)/ Assets | (4) Net of tariff deficits

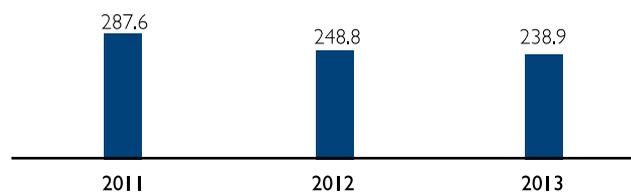
(5) EBITDA/ Turnover net of tariff deficits | (6) (EBIT/ Capital employed; EBIT = Operating income - Tariff deficits);

(Capital employed = Total net assets - Short-term liabilities - Investment grants - Tariff deficits - Deferred tax asset)

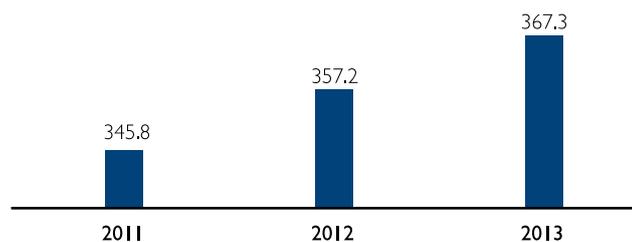
Turnover
(€ million)



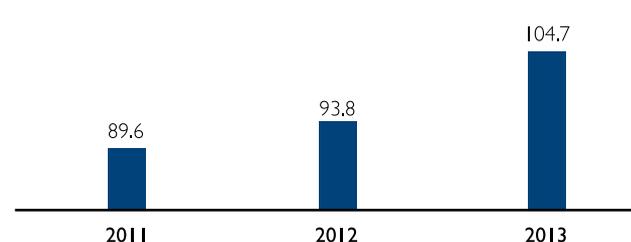
Operating Income
(€ million)



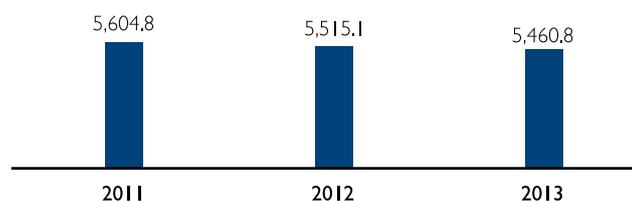
EBITDA
(€ million)



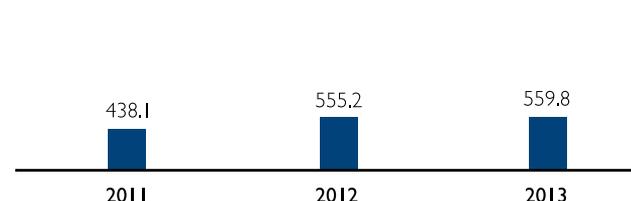
Net income for the year
(€ million)



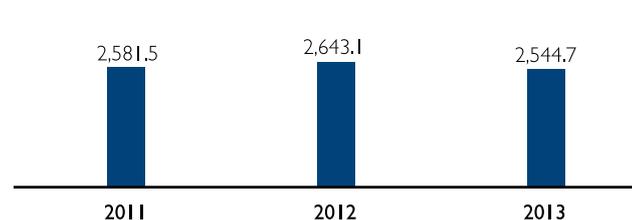
Tangible and intangible assets (net)
(€ million)



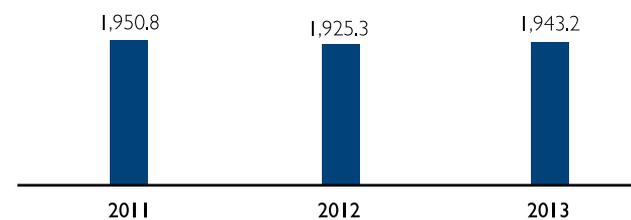
Customer debt
(€ million)



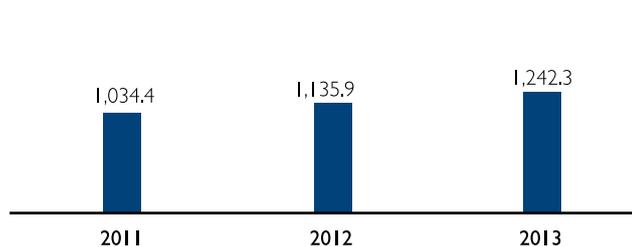
Financial debt - net
(€ million)



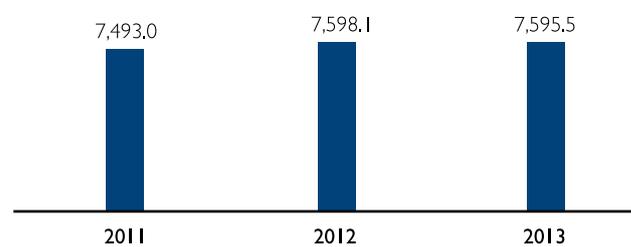
Investment grants
(€ million)



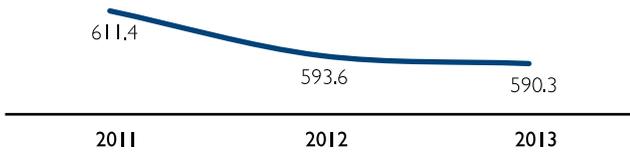
Equity
(€ million)



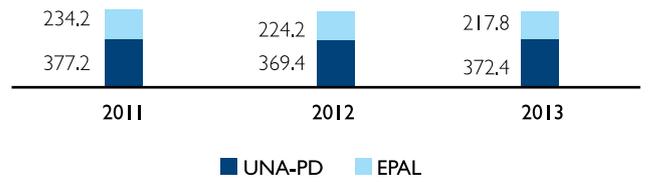
Total assets
(€ million)



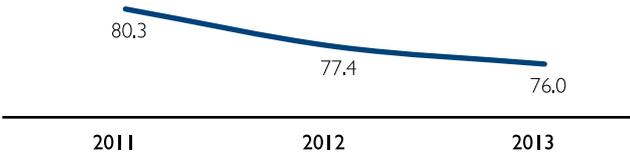
Volume of water produced
(millions of m³)



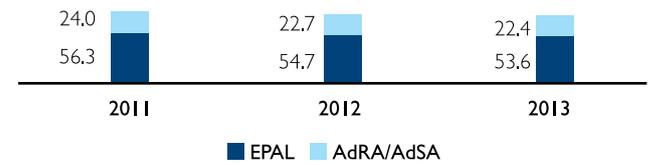
Volume of water produced
(millions of m³)



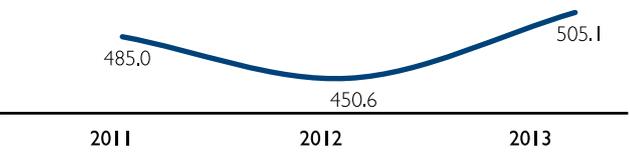
Volume of water distributed
(millions of m³)



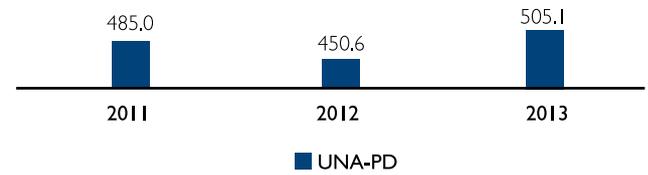
Volume of water distributed
(millions of m³)



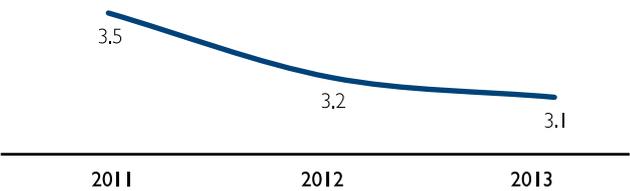
Volume of wastewater treated
(millions of m³)



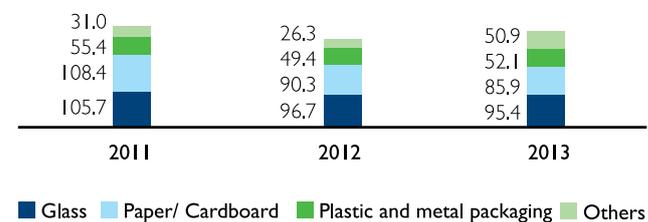
Volume of wastewater treated
(millions of m³)



Volume of waste treated
(millions of tons)



Selective Collection
(thousands of tons)



Main events

The year 2013, during which the AdP Group celebrated 20 years of activity, witnessed a high number of structuring measures to carry out the restructuring of the sector; as laid down by the Government for the water and waste sectors.

The legislative framework under which the AdP Group carries out its activities underwent significant changes which will be determinant in the coming years. The processes to draw up the Strategic Plan for Water Supply and Wastewater Sanitation Services (PENSAAR) for 2014-2012 and the revision of the Strategic Plan for Urban Solid Waste (PERSU) for 2013-2020 began. In terms of activity, the trend to reduce water consumption and receive waste for treatment and recovery should be highlighted. The increase in activity in the wastewater area is above all linked to the increase in service availability.

The most noteworthy legal changes in 2013 were:

- Law 35/2013, of 11 June, which altered the Law Delimiting Sectors (88-A/97, of 25 July) which will allow private capital in the multi-municipal waste systems and the sub-concession of multi-municipal systems to private companies.
- Decree-Law 133/2013, of 3 October, which established the legal regime for the public business sector.
- Decree-Law No. 92/2013, of 11 July, which revokes DL 379/93, of 5 November, and establishes the new regime for operating and managing the multi-municipal systems for water abstraction, treatment and distribution for public consumption, the collection, treatment and discharge of effluents and the collection and treatment of municipal solid waste.
- Law 12/2014, of 6 March, which establishes the detailed invoice mechanism.

The year 2013 was also marked by legislative developments reinforcing the powers of the regulatory authority, which culminated in 2014 with the publication of the new Organic Law 10/2014, of 6 March, and the tariff regulation (Deliberation 928/2014, of 15 April) for waste activity, a fundamental element in the privatisation process.

In the water sector actions centred on increasing studies regarding the aggregation of upstream systems and the integration of up-downstream systems, seeking to obtain gains in productive and technical efficiency which contribute to the rationalisation of tariffs. In this sense studies were presented to the responsible ministries for the sector regarding the *Norte* and *Centro Litoral* (upstream) aggregations, partnership and management agreements were entered into for the *Noroeste* (downstream) and studies developed regarding new downstream partnerships.

In January 2013 an amendment to the financing agreement for 227 million euros was signed with the European Investment Bank, which had been awarded in June 2007, with the formalisation of the extension of the period to use tranche B of the aforementioned funding line until 2 November 2014.

EPAL implemented a Social Tariff, which is an extremely important initiative within the current socio-economic context.

In the waste sector work was carried out to make this business area autonomous, seeking to privatise EGF, which culminated with the publication in 2014 of the Decree-Law No. 45/2014, of 20 March, following the Resolution of the Council of Ministers No. 30/2014, of 8 April, which specifies the terms of the privatisation.

During 2013 there was a significant effort from the multi-municipal systems to contain the growth in the debts of municipal users. In the water supply and wastewater sanitation services there was a significant deceleration in the growth rate of overdue debt and in the waste sector an actual decrease in the debt amounts, with this resulting from 109 payment agreements in force and the receipts within the scope of the Local Economy Support Programme.

In the international area, the year was marked by the development of new projects involving technical assistance in Angola, the development of new projects in Mozambique and by reactivation of activity in East Timor, particularly through support for the implementation of the "Master Plan for Wastewater and Drainage for Dili".

On 31 January 2013, the shareholding that the Directorate-General of the Treasury held in the capital of AdP SGPS, S.A. was fully transferred to Parública, SGPS, SA, which now holds 81% of the capital of the Company.

The 20th anniversary of the AdP Group was celebrated during the year and was marked by various initiatives carried out by the subsidiary companies and the holding throughout the country, of note being the conference “20 years of Águas de Portugal”.

This conference was attended by the main water and waste sector stakeholders, with particular emphasis on the ministers for the area of the environment for the last two decades, the boards of directors since the setting up of Águas de Portugal in 1993, the main public bodies with responsibilities in the area of the environment in terms of regulation, licensing and supervision, shareholders and funding bodies, sectorial associations and the boards of directors and the management staff of the Group companies. The conference included a talk by Anthony Cox, responsible for the OECD Climate, Biodiversity and Water Division and a roundtable on the value of the water and waste cycles for society.

The Group started studies to develop a possible project to make use of telecommunication infrastructure.

In the field of Research and Development (R&D), of note were projects in the areas of new technologies for water and wastewater treatment, optimisation of the operational management of water and waste companies, sustainable use of water, integration of new information systems and implementation of innovative support and decision systems. The AdP Group also stood out in this area due to its classification in the official ranking of the 100 companies with the highest investment in R&D in the last three years.

The AdP Group has also concentrated on promoting the qualification of its staff, as well as young people with a vocational interest in the water sector and the environment, through the creation of the Free Waters Academy, with support from the Institute for Employment and Vocational Training (IEFP).

In the area of sustainability, the maintenance of certification was reinforced in the standards for quality, environment, hygiene and safety and social responsibility, respectively ISO 9001, ISO 14001, OHSAS 18001 and SA 8000. Also of note was the reinforcement of the support to the initiative launched by the United Nations with the aim of aligning strategies and business policies and civil society through ten universal principles which involve Human Rights and Labour, Protection of the Environment and Anticorruption Mechanisms (Global Pact).

In the social responsibility area, of note was the setting up of corporate projects to award higher educational study scholarships aimed at the children of employees (10 scholarships), and the development of the support project for children of employees with special educational needs.

Also of note was the carrying out of the first initiative within the scope of the AdP Corporate Volunteer Programme, in the Casa do Gaiato, stimulating the voluntary participation of its employees in activities on behalf of the community by contributing their time and expertise.



1998

First municipal concession.
Step-up of activity in international markets.

Start of regulation by Instituto Regulador
das Águas e Resíduos (IRAR).

2000

Inclusion of Empresa Geral do Fomento
(EGF) into the AdP Group, as a sub-holding
company for waste.

Creation of the first integrated systems
(water supply and wastewater treatment)
First aggregation of systems (Algarve
Barlavento and Sotavento).



2001

Growth of AdP Group with incorporation of additional multi-municipal water and waste systems.

Aquapor is market leader of municipal concessions.

Formation of AdP Internacional.

2002

Completion of closure of dumps.

Acquisition of a majority stake in Aquasis, a water information technology company.



Corporate Governance

1. Mission, objectives and policies

Mission

AdP - Águas de Portugal, SGPS, S.A. (AdP - SGPS) is a holding company that, through its subsidiaries, has as its mission the design, construction, operation and management of Water Supply Systems, Wastewater Sanitation and Municipal and Industrial Solid Waste Treatment and Recovery Systems within a framework of economic, financial, technical, social and environmental sustainability. Its mission is also to develop a strong and highly efficient Portuguese business group, capable of responding effectively to the important challenges currently faced in the environmental sector.

Strategic objectives

The objectives of the AdP Group are determined by the government policies for the sector, which are set out in the strategic plans applicable to the Group's operations, in general guidelines that take the form of ministerial orders, and in specific guidelines from the shareholders.

Under the terms of the legal regime for the State Business Sector and the Public Manager Statute, the State, as shareholder, defines the strategic objectives.

The specific strategic objectives for the Board of Directors of AdP SGPS for the 2012/2014 period of office are based on the following principles:

- The implementation of a professionalised management philosophy, based on the right skills and increasing productive capacity according to the most stringent quality parameters, towards the achievement of its mission.
- The adoption of best management practices according to the principles of good governance for companies in the State Business Sector.
- The development of an organisational culture oriented towards performance excellence through the use of a set of reference business practices, enabling the company to achieve success in the search for corporate sustainability, based essentially on a management philosophy that incorporates economic, environmental, social and ethical dimensions.

Every year the Government approves a set of specific management objectives for the Board of Directors of AdP SGPS.

Policies

Within the framework of the mission to which it is committed, AdP SGPS should pursue the following strategic guidelines:

- ensure the continuation of sectorial policies which govern its activity and the creation of shareholder value, with special focus on prudential risk management and the mobilization of financial resources;
- promote the rationalization of investments needed to provide services, with a focus on the proper sizing of new and the maintenance of existing infrastructure;
- reorganize the water supply sector and wastewater sanitation, with the priority being the economic and financial sustainability of operations in these areas and to improve efficiency in the delivery of services;
- continue promoting efficiency, enhancing the grouping of systems and promoting integrated solutions for managing the urban water cycle;
- foster conditions for the participation of private entities in the management systems;
- continue to identify solutions that promote a resolution of the tariff deficit, from a sustainability perspective;

- make the waste business unit of the AdP Group autonomous and take the necessary measures for its opening up to the private sector;
- contribute to sustainable development, developing solutions for the use of endogenous resources and assets, rationalization of energy consumption and the reduction or offsetting of emissions;
- capitalize on the skills and abilities available within the Group, thus contributing to project implementation in international markets;
- promote the development of an integrated R&D strategy, in line with national objectives for this area;
- provide continuity to other projects considered relevant, in accordance with the guidelines laid down by the sectorial responsible ministries.

2. Internal and external regulations

AdP is a holding company, in the form of a public owned limited company, which is governed by the legal regime for the State Business Sector (RJSEE) as set out in Decree Law No. 133/2013 of 3 October, and also in Portugal's Commercial Companies Act.

For the current mandate (2012-2014), AdP SGPS received a set of specific management guidelines regarding the exercise of the shareholder function, which were determined by the Responsible Ministries for the Sector (Environment) and the Finance Sector, and of note was the reorganisation of the water supply and wastewater sanitation sector, with priority for the economic and financial sustainability of operations in these domains, as well as making the waste business unit autonomous, to prepare for its opening to the private sector.

In the 2013 financial year, AdP SGPS also received guidelines resulting from the commitments made by the Portuguese state under the terms of the country's Economic and Financial Assistance Programme, particularly guidelines on salary policy and guidelines on the containment of staff expenses and external supplies and services.

The internal regulations approved by the Board of Directors, or the Executive Board under the powers delegated to it, establish the principles, rules and conduct to be observed in the development of AdP's activities and those of its subsidiaries, in order to achieve uniform and rational procedures in strict compliance with current legislation and the guidelines of its authority, including:

i) AdP Group's Code of Conduct and Ethics

This sets out the values and principles of the Group's business culture. The aim is to create a common awareness among employees and ensure professional conduct of a high ethical standard as a complement to the legislative and regulatory procedures that must be observed. It applies to all AdP Group employees, regardless of the company for which they work, the nature of their employment or their position in the company hierarchy.

ii) Regulations of the Ethics Committee

This regulates the makeup, powers and operating methods of the Ethics Committee, which seeks to guarantee an effective system of internal control to ensure compliance with the Code of Conduct and Ethics.

iii) Plan for Controlling Risks and Corruption and Related Infringements

The aim of this plan is to identify the main areas that could potentially be subject to acts of corruption, the main related risks, the controls implemented by the company to mitigate these risks, the probability of such acts occurring and the officials responsible for implementing and administering the plan.

iv) Sustainability Indicators Handbook

This handbook sets out a method for all AdP Group companies regarding the accurate and consistent collection of performance data relating to sustainability. The compiled data helps the Group monitor the implementation of its Sustainability Strategy and serves as the basis for the respective report.

v) Access Procedures for the AdP Building and its installations

This sets out the procedures to be followed for accessing the AdP building.

vi) The Welcome Handbook

This handbook seeks to facilitate the welcoming of new employees and their integration into the company and the team where they will be working. A copy is given to each new employee on the day they begin work. It contains information on the Group's organisation, activities, policies, strategy and operating regulations.

vii) The Handbook of Human Resources Policies and Procedures

This handbook sets out the different corporate policies and procedures and is aimed at making it easier for employees to consult the respective documents and ensuring that individual company policies are in keeping with the Group's strategic guidelines.

viii) The Performance Assessment Handbook

This handbook sets out the principles, rules and procedures to be followed in the Group in regard to assessing the performance of employees and defining shared and individual objectives. It also defines the responsibilities of the different participants in the process.

ix) UNA-PD Career Regulations

These define the concepts and general rules that determine the career paths for employees within the business unit as well as the rules and procedures applicable to the mobility processes within each career path or between different career paths.

x) Personal Development Regulations

One of AdP's key values is the contribution the Group makes to the personal development of its employees through incentives to participate in postgraduate training programmes in Universities or Higher Education Institutes in fields directly related to the Group's activities in a way that makes an unequivocal contribution to increasing its intellectual capital. This internal regulation sets out the terms by which Group companies participate in this scheme.

xi) Internship Regulations

Aware of the importance of employment for qualified young people, the different operational units of AdP Group companies provide professional training and development opportunities in a real working context. These regulations set out the rules and procedures to be observed in regard to the integration of these interns as well as the approval and assessment procedures to be followed in an effort to ensure that the learning goals established for internships are successfully achieved.

xii) Alcohol-use Regulations

These set out the terms under which measures for preventing and controlling alcohol consumption in the companies are carried out with the aim of eliminating risks related to alcohol use in the workplace.

xiii) Corporate Governance Handbook for Subsidiary Companies

This handbook sets out the corporate governance model for companies managing multi-municipal systems.

xiv) Vehicle Assignment and Usage Regulations

These set out the rules and procedures to be observed in the acquisition, assignment and usage of AdP SGPS service vehicles and apply equally to Group companies that are either directly or indirectly majority-owned. They also define the control mechanisms for the vehicle fleet, the people responsible and the operational/administrative procedures to be followed, as well as how taxation applies to vehicle use.

xv) Communication Regulations

These set out the rules and procedures to be observed in the assignment and use of AdP SGPS mobile communication equipment and apply equally to Group companies that are either directly or indirectly majority-owned. They also define mobile communication limits and control mechanisms as well as the individuals responsible for them.

xvi) AdP Group Graphic Identity Handbook

This handbook contains recommendations aimed at ensuring consistency in the use and application of AdP's corporate identity by every Group company as a means of contributing to a strong and widely recognised brand.

xvii) Relational Model between the Shared Services Business Unit - AdP Serviços – and the AdP Group companies

The Established Service Levels document sets out the rules governing the relationships between the AdP Group's Shared Services Centre and other AdP Group companies. It defines service lines and the respective services provided by the Shared Services Centre; the responsibilities of the different parties in the development of services; service levels and the respective trade-offs.

xviii) AdP Group Regulatory Model

The AdP Group's regulatory model defines the way companies with regulated activities should act in matters related to the cost of capital, production and market efficiency in accordance with the requirements of ERSAR.

3. Information on relevant transactions

3.1 Relevant transactions with related entities

In accordance with its corporate objectives, AdP SGPS carries out various transactions with related entities, namely its subsidiaries.

The main amounts and the nature of relevant transactions with related entities in 2013 are set out in the following chart.

Unit: euros

	Administration and management services	Participation in governing bodies	Interest obtained	EIB Service Commissions	Dividends received
Águas do Algarve	809,350	12,477	3,203,121	1,404,361	1,816,005
Águas do Centro Alentejo	145,666	11,743		307,325	
Águas do Centro	247,236	21,138		383,776	
Águas do Douro e Paiva	566,716	69,871		372,551	1,927,394
Águas do Mondego	318,286	9,394	571,482	533,691	
Águas do Norte Alentejano	141,549	11,743	262,640	314,099	
Águas do Noroeste	769,993		3,073,481	1,479,300	
Águas do Oeste	461,949	22,513	567,890	793,748	
AdP Internacional			19,096		
AdP Serviços	225,523				
AdRA - Águas da Região de Aveiro	839,750	75,156		205,716	1,814,487
Águas de Santo André	496,644	35,271			133,007
Águas de Trás-os-Montes e Alto Douro	465,826	12,477	3,810,915	762,135	
Águas do Zêzere e Côa	320,809	10,375	1,022,634	897,350	
AgdA - Águas Públicas do Alentejo	212,840	22,459	709,289	16,000	26,639
Aquasis			30,717		
EGF	867,107		99,679	473,323	2,000,000
EPAL	2,489,071	(6,732)			35,081,798
AdP Energias			85,293		
Sanest	287,650	17,990		237,994	80,822
Simarsul	238,218	11,743	21,862	700,039	
Simdouro	173,547	73,746	1,251,675	70,638	
Simlis	124,764	11,743		296,320	
Simria	265,629	23,150	1,779,178	307,871	780,282
Simtejo	740,216	69,643	883,064	976,020	2,154,483
Valorsul			711,805		
	11,208,339	515,900	18,103,821	10,532,257	45,814,917

AdP SGPS distributed dividends to its shareholders totalling €23,500,000.00.

3.2 Information on other transactions

AdP SGPS did not carry out any transactions in circumstances where market conditions did not apply. The only relevant transactions with related entities representing more than 5% of total supplies and external services, and where that percentage corresponds to more than €1 million, were with AdP Serviços. AdP SGPS owns 100% of the share capital of this company and the transactions carried out with it in 2013 totalled €3,055,312.

These transactions mainly relate to the use of office space, which includes space rental, including related services and supplies, which formed a total amount of costs of €1,076,976 (€1,582,336.00 in 2012). AdP Serviços also supplied services in the following areas: legal, accounting, financial, procurement, engineering, marketing and information systems.

3.3 Procedures relating to the acquisition of goods and services

Although AdP SGPS is not a contracting authority as set out in the Public Contracts Code and is not, therefore, subject to the pre-contractual procedures set out in the Code, the company has implemented best practices in this area with a view to complying with the Principles of Good Governance and also safeguarding transparency, publicity and competition.

4. Corporate governance structure

The management of the company is overseen by a Board of Directors composed of between five and seven directors and elected at a General Meeting of Shareholders. The current management of the company may be delegated to an Executive Board, under the legally and statutorily envisaged terms.

The supervision of the company is overseen by a Supervisory Board, made up of three members, and a Statutory Auditor. Other governing bodies include the Board of the Annual General Meeting and the Company Secretary.

4.1 Governing bodies

General meeting

The specific responsibilities of the General Meeting are to:

- a) assess the Board of Directors' Report, discuss and vote on the balance sheet, accounts and opinions of the Company's supervisory bodies and approve the appropriation of the annual profits;
- b) elect the governing bodies;
- c) approve the remuneration of members of its governing bodies, for which purpose it may appoint a remuneration committee;
- d) deal with any other matter for which it may be convened.

Board of Directors

Paragraph 1 of article 12 of the Articles of Association stipulates that the Board of Directors should be composed of between five and seven directors, one of whom shall be the Chairman or Chairwoman and the others Board Members.

The Board of Directors is elected by the General Meeting, which also appoints the Chairman or Chairwoman of the Board of Directors from the elected Board Members. The Board of Directors is elected for periods of three years and may be re-elected.

Members of the governing bodies are considered to have taken office immediately on election and continue to hold office until the board members replacing them take office in their turn, except where otherwise stipulated by law, as in the case of suspension, removal from office or resignation.

The General Meeting of 2 February, 2012 elected a Board of Directors for the three-year mandate from 2012 to 2014 composed of six members, five executive members and one non-executive.

Under the terms of article 13 of the Articles of Association, the Board of Directors is responsible for:

- a) approving the Company's objectives and management policies;
- b) approving annual financial business plans, as well as any necessary alterations to these;
- c) managing the Group's business and performing all acts and operations concerning the company's institutional purpose which are not attributed to other Company bodies;
- d) representing the Company at law and otherwise, as plaintiff or defendant, with the power to withdraw, settle or admit any suit, and to agree to arbitration proceedings;
- e) purchasing, selling or in any other way disposing of or acquiring rights and assets;
- f) incorporating companies and subscribing to, acquiring or disposing of shareholdings;
- g) determining the technical and administrative structure of the Company and its internal operating rules, with particular regard to staff and their remuneration;
- h) appointing proxies with such powers as it sees fit, including the power of subrogation;
- i) exercising other such powers as are conferred on it by law or by a General Meeting.

Executive Board

Under the terms of article 12 of the Company Statutes, current management can be delegated to an Executive Board composed of three to five members. The constitution of the Executive Board and the definition of its functions is the responsibility of the Board of Directors.

The AdP Board of Directors decided on 3 February, 2012, in accordance with paragraph 1 of article 12 of the Articles of Association and paragraph 3 of article 407 of the Commercial Companies Act, to create an Executive Board to function, with the requisite adaptations, according to the rules set out in the Articles of Association for the functioning of the Board of Directors.

The following powers have been delegated to the Executive Board of AdP SGPS:

- a) managing the business and performing all acts and operations concerning the Company's institutional purpose which are not attributed to other company bodies;
- b) representing the Company at law and otherwise, as plaintiff or defendant, with the power to withdraw, settle or admit any suit, and to agree to arbitration proceedings;
- c) the current management of the Company, namely human resource management, the acquisition and provision of services and the contracting and allocation of financial resources;
- d) implementing the actions required to meet the goals set out in strategic policy documents, and implement budgets and annual activity plans;
- e) authorising investments and expenditures envisaged in the budget approved by the Board of Directors, as well as non-budgeted investments and expenditures involving amounts of less than €5 million or less than 5% of the annual budget;
- f) acquiring or disposing of shareholdings and approving alterations in the share capital and the financing of subsidiary companies within the limits stated in the previous paragraph;
- g) appointing Company representatives to the governing bodies of subsidiary companies as well as appointing delegates with the powers it deems fit;
- h) creating the necessary conditions in terms of operational capacity and motivation to enable the Executive Board to satisfactorily meet all the goals that the company has set out for it to achieve;
- i) opening and managing debit and credit accounts at any credit institution;
- j) signing any contracts deemed necessary for achieving the Company's institutional purpose.

Supervisory Board

The Supervisory Board is composed of three permanent members and one reserve member; appointed at the General Meeting.

The responsibilities of the Supervisory Board, as stipulated by law and the company's Articles of Association, are to:

- a) supervise the Company's Management Bodies;
- b) ensure observance of the law and the Articles of Association;
- c) verify that books and ledgers, accounting registers and support documents are in order;
- d) verify, whenever it deems such action appropriate and by the means it considers appropriate, the extension of cash reserves or stocks of any type of goods or assets belonging to the Company or received by way of guarantee, deposit or for some other end;
- e) verify the accuracy of the financial statements;
- f) verify whether the accounting policies and valuation criteria adopted by the Company lead to the correct evaluation of assets and profit/loss;
- g) draw up an annual report on the supervision of the company and issue a statement of opinion on the annual report, financial statements and proposals presented by the management;
- h) convene the General Meeting whenever the chairman or chairwoman of the General Meeting should do so but does not;
- i) supervise the effectiveness of the risk management system, the internal control system and the internal audit system, where these exist;
- j) receive any communication of irregularities from shareholders, Company employees or others;
- k) contract the services of experts to assist one or more of its members to perform their functions. The hiring and remuneration of experts must take into account the importance of the matters committed to their attention and the economic situation of the Company;
- l) comply with all other duties established in law or in the Articles of Association.

The Supervisory Board was elected at the General Meeting held on 2 February 2012, for a mandate of three years (2012/2014).

Statutory Auditor

The Statutory Auditor is proposed by the Supervisory Board and elected by the General Meeting.

Under the terms of Article 446, combined with paragraphs c), d), e) and f) of the Commercial Companies Act, it is the responsibility of the Statutory Auditor to perform the following functions:

- a) verify that books and ledgers, accounting registers and support documents are in order;
- b) verify, whenever it deems such action appropriate and by the means it considers appropriate, the extension of cash reserves or stocks of any type of goods or assets belonging to the company or received by way of Guarantee, deposit or for some other form;
- c) verify the accuracy of financial statements;
- d) verify whether the accounting policies and valuation criteria adopted by the Company lead to the correct evaluation of assets and profit/loss.

The Statutory Auditor was elected at the General Meeting held on 2 May 2012, for a mandate of three years (2012/2014), following a proposal submitted by the Supervisory Board.

Company Secretary

The Company Secretary is appointed by the Board of Directors. The Secretary serves during the mandate of the governing bodies that appoint him or her. The Secretary can be reappointed one or more times.

Under the terms of article 446-B of the Commercial Companies Act, it is the responsibility of the Company Secretary to:

- a) act as secretary at meetings of the governing bodies;
- b) draw up the minutes of meetings and sign them together with the members of the respective governing bodies and the Chairman or Chairwoman of the Board of the General Meeting, in the case of General Meetings;
- c) file, store and keep in order the books and loose-leaves containing the minutes, attendance lists, the share registration book and the files relating to them;
- d) send out the legal notices for meetings of all governing bodies;
- e) certify the signatures of the members of governing bodies on Company documents;
- f) certify that all copies or transcripts extracted from the Company's books or documents kept on file are truthful, complete and up-to-date;
- g) meet, within the scope of its powers, any requests made by the shareholders regarding the exercise of their right to information and to meet requests for information regarding resolutions of the Board of Directors or the Executive Board from members of the governing bodies;
- h) certify the full or partial content of the Articles of Association in force, as well as the identity of the members of the various governing bodies of the Company, and the offices and powers that they hold;
- i) certify updated copies of the Articles of Association, of resolutions by shareholders, by the Board of Directors and all current entries in the Company's books, while ensuring they are submitted or sent to shareholders who have requested them and have paid the corresponding costs;
- j) authenticate, with his/her signature, all documentation submitted to the General Meeting and referred to in the minutes thereof;
- k) guarantee the registration of corporate deeds subject to registration.

The Company Secretary was elected following a decision by the Board of Directors on 23 April 2012.

Governing Bodies holding office on 31 December 2013, elected for the 2012/2014 mandate

Board of the Annual General Meeting

Chairwoman	Ana Cristina de Menezes Pereira Paes Sequeira Rodrigues
Vice-chairwoman	Maria Fernanda Joanaz Martins
Secretary	Manuel Bruno Rossi Ruano Gouveia Pereira

Board of Directors

Chairman	Afonso José Marçal Grilo Lobato de Faria
Member	Álvaro António Magalhães Ferrão de Castello-Branco
Member	Gonçalo Ayala Martins Barata
Member	Manuel Joaquim Barata Frexes
Member	Manuel Maria Pereira Fernandes Thomaz
Non-executive member	José Manuel Barros, appointed by the shareholders Parpública, SGPS, S.A. and Parcaixa, SGPS, S.A.

Executive Board

Chairman	Afonso José Marçal Grilo Lobato de Faria
Member	Álvaro António Magalhães Ferrão de Castello-Branco
Member	Gonçalo Ayala Martins Barata
Member	Manuel Joaquim Barata Frexes
Member	Manuel Maria Pereira Fernandes Thomaz

Supervisory Board

Chairman	Paulo Alexandre dos Santos Ferreira
Member	Mário José Alveirinho Carrega
Member	Ana Luisa Videira Gomes
Reserve Member	Graça Maria V.N. Montalvão Fernandes

Statutory Auditor

Alves da Cunha, A. Dias & Associados, Sociedade de Revisores Oficiais de Contas, represented by José Duarte Assunção Dias, ROC.

Company Secretary

Actual Ana Cristina Rebelo Pereira

Reserve Ricardo Cortes Ribeiro

External Auditor

Ernst & Young Audit & Associados SROC, S.A.

Posts held by members of the Executive Board

On 31 December 2013, the posts held by members of the Executive Board in other companies were as follows:

Afonso José Marçal Grilo Lobato de Faria

Chairman of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.

Chairman of the Board of Directors of AdP - Águas de Portugal Internacional - Serviços Ambientais, S.A.

Álvaro António Magalhães Ferrão de Castello-Branco

Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.

Member of the Board of Directors of AdP - Águas de Portugal Internacional - Serviços Ambientais, S.A.

Chairman of the Board of Directors of Águas do Douro e Paiva, S.A.

Gonçalo Ayala Martins Barata

Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.

Chairman of the Board of Directors of AdP - Águas de Portugal Serviços Ambientais, S.A.

Member of the Board of Directors of AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.

Manuel Joaquim Barata Frexes

Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.

Chairman of the Board of Directors of AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.

Chairman of the Board of Directors of Águas do Centro, S.A.

Manuel Maria Pereira Fernandes Thomaz

Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.

Chairman of the Board of Directors of AdRA - Águas da Região de Aveiro, S.A.

Responsibilities for Operating Areas and Business Units of the Board of Administration

Afonso José Marçal Grilo Lobato de Faria

Corporate Bodies Communication and Image
Research and Development
Corporate Human Resources
Company Secretary

Business Units International
EPAL
Waste

Álvaro António Magalhães Ferrão de Castello-Branco

Business Units International

Gonçalo Ayala Martins Barata

Corporate Bodies Corporate Finance
Internal Auditing and Risk Control
Corporate Development and Regulation

Business Units Shared Services

Manuel Joaquim Barata Frexes

Corporate Bodies Sustainability and Social Responsibility

Business Units Other Businesses

Manuel Maria Pereira Fernandes Thomaz

Business Units Water - Production and Purification

Water - Distribution and Collection

Curricula Vitae of Governing Body members

Board of the General Meeting

Chairwoman - Ana Cristina de Menezes Pereira Paes Sequeira Rodrigues

Academic Qualifications

- Law Degree, Universidade Lusíada de Lisboa (1990).
- Specialised Course for Auditors on the National System of QCA III Supervision, at ISEG (2005/6).
- Course in Portuguese Foreign Policy, Instituto Diplomático, Ministry of Foreign Affairs.

Professional Career

- Tax, European Community and Administrative lawyer with Azeredo Perdigão e Pereira de Almeida (1990-1996).
- Lecturer in Tax Law and Public Finance, Universidade Lusíada (1991-2000).
- Finance Inspector, General Inspectorate of Finance (since 1996).
- Assistant to the Secretary of State for the Treasury and Finance Department (2005).
- Full member of the European Banking Committee (2005).
- Chairman of the Board of the Annual General Meeting of AdP - Águas de Portugal, SGPS, S.A. (since 2005).

Vice-chairwoman - Maria Fernanda Joanaz Martins

Born 12 September, 1959.

Academic Qualifications

- Degree in Economics, Economics Faculty, Universidade Nova de Lisboa (1983).
- Postgraduate studies in the Management and Supervision of Public Funds, Universidade Autónoma de Lisboa (2000).
- Master's Degree course in Public Management and Administration, Instituto Superior de Ciências Sociais e Políticas (2006).

Professional Career

In Public Administration:

- Treasury and Finance Department, Ministry of Finance and Public Administration - Director of the State Holdings Services Department (since November 2007).
- Treasury and Finance Department, Ministry of Finance and Public Administration - Adviser on providing support for companies in the State Business Sector (2006-2007).
- Institute of Engineering, Technology and Information (INETI), Ministry of Innovation and Technology - Director of Services, responsible for finance and property (2003-2005).
- National Agricultural Guarantee Institute (INGA) - Ministry of Agriculture - Head of Department, responsible for the financial management of the Institute (2001-2003).
- Office of the Secretary of State for the Treasury and Finance Department - Ministry of Finance - Adviser (2000).
- Institute of Public Credit Management (IGCP) - Ministry of Finance - Senior Technician in the Studies Department (1998-2000).
- Directorate General of the Public Credit Board - Ministry of Finance - Senior Technician in the Studies Department (1996-1998).
- Directorate-General for the Treasury - Ministry of Finance - Section Head, responsible for State Credit Operations (1993-1996).
- Directorate-General for the Treasury - Ministry of Finance - Senior Technician in the area of State financial support (1983-1993).

Other posts:

- Chairman of the Supervisory Board of Metro do Porto, S.A. (2007/2009 and 2012/2014 mandates).
- Member of the Supervisory Board of CTT Correios de Portugal, S.A. (2012-2014 mandate).
- Reserve Member for the Supervisory Board of ANA - Aeroportos de Portugal, S.A. (2012-2014 mandate).
- Chairwoman of the Board of the Annual General Meeting of Carris, S.A. (2012-2014 mandate).
- Chairwoman of the Board of the Annual General Meeting of Docapesca - Portos e Lotas, S.A. (2007-2009 and 2012-2014 mandates).
- Vice-Chairwoman of the Board of the Annual General Meeting of AdP - Águas de Portugal, SGPS, S.A. (2008-2010 and 2012-2014 mandates).

- Member of the Supervisory Board of Parque Expo, S.A (2011-2013 mandate).
- Chairwoman of the Board of the Annual General Meeting of Empordef, S.A. (2007-2009 and 2011-2013 mandates).
- Secretary of the Board of the Annual General Meeting of EP - Estradas de Portugal, S.A. (2007-2009 and 2010-2012 mandates)
- Reserve member of the Supervisory Board of the Caixa Geral de Depósitos, S.A (2010-2012 mandate)
- Reserve member of the Supervisory Board of Parque Expo, S.A. (2007-2009 mandate)
- Member of the Consultative Board of Portugal Vela 2007, S.A. (2006-2007).

Secretary - Manuel Bruno Rossi Ruano Gouveia Pereira

Born 18 August, 1978.

Academic Qualifications

- Degree in Law, Faculty of Law, Universidade Lusíada (2001).
- Master's Degree in Administrative Law, Faculty of Law, University of Lisbon (2011).
- Postgraduate studies in Planning, Urban and Environmental Law (CEDOJA), Faculty of Law, Universidade de Coimbra (October 2002/ June 2003).

Professional Career

- Coordinating Associate at "Vieira de Almeida & Associados, Sociedade de Advogados, RL" in the Real Estate and Environment Area (since March 2013).
- Senior Associate at "Vieira de Almeida & Associados, Sociedade de Advogados, RL" in the Real Estate and Environment Area (August 2011/ February 2013).
- Assistant to the Office of the Ministry for the Environment and Territorial Planning (November 2009/ June 2011).
- Assistant to the Office of the Ministry for the Environment, Territorial Planning and Regional Development (May 2007/ October 2009).
- Associate Lawyer at "Vieira de Almeida & Associados, Sociedade de Advogados, RL" in the Real Estate, Urban Planning and Environment Area (September 2003/ April 2007).
- Lawyer with the "Leónidas, Matos & Associados" Law Firm (currently Garrigues Portugal, SL) (2001/2003).
- Secretary of the Board of the General Meeting of AdP - Águas de Portugal, SGPS, S.A. since 2008.

Board of Directors

Chairman - Afonso José Marçal Grilo Lobato de Faria

Born 5 November, 1968.

Academic Qualifications

- Degree in Civil Engineering, Instituto Superior Técnico.
- Specialisation in Public Health, École Nationale de la Santé Publique, Paris.
- Master's Degree in Environmental Engineering, Imperial College of Science, Technology and Medicine, London.
- Master of Business Administration, Universidade Nova de Lisboa.

Professional Career

- Since February 2012 - Chairman of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.
- June 2010 - January 2012 - Manager of the Portuguese Water Partnership (PPA).
- September 2009 - January 2012 - Director of Efacec Ambiente.
- April 2003 - August 2009 - Director of Portugal's Welding and Quality Institute (ISQ).
- March 2006 - August 2009 - Managing Director, Oeingerge - Agência Municipal de Ambiente e Energia de Oeiras.
- August 2008 - August 2009 - Member of the Annual General Meeting of Adene – Agência para a Energia.
- September 2000 - July 2006 - Lecturer at Universidade Católica de Lisboa.
- August 2001 - March 2003 - Managing Director of Sonofabril.
- October 1996 - July 2001 - Director, Waste department, Ecoserviços.
- April 1993 - September 1995 - Project manager, Ecoserviços.
- September 1991 - March 1993 - Design engineer, Procesl.

Member - Álvaro António Magalhães Ferrão de Castello-Branco

Born 16 de April 1961.

Academic Qualifications

- Degree in Law, (Universidade Católica do Porto).
- Studying for a PhD in Political Science, International Relations and Citizenship, (Universidade Lusófona do Porto).
- Attended the third year of the Medicine course (Medical Faculty, Universidade do Porto).

Professional Career

- Since February 2012 - Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.
- Since 2007 - Chairman of the Annual General Meeting of Agência de Energia do Porto.
- Since 2005 - Chairman of the Annual General Meeting of Mercado Abastecedor do Porto.
- 2010-2012 - Chairman of the Board of Directors of GOP - Gestão de Obras Públicas, EM.
- Chairman of the Board of Directors of Águas do Porto, EM.
- 2005-2012 - Managing Director, LIPOR.
- 2005-2012 – Deputy Mayor, Porto City Council.
- 2000-2005 - Member of Parliament, Portugal's 8th, 9th and 10th legislatures.
- 1992-2001 - Practised law.

Member - Gonçalo Ayala Martins Barata

Born 21 June, 1971.

Academic Qualifications

- Degree in Economics, Universidade Nova de Lisboa.

Professional Career

- Since February 2012 - Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.
- 2002-2012 - Director, Fixed Income Capital Markets Origination, Citigroup in Portugal with responsibilities for debt origination for leading Portuguese issuers as well as structuring and advisory services in financial risk management.
- 1998-2002 - Vice-President at Citibank Portugal with responsibilities for putting together financial risk management operations for leading Portuguese companies. He was responsible for the bank's liquidity management and its transition to the single European currency.
- 1994 - 1998 - Citibank Portugal with responsibilities for the bank's interest-rate (escudos) trading book.
- 1993 - Trading department of the then recently-created Banco Santander de Negócios Portugal.

Member - Manuel Joaquim Barata Frexes

Born 10 October, 1956.

Academic Qualifications

- Degree in Law.
- Postgraduate studies in Management, ISCTE.

Professional Career

- Since February 2012 - Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.
- In 2001 he was elected as Mayor for the City Council of Fundão. He was re-elected to the same post in 2005 and 2009.
- In 1999 he was re-elected a Member of the Portuguese Parliament.
- In 1996 he worked as a Senior Consultant at Portugal Telecom, where he undertook several international consulting commissions in Africa, Latin America and eastern and central Europe, especially Bulgaria. He was also elected as a member of the Portugal-Hungary Friendship Committee.
- In 1998 he was appointed a non-executive director at Talentum, S.A. and in the same year Chairman of the Association of Postal and Telecommunications Operators (AICEP) in Portuguese-speaking Countries and Territories. This mandate was renewed up to 2008.
- In 1992 he took office as Assistant Secretary of State and Culture in Portugal's 12th Constitutional Government and was Secretary of State for Culture from December 1994 to October 1995, when he ceased his Government duties.
- In 1995 he was elected a Member of the Portuguese Parliament.
- In 1991 he was invited to join the Board of Directors of the São Carlos National Opera and the National Ballet Company, and the following year he was nominated as Chairman of the Board of Directors.
- In 1989 he began working as an international consultant in the telecommunications sector, working for Portugal, and the Swedish Development Agency (SWEDTEL) and the United Nations Development Agency (UNDP). In this role, he undertook several missions to Mozambique and worked in the other Portuguese-speaking African countries.
- In 1984 he joined the staff of TLP – Human Resources Department, where he held several management and leadership posts.
- He began his career in the then Portuguese territory of Macao in the Banking Inspection Services. His active professional work concentrated on the restructuring of the banking and financial system in Macao, where he was a member of the Macao Revision and Legislation Committee for Banks, Financial Companies and Insurers. He was also on the staff of Macao's Broadcasting Institute from 1982 and a member of the Macao Administrative Court, a post he held until mid-1984.
- Teaching Assistant in Civil Procedural Law 2 at Lisbon Law Faculty (1980/1981).
- Founder of the Portuguese Association of United Nations Students and Youth (APE JUNU) and, the following year, one of the founders of the Political Studies Institute (IEP) (1979).

Other posts

- Non-executive Director, TMN, S.A. (2004-2006).
- Non-executive Director, AdZC, S.A. (2002-2010).
- Non-executive Director, Resiestrela, S.A. (2010-2012).
- Member of the Committee of the Regions (Member of the Education and ENVE Committee).
- Director of Município, S.A.
- Vice-chairman, National Association of Portuguese Municipalities (ANMP) (2009-2012).
- President of Social Democrat Local Authorities (2004-2012).
- He has received various Portuguese and international awards, including the Grã-Cruz da Ordem do Rio Branco awarded by the Federal Republic of Brazil.

Member - Manuel Maria Pereira Fernandes Thomaz

Born 19 August, 1966.

Academic Qualifications

- Degree in Electronic Engineering and Telecommunications, Universidade de Aveiro, 1989. In the last year of the course, he attended the University College of North Wales, Bangor, United Kingdom, through the ERASMUS programme, financed by the EU.

Professional Experience

- Since February 2012 - Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.
- In March 2007 he was invited by the Management of AdP - Águas de Portugal, SGPS, S.A. to become Managing Director of the company Águas de Moçambique with its head office in Maputo. He remained in this post until March 2010, when he was appointed Chairman of the Board of Directors of the same company.
- In August 2010 he became Chairman of the Board of Directors of AdRA - Águas da Região de Aveiro, S.A.
- From 2003 to 2007 he was Managing Director of Simria - Saneamento Integrado da Ria de Aveiro, S.A., a company belonging to the business group Águas de Portugal, SGPS, S.A.
- From 2001 to 2003 he was Chairman of the Board of Directors of GEIE - Gestão de Espaços de Incubação Empresarial, S.A., a company owned by, among other shareholders, ChangePartners, BPI and the Salvador Caetano Group.
- In 1990 he was classified in first place in the JEEP90 programme (Young Entrepreneurs with High Potential), for which he received a prize from the Luso-American Development Foundation (FLAD) to invest in his own companies. From that point, he launched his business career, having started up and managed several companies in the audio-visual technology area over a 10 year period.
- In 1989 he began his professional career at PHILIPS PORTUGUESA, S.A. in the Ovar industrial unit in the Production Engineering department, where he gained considerable experience in production processes for televisions, remote controls and power supply resources. He was Product Manager for remote controls and also worked in Process Engineering on an assembly line for SMDs (Surface-Mounted Devices).

Others

- From 1996 to 2003 he was President of the National Association of Young Business People (ANJE).
- From 1993 to 2007 he was a guest lecturer at the Universidade Católica and Universidade de Aveiro, where he taught subjects related to Management, Leadership and Entrepreneurship.
- He attended the MBA Executive course "European Management Cycle for Leaders and Senior Managers" coordinated by the Institut Français de Gestion (IFG). This MBA was organised by Espaço Atlântico (BPA) and was mainly focused on Business Strategy, 1993/1994.
- He attended the training programme Excellence through Service Quality organised by the Centre de Recherches et d'Études des Chefs d'Entreprises (CRC) in Paris, which was held in France, the US, Japan and South Korea 1993/1994.
- In April 1994, he was invited by the Japanese government to attend the 13th JASPIE (Japanese Study Program for International Executives), which was held in Japan for a period of 1 month.
- In 1998 he participated in the National Defence Auditors course and is today a member of the National Defence Auditors Association.

Non-Executive Member - José Manuel Pereira Mendes Barros

Born 26 September, 1971.

Academic Qualifications

- Undertaking a Master's course in Finance at ISCTE Business School (successful completion of the curricular part).
- Postgraduate course in "Risk Management and Derivatives" by ISEG/UNL/Porto Derivatives Market (2000)
- Degree in Management from ISEG (Economic and Management Higher Institute - Technical University of Lisbon, completed in 1994).

Professional Career

- From 11 December 2013, Non-executive Member of AdP – Águas de Portugal, SGPS, S.A.
- From 20 November 2012, Member of CE – Circuito Estoril, SA, subsidiary company of PARPÚBLICA, SGPS, S.A.
- Since May 2010, Executive Member of the Board of Directors of PARPÚBLICA, SGPS, S.A. and of Capitalpor, SGPS, S.A., Group company (in the meantime incorporated in Parpública in 2011).
- Since May 2010, Chairman of Sage secur, SA, Group company.
- From December 2012 to September 2013, Liquidator at CREDIP – IFC, S.A., subsidiary company of PARPÚBLICA, SGPS, S.A.
- From 2006 to 2010, Assistant Director of the Department of Supervision for Intermediation and Market Structures at CMVM – the Portuguese Securities Market Commission.
- From 2004 to 2006, Assistant Director of the Department of Supervision for Special Investment Organisms and Portfolio Management at CMVM – the Portuguese Securities Market Commission.
- From 2002 to 2004, Executive Coordinator of the Entities Registration Department at CMVM – the Portuguese Securities Market Commission.
- From 2001 to 2002, Adviser to the Secretary of State for the Treasury and Finance in the Ministry of Finance - Secretary of State for the Treasury and Finance.
- From 1994 to 2002, Senior Technical Economist at the Asset Management Supervision Department at CMVM – the Portuguese Securities Market Commission.
- In 1993, accounting technician at Concafé Sical, Lda. (company part of the Nestlé, S.A. Group).

Supervisory Board

Chairman - Paulo Alexandre dos Santos Ferreira

Born 23 May, 1977.

Academic Qualifications

- Degree and Master's Degree in Economics, Economics Faculty, University of Porto.

Professional Career

- Technical Adviser, Statistics Department, Bank of Portugal.
- Technical specialist at the General Directorate of Taxation, carrying out duties in the Tax Inspection Support and Planning Division of the Porto Finance Department.
- Consultant to the Ministry of State and Finances in Portugal's 17th and 18th Governments, specialising in macroeconomics and public finances. He was a member of the Working Group responsible for leading the technical discussion of the Portuguese Economic and Financial Assistance Programme, of the Working Group responsible for drafting proposed legislation on reviewing the Budget Framework Law and the Working Group responsible for submitting proposed laws to revise regional and local finance legislation.
- Member of the National Health Service Financial Sustainability Committee, having contributed to the report: "The Financial Sustainability of the National Health Service, from the National Health Service Financial Sustainability Committee".
- Chairman of the Supervisory Board of AdP - Águas de Portugal, SGPS, S.A. (2010/2011).
- Chairman of the Supervisory Board of AdP - Águas de Portugal, SGPS, S.A. (2012/2014 mandate).

Member - Mário José Alveirinho Carrega

Born 18 August, 1966.

Academic Qualifications

- Degree in Company Organisation and Management, Instituto Superior de Economia e Gestão (ISEG/UTL).

Professional Career

- Since October 2013, Division head of the Division for Analysis and Administration in the Directorate of Services for State Holdings in the Directorate-General for the Treasury and Finance.
- May 1993 - September 2013, senior executive, Directorate-General for the Treasury and Finance - Ministry of Finance – adviser in the area of the State Business Sector.
- October 1992 - May 1993, senior executive, Court of Auditors.
- September 1990 - February 1992, Auditor, Price Waterhouse.
- March 1992 - October 1992, senior executive, Office for Computer Organisation, Directorate-General of the Treasury - Ministry of Finance. Vice-chairman of the Board of the Annual General Meeting of Transtejo - Transportes Tejo, S.A. (2002-2004 mandate).
- Chairman of the Board of the Annual General Meeting, Hospital de Santa Marta, S.A., (2002-2004 mandate).
- Secretary of the Board of the Annual General Meeting, PME - Investimentos - Sociedade de Investimento, S.A. (2004-2006 mandate).
- Vice-chairman of the Board of the Annual General Meeting, SIMAB - Sociedade Instaladora de Mercados Abastecedores, S.A. (2005-2007 mandate).
- Chairman of the Board of the Annual General Meeting, Hospital de Santa Marta, S.A., (2005-2007 mandate).

- Chairman of the Supervisory Board, Fundação Museu do Douro (2006-2008 mandate).
- Chairman of the Board of the Annual General Meeting, Participantes Fundo para Investidores Qualificados API Capital - Sociedade de Capital de Risco, S.A. (2006 Until the merger)
- Vice-chairman of the Board of the Annual General Meeting, PME - Investimentos - Sociedade de Investimento, S.A. (2007-2009 mandate).
- Member of the Supervisory Board, Companhia Carris de Ferro de Lisboa, S.A. (2006/2008 mandate).
- Chairman of the Board of the Annual General Meeting, SIMAB - Sociedade Instaladora de Mercados Abastecedores, S.A. (2008-2010 mandate).
- Reserve member of the Supervisory Board, APA - Administração do Porto de Aveiro, S.A. (2008-2010 mandate).
- Member of the Supervisory Board, Companhia Carris de Ferro de Lisboa, S.A. (2009/2011 mandate).
- Chairman of the Supervisory Board, Fundação Museu do Douro (2009-2011 mandate).
- Treasury and Finance Department trainer on international cooperation in the State Corporate Sector.
- Treasury and Finance Department representative on the "Working Party on State Ownership and Privatisation Practices", OECD.
- Member of the Supervisory Board of AdP - Águas de Portugal, SGPS, S.A. (2012/2014 mandate).

Member - Ana Luísa Videira Gomes

Born 19 September, 1968.

Academic Qualifications

- Master of Business Administration, Specialisation in Finances (curricular programme), Universidade Católica Portuguesa de Lisboa, 1996.
- Degree in Corporate Management and Administration, Universidade Católica Portuguesa de Lisboa, 1991.

Professional Career

- Technical specialist, Directorate-General for the Treasury and Finance, where she has worked in the State Holdings Services Department since 2011.
- Assistant to the Secretary of State for the Treasury and Finances in the 18th constitutional government, 2011.
- Technical specialist, Directorate-General for Treasury and Finance, where she worked in the Registry and Inventory Division in 2010.
- Technical specialist at the Financial Institute for Regional Development, having carried out functions in the Centre for Financial Management, November 2008 to December 2009.
- Technical specialist, Directorate-General for the Budget, where she worked in the Public Finances and Analysis Services Department, September 2007 - October 2008.
- Technical specialist, Directorate-General for Treasury and Finance, where she worked in the Treasury Management Office, 1999-2007.
- Technical specialist, Public Credit Management Institute (IGCP), where she was part of the Issues and Market Team, 1996-1999.
- Technical specialist, Directorate-General for Treasury and Finance, where she worked in the Direct External Debt Division, 1991-1996.
- Member of the Supervisory Board of AdP - Águas de Portugal, SGPS, S.A. (2012/2014 mandate)

Reserve Member - Graça Maria V. N. Montalvão Fernandes

Born 12 August, 1948.

Academic Qualifications

- Degree in Economics from the Porto Faculty of Economics

Professional Career

- Since 1989 - Senior staff member, Directorate-General for the Treasury, where she is currently Director of Financial Assistance.
- 1972 - 1989 - Technical specialist and senior staff member, Directorate-General for the Treasury and Finance and the Office for Overseas Economic Cooperation of the Ministry of Finance; Central Staff Services of the Ministry for Administrative Reform; and the Planning and Economic Integration Services of Mozambique.
- Reserve Member of the Supervisory Board of AdP - Águas de Portugal, SGPS, S.A. (2012-2014 mandate).

Other professional posts

- Chairwoman of the Council of Finance Guarantees for Exports and Investment, since May 2007.
- Chairwoman of the Supervisory Board, E.P., S.A., since November 2007.
- Chairwoman of the Supervisory Board, NAV, EPE, 2004 - March 2008.
- Member of the Supervisory Board, IFADAP, 1999-2003.
- Member of the Management Board of the Extraordinary Aid Fund for Reconstructing Chiado (FEARC), 1998-2002.
- Member of the Supervisory Board, Cahora-Bassa Hydroelectric Dam, 1993-2000.
- Chairwoman of EIB's Article 9 Committee for Mediterranean countries, July 1996 - June 1997.
- Chairwoman of the EIB's Article 28 Committee for ACP countries, July 1995 - June 1997.

In 2013 the Board of Directors met 7 (seven) times and the Executive Committee 48 (forty eight) times.

Specialised Committees

Specialised committees nominated by the Board of Directors for managing and supervising cross-sectional projects in the company as at 31 December, 2013:

- Taskforce for the restructuring of the sector;
- Taskforce for the information system requirements of AdP Business Units;
- Taskforce for the corporate responsibility system
- Taskforce for assets maintenance and asset management;
- Taskforce for monitoring and revising concession contracts;
- Taskforce for storms;
- Taskforce for PENSAAR;
- Taskforce for financial programming 2014-2020;
- Ethics Committee.

4.2 Organisational structure

The structure of the AdP Group is based on Business Units (BUs), which operate within a planning and control system led by the holding company. It is on the basis of this structure that the Group's strategic guidelines, business and investment plans, annual objectives and budgets are defined and regularly reviewed, revised and controlled, in a participative and interactive manner.



Business Units

• Water - Production and Purification (UNA-PD)

This brings together companies that operate wholesale services in the water supply and wastewater sanitation sectors in Portugal.

• EPAL

EPAL operates in the wholesale and distribution sectors and is responsible for the upstream water supply, directly or indirectly, of 34 municipalities on the north bank of the Tagus as well as domestic water supplies in the Lisbon region.

• Water - Distribution and Collection (UNA-DR)

This brings together companies mainly engaged in retail operations in Portugal in the water supply and wastewater sanitation sectors.

• International (UNI)

This brings together companies with operations based outside Portugal.

• Waste (UNR)

This brings together those companies that operate in Portugal in the area of waste treatment and recovery.

• Other Businesses (UNON)

This BU is responsible for the development of activities in the area of environmental management, namely the production and use of different forms of renewable energy; establishing systems for the collection, treatment and recovery of sludges together with their usages and final destinations; and developing processes or facilities for improving energy efficiency.

• Shared Services (UNSP)

This brings together companies that supply services to all other AdP Group companies and is made up of eight different support areas: **i)** Purchasing and General Support; **ii)** Information Systems; **iii)** Human Resources; **iv)** Financial Services; **v)** Marketing and Communication; **vi)** Legal Services; **vii)** Planning and Operations; and **viii)** Engineering.

UNR, UNI and UNSP are managed, respectively, by the companies Empresa Geral do Fomento, S.A. (EGF), AdP - Águas de Portugal Internacional Serviços Ambientais, S.A. and AdP - Águas de Portugal Serviços Ambientais, S.A.

Functional Bodies

To perform its functions effectively, AdP - Águas de Portugal, SGPS, S.A. has a set of functional bodies to support the management of the Group and each of its BUs. They are responsible for the definition and implementation of policies, for the management of corporate resources and for the assessment and supervision of BUs and subsidiaries.

• Corporate Finance

This department is responsible for defining and coordinating the Group's financial policy. It guarantees the Group's accounting and fiscal management by ensuring that criteria, procedures and practices comply with national standards.

• Corporate Development and Regulation

Its mission is to support planning, management control, relationship with stakeholders and regulation, with the mission to support the formulation of strategy both for the Group and its respective BUs, as well as analyse the performance of the Group, the BUs and companies on the basis of indicators and management information. The department is also responsible for the maintenance of appropriate relationships with key stakeholders, especially in terms of complying with information disclosure duties and monitoring regulatory activities, especially regarding issues relating to capital costs, setting tariffs and interacting with the regulatory authority (ERSAR).

• Corporate Human Resources

This department is responsible for defining the Group's human resource policies and strategy and for the overall management of its human resources.

• Internal Auditing and Risk Control

The mission of this department is to identify the risks inherent to the Group's businesses, carry out internal audits of majority-owned subsidiaries, define the key control elements required to minimise or eliminate the impact of these risks and implement compliance tests to evaluate results.

• Communication and Image

This is responsible for defining the Group's strategy and corporate communication and image policies and provides direct support to the Board of Directors in these areas.

• Research and Development

The mission of this department is to support innovation in areas of knowledge of particular relevance to the Group's operations and to develop, coordinate and promote research and development projects with third-party Portuguese and international bodies.

• Sustainability and Social Responsibility

The mission of this department is to plan, coordinate and implement the AdP Group's sustainability policy and social responsibility programme, putting into practice the Group's vision, strategy and commitment in regard to the principles of sustainable development which the Group has established.

• Company Secretary

The Company Secretary's responsibilities are set out in Article 446-B of Portugal's Commercial Companies Act. The secretary is specifically responsible for providing support for meetings of governing bodies, certifying company documents, authenticating the signatures of members of the Board of Directors, issuing extracts from the minute book, following up decisions of the Board of Directors and ensuring that the company's official registers accurately record those decisions.

5. Remuneration and other costs

Mandate | 2012-2014

1. Board of the General Meeting

Mandate Start - End	Post	Name	Fixed remuneration statute (€) ⁽¹⁾	Annual remuneration (€)		
				Gross ⁽²⁾	Reductions (OE Law)	Gross after reductions ⁽³⁾
2012-2014	Chairwoman	Ana Cristina Rodrigues	650.00	650.00	0.00	650.00
2012-2014	Vice-Chairwoman	Maria Fernanda Martins	520.00	520.00	0.00	520.00
2012-2014	Secretary	Manuel Gouveia Pereira	400.00	400.00	0.00	400.00

(1) Fixed amount for attendance voucher.

(2) Before remuneration reductions.

(3) The due adjustments will be made in the remuneration of eligible recipients in 2014, pursuant to Article 27 of Law 66-B/2012.

2. Board of Directors

Mandate Start - End	Post	Name	Designation	
			Doc	Data
2012-2014	Chairman	Afonso Lobato de Faria	GM	02-02-2012
2012-2014	Member	Álvaro Castello-Branco	GM	02-02-2012
2012-2014	Member	Gonçalo Martins Barata	GM	02-02-2012
2012-2014	Member	Manuel Barata Frexes	GM	02-02-2012
2012-2014	Member	Manuel Fernandes Thomaz	GM	02-02-2012

Name	EGP				OPRLO	
	Fixed	Classification	Salary	Representation expenses	Identify entity	Payer
Afonso Lobato de Faria	Y	A	5,722.75	2,289.10	n.a.	-
Álvaro Castello-Branco	Y	A	4,578.20	1,831.28	n.a.	-
Gonçalo Martins Barata	Y	A	4,578.20	1,831.28	n.a.	-
Manuel Barata Frexes	Y	A	4,578.20	1,831.28	n.a.	-
Manuel Fernandes Thomaz	Y	A	5,722.75	2,222.25	AdP, SGPS	D

EGP - Public Manager Statute.

OPRLO - Option for remuneration from the place of origin.

O/D: Origin/ Destination.

Name	Annual remuneration (€)						
	Variable	Fixed	Other	Reduction Law 12-A/2010	Reduction (OE Law)	Reduction previous years	Gross after reductions
Afonso Lobato de Faria	-	10,7587.70	-	5,379.60	10,220.88	0.00	91,987.22
Álvaro Castello-Branco	-	8,6070.16	-	4,304.10	8,176.61	0.00	73,589.45
Gonçalo Martins Barata	-	8,6070.16	-	4,304.10	8,176.61	0.00	73,589.45
Manuel Barata Frexes	-	8,6070.16	-	4,304.10	8,176.61	0.00	73,589.45
Manuel Fernandes Thomaz	-	10,6785.50	-	5,340.00	10,144.56	0.00	91,300.94

Name	Social benefits (€)							
	Meal Sub.	Social Protection Scheme					Others	
		Identify	Value	Health insurance	Life insurance	Personal accident insurance	Identify	Amount
Afonso Lobato de Faria	1,050.00	Social Sec.	16,661.46	1,259.33	1,850.00	-	-	-
Álvaro Castello-Branco	1,050.00	Social Sec.	16,196.56	1,259.33	1,480.00	-	-	-
Gonçalo Martins Barata	1,059.00	Social Sec.	16,196.56	355.25	1,480.00	-	-	-
Manuel Barata Frexes	918.00	Social Sec.	16,196.56	984.91	2,400.53	-	-	-
Manuel Fernandes Thomaz	1,500.00	Social Sec.	16,661.46	1,533.74	1,480.00	-	-	-

Name	Accumulation of functions - annual values (€)					
	Entity	Function	Regime	Gross	Reduction (OE Law)	Gross after reductions
Afonso Lobato de Faria	AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A.	Chairman (non-executive)	Public	-	-	-
Álvaro Castello-Branco	Águas do Douro e Paiva, S.A.	Executive Chairman	Public	-	-	-
	AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A.	(Non executive) member	Public	-	-	-
Gonçalo Martins Barata	AdP - Águas de Portugal, Serviços Ambientais, S.A.	Chairman (non-executive)	Public	-	-	-
	AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.	(Non executive) member	Public	-	-	-
Manuel Barata Frexes	AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.	Chairman (non-executive)	Public	-	-	-
	Águas do Centro, S.A.	Chairman (non-executive)	Public	-	-	-
Manuel Fernandes Thomaz	AdRA - Águas da Região de Aveiro, S.A.	Executive Chairman	Public	-	-	-

Name	Mobile communication costs (€)		
	Specified monthly ceiling ⁽³⁾	Annual amount ⁽⁴⁾	Notes
Afonso Lobato de Faria	80.00	1,708.86	(*)
Álvaro Castello-Branco	80.00	5,000.24	(*)
Gonçalo Martins Barata	80.00	1,574.33	(*)
Manuel Barata Frexes	80.00	12,761.70	The final amount that represents the differential is being calculated by the Operator Communications.
Manuel Fernandes Thomaz	80.00	1,220.15	(*)

(*) Differential between (4) and (3) regarding professional use.

Name	Vehicle Charges								
	Assigned vehicle	Signed agreement	Vehicle reference value	Modality	Year start	Year end	N° payments	Monthly rental amount	Annual amount
Afonso Lobato de Faria	Y	Y	-	AOV	27-05-2009	26-05-2014	60	1,146.61	13,759.37
Álvaro Castello-Branco	Y	Y	-	AOV	16-04-2009	15-04-2014	60	962.35	11,548.16
Gonçalo Martins Barata	Y	Y	-	AOV	17-04-2009	16-04-2014	60	1,075.45	12,905.36
Manuel Barata Frexes	Y	Y	-	AOV	27-05-2009	26-05-2014	60	1,037.87	12,454.39
Manuel Fernandes Thomaz	Y	Y	-	AOV	16-04-2009	15-04-2014	60	991.53	11,898.31

Name	Monthly specified ceiling for fuel and tolls ⁽³⁾	Annual costs for vehicles					Notes
		Fuel ⁽⁴⁾	Tolls ⁽⁵⁾	Other repairs	Insurance		
Afonso Lobato de Faria	572.28	3,983.15	1,162.40	1,027.86	760.76	-	
Álvaro Castello-Branco	457.82	6,220.10	2,393.95	3,380.07	660.28	(*)	
Gonçalo Martins Barata	457.82	1,322.37	262.40	1,207.61	672.49	-	
Manuel Barata Frexes	457.82	1,892.52	992.33	2,998.25	642.22	-	
Manuel Fernandes Thomaz	457.82	5,022.79	2,461.95	2,208.26	686.96	(*)	

(*) Differential between (3) and (4)+(5) relating to an increase in on-duty travel during the restructuring of the AdP Group and executive duties at other group companies in different locations.

Name	Total annual cost on journeys					
	Professional travel	Accommodation costs	Allowances and expenses	Others		Total cost on journeys
				Identify	Amount	
Afonso Lobato de Faria	5,694.16	273.50	0.00	Meals	93.15	6,060.81
Álvaro Castello-Branco	8,625.32	406.52	571.84	-	0.00	9,603.68
Gonçalo Martins Barata	0.00	0.00	0.00	-	0.00	0.00
Manuel Barata Frexes	7,052.23	671.98	607.58	Meals	702.40	9,034.19
Manuel Fernandes Thomaz	2,869.15	1,596.00	500.36	Meals	149.34	3,518.85

3. Supervisory Body

Supervisory Board

Start - End	Post	Name	Doc	Data	Fixed remuneration statute (monthly)
2012-2014	Chairwoman	Paulo Alexandre Ferreira	GM	02-02-2012	1,602.37
2012-2014	Member	Ana Luísa Gomes	GM	02-02-2012	1,201.78
2012-2014	Member	Mário Carrega	GM	02-02-2012	1,201.78

Name	Annual remuneration (€)			
	Gross	Reduction Law 12-A/2010	Reduction (OE Law)	Gross after reductions
Paulo Alexandre Ferreira	22,433.18	1,121.70	2,131.15	19,180.33
Ana Luísa Gomes	16,824.92	841.30	1,598.43	14,385.19
Mário Carrega	16,824.92	841.30	1,598.43	14,385.19

Statutory Auditor

Mandate Start - End	Post	SROC/ROC Identification		Designation		Remuneration (€)		N° of Mandates exercised for the company
		Name	Number	Doc.	Data	Fixed period	Contracted ^(*) (a)	
2012-2014	Statutory Auditor	Alves da Cunha, A. Dias & Associados	n° 74 OROC	-	-	-	18,495.00	

(*) Annual amount.

(a) Estimated remuneration or remuneration equivalent to the maximum set out in Ordinance 764/2012 - due adjustments will be made in the remuneration of eligible recipients in 2014, pursuant to Article 27 of Law 66-B/2012.

Name	Annual remuneration (€)		
	Gross	Reduction (OE Law)	Gross after Reductions
Alves da Cunha, A. Dias & Associados	18,495.00	(a)	18,495.00

(a) Estimated remuneration or remuneration equivalent to the maximum set out in Ordinance 764/2012 - due adjustments will be made in the remuneration of eligible recipients in 2014, pursuant to Article 27 of Law 66-B/2012.

External Auditor

Identification of the External Auditor (SROC/ROC)			Date of Hiring		Annual remuneration (€)		
Name	OROC	CMVM	Data	Period	Cost for provision of services	Reduction (OE Law)	Gross after reductions
	Registration N°	Registration N°					
Ernst & Young	n° 178	N° 9011	2009	2009/2011 2012/2014	108,800.00	(a)	108,800.00

(a) If applicable, the due adjustments will be made in the remuneration of eligible recipients in 2014, pursuant to Article 27 of Law 66-B/2012.

6. Sustainability analysis

The AdP Group has Sustainability in its company DNA. It is in its commitment to present and future generations that the Group carries out its activity, linking society and the environment, to improve the life of the population.

In 2008, the Group defined its sustainability strategy in an organised manner based on the concept of symbiosis inherent to its close interdependence with its shareholders, the environment, employees and the community, defining ambitious commitments and goals, compliance with which has enabled it to play an active role within sustainability.

The Group has published its sustainability report since 2008, which provides a consolidated balance of the activity of all the companies, reporting on their performance and showing the strategies adopted, the level of compliance with the fixed targets and the report on good practices carried out by subsidiary companies whose operations cover the country from north to south and from the rural areas to the coastal area. This publication enables a narrowing of relations with all the stakeholders, whose spectrum is particularly wide-ranging, since the companies involved in water supply, wastewater sanitation and treatment and recovery of waste impact, both upstream and downstream, on all other economic activities, in the value chains. The involvement of the AdP Group in the Portuguese economy is essential for the construction of the green economy.

In 2013 the fifth integrated Group report was published, based on the GRI - the Global Report Initiative and ERSAR references, in continuity with the previous editions. The consolidated document is published on the AdP website (www.adp.pt), particularly containing information on the strategies adopted and the degree of compliance with the fixed targets, as well as the policies carried out.

The 20th anniversary of the AdP Group was commemorated during 2013 and it was possible to see the path followed by sustainability. The development of the Group's activities throughout these 20 years has been based on ongoing improvement, enabling increasing gains in productive and environmental efficiency to be obtained. We can highlight here some of the initiatives carried out.

- Certification has been maintained in the standards for quality, environment, hygiene and safety and social responsibility, respectively ISO 9001, ISO 14001, OHSAS 18001 and SA 8000 in the holding and we have reached 92%, 92%, 86% and 41% in the companies.
- We have also clearly showed our commitment of support to the ten principles of the Global Pact, an initiative launched by the United Nations with the aim of aligning strategies and business policies and civil society through ten universal principles which involve Human Rights and Labour, Protection of the Environment and Anticorruption Mechanisms. The Global Compact annual progress report was also published as a result of this commitment (<http://www.unglobalcompact.org>).
- In 2013 the International Year of Cooperation through water was commemorated, with the AdP Group taking part in this initiative through several events.
- The Group maintains its focus on corporate policies in terms of social responsibility. Electronic Christmas cards continued to be sent, instead of paper cards, an initiative of an economic and environmental nature that is linked to a social responsibility component through the donation of 50 cents for each electronic Christmas card sent.
- In 2013 the major focus was on internal Social Responsibility through the awarding of 10 higher educational study scholarships to children of employees of the Group companies. In 2014 it is intended to award 20 study scholarships. The revenue obtained this year from the Christmas cards will be used by the Group to grant study scholarships to the children of employees with special educational needs.
- The carrying out of the first initiative within the scope of the AdP Corporate Volunteer Programme, in the Casa do Gaiato, took place in 2013. Forming part of the AdP Social Responsibility Policy, it sought to stimulate the voluntary participation of its employees in activities on behalf of the community by contributing their time and expertise. This Programme strengthens the corporate culture of the AdP commitment to the well-being of the population, at a time when the demands of reality require more than ever that companies and their employees play a key role as social actors and agents of change.

7. Human capital management

Our employees play a decisive role in the success of the Group. Our human capital management policies and practices seek to endow our employees with the competencies necessary for their personal and professional development and also for carrying out AdP's strategic goals.

Training and Development

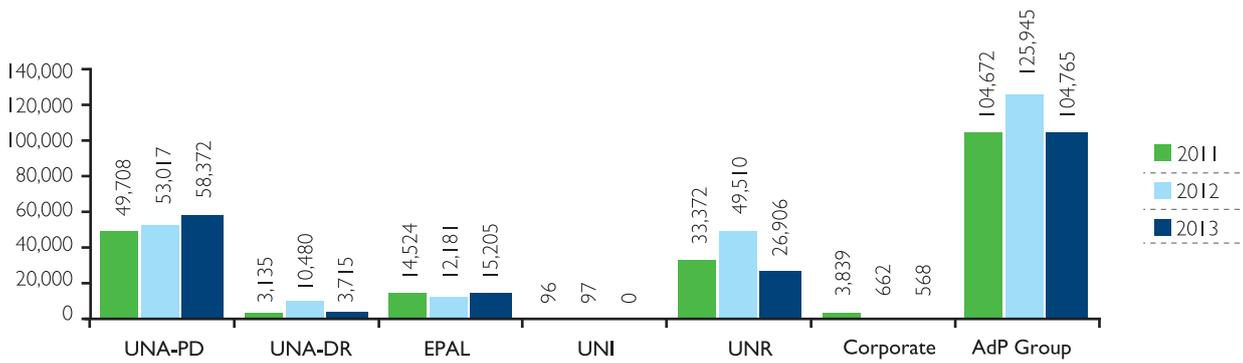
As an embodiment of the continuous improvement culture that is central to our strategy, we believe in the fundamental importance of equipping our employees with the necessary skills to realise their full potential, contributing in this way to the success of the Group.

The planning, management and training evaluation processes are designed to meet identified training needs and ensure their quality and effectiveness. Training initiatives that are cross-company and strategic in nature are also undertaken with a view to fostering organisational development.

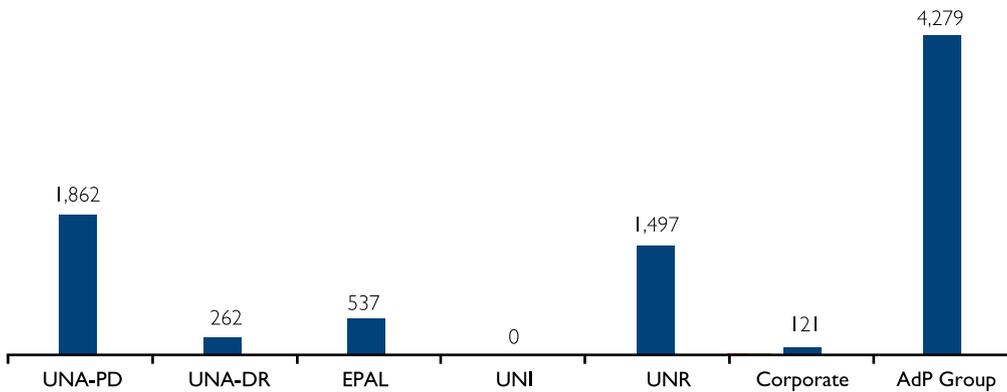
In 2013 we carried out our focus on training as a development tool. The slight decrease in the amount of training, compared to 2012, was explained in large part due to the reduction seen in the personnel of the Group. Even so, investment in training increased in 2013 compared to the previous year, the fruit of a focus on more specialised training content.

During 2013, 86% of active employees were involved in training actions.

Training hours



Number of employees trained



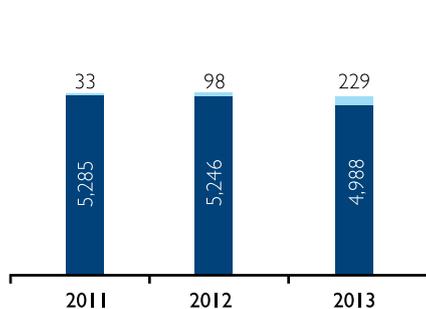
Career Management

The internal mobility of employees is a policy that AdP continues to support as a positive factor to their professional evolution. The internal search of professionals to be allocated to projects and/or to supply specific know-how needs is a process which adds value to AdP and enables employees to be exposed to new contexts and challenges which enable the acquisition of new learning and competencies.

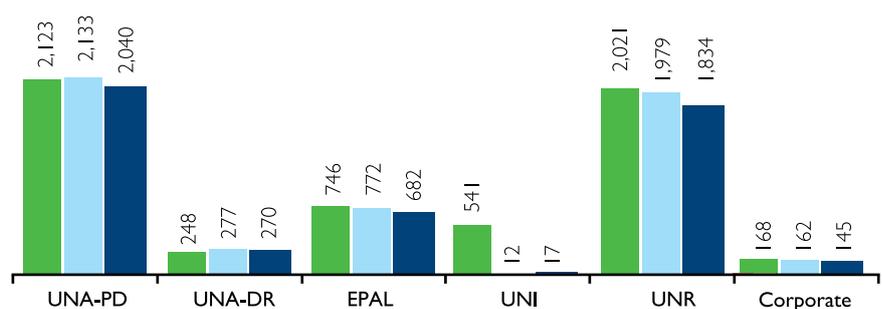
Description of the Group's Human Resources on 31 December 2013

Compared to 2012, the number of active employees recorded a reduction of 4.9%. The corporate structures recorded a greater reduction, 10.5%

Number of employees



No. of active employees per BU



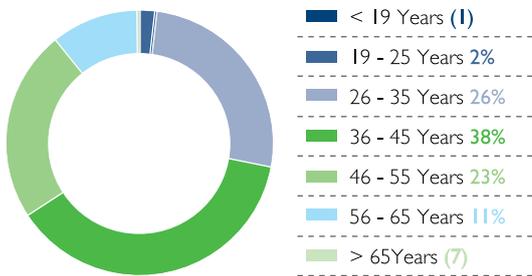
■ Active employees
 ■ Employees w/ suspended contracts

■ 2011
 ■ 2012
 ■ 2013

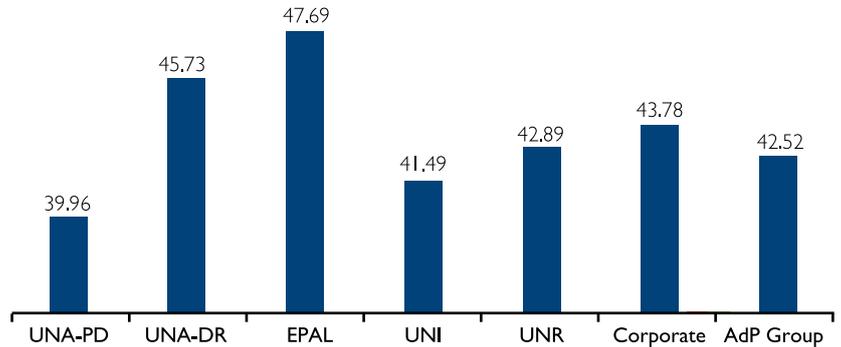
The average age of Group employees was 42.52 years of age, with UNA-PD being the business area with the lowest average age, at 39.96 years of age. Conversely, EPAL is the business unit with highest average age at 47.69 years of age.

The most representative age group within AdP is that including employees aged 36 to 45 years of age.

Age structure of active employees



Average age of active employees

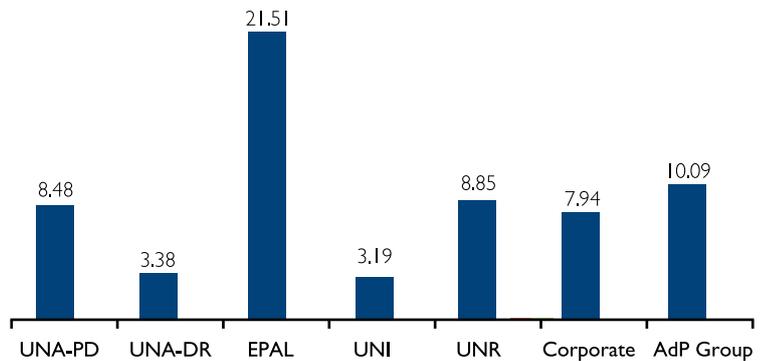


The average length of service of Group employees is 10.09 years. Employees with a length of service between 6 and 10 years represent 29% of total employees. EPAL has the highest average seniority among the various business units.

Length of service of active employees

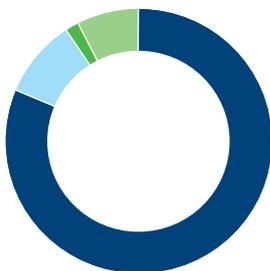


Average employee length of service

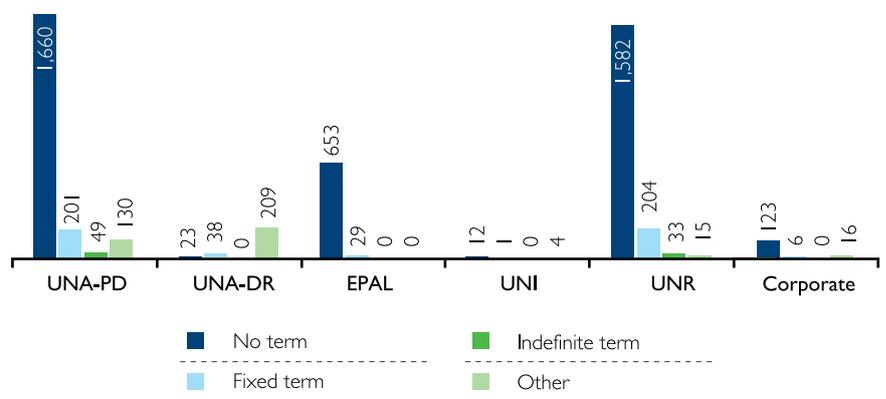


As regards contractual relations, the "indefinite duration contract" is the most representative labour contract in AdP, representing 81% of all existing contracts.

Contractual situation of active employees

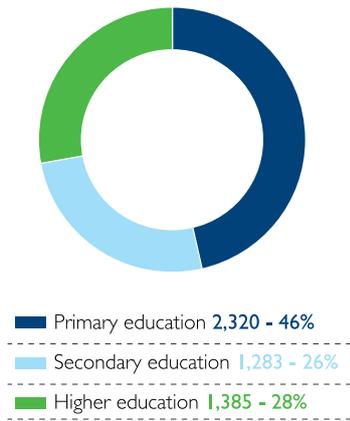


Contractual situation of active employees by BU

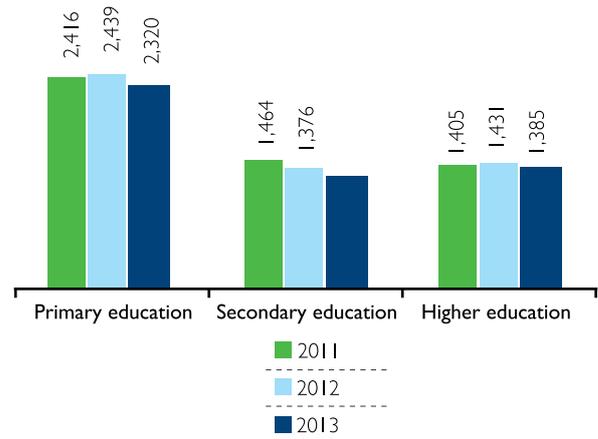


Compared to previous years, the trend continues for a percentage increase in the number of employees with higher educational qualifications, who currently represent 28% of the total of Group employees. This percentage increased 1 p.p. compared to 2012.

Educational qualifications of active employees

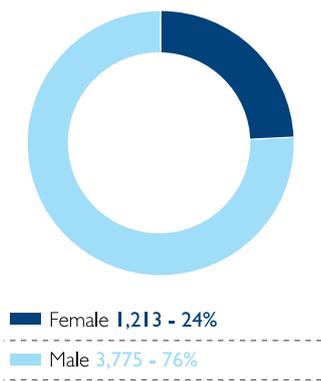


Educational qualifications of active employees

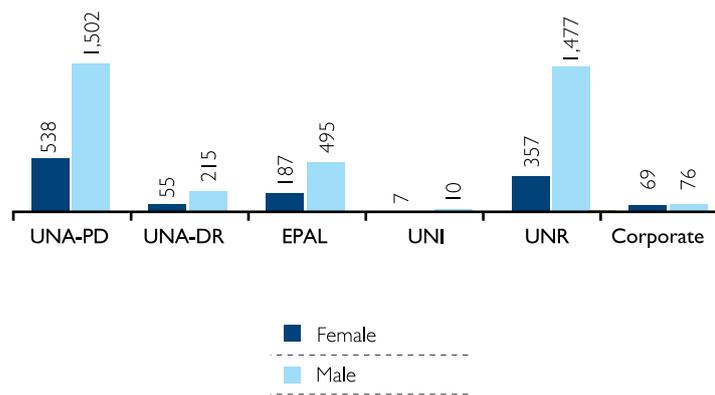


As regards the distribution of employees by gender; a greater number of male employees are represented in activities of a more operational nature. In administrative and support activities, the distribution is balanced.

Gender distribution of active employees

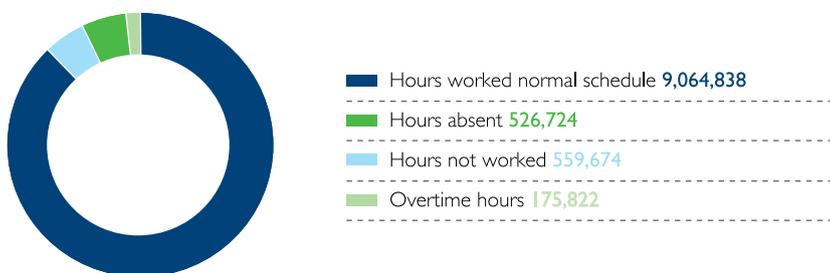


Distribution of active employees by gender and by BU

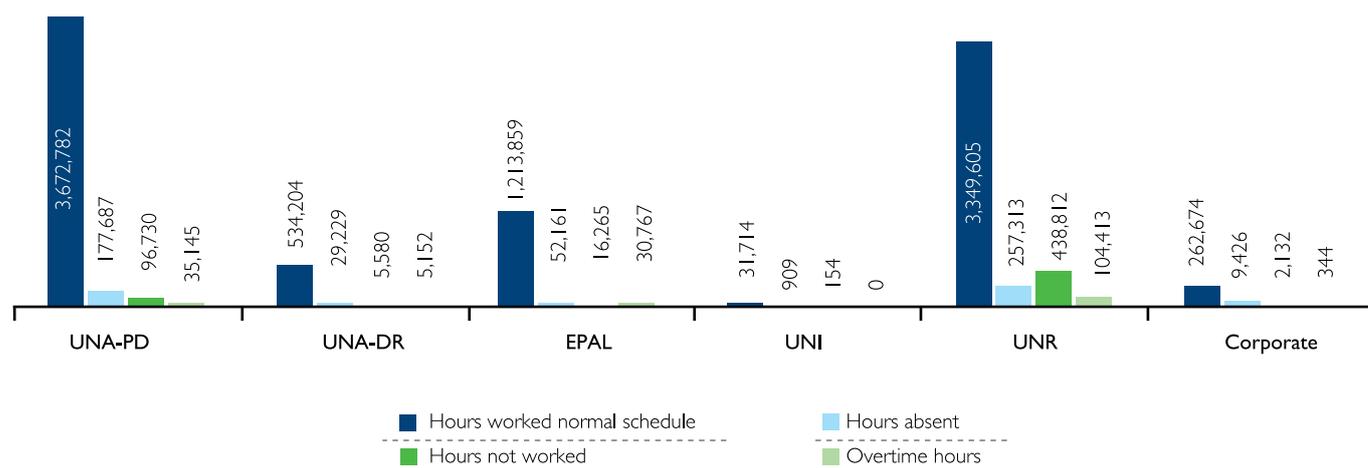


The distribution of productive and non-productive hours in the Group lies within the normal range for their respective areas of activity, and the absence hours in 2013 accounted for 5.19% of the potential workable hours.

Hours worked



Hours worked by BU



In 2013 staff costs recorded an increase of 19.45% with regard to the previous year; a factor which stemmed from the costs resulting from the payment of indemnities within the Friendly Recisions Corporate Programme and the repositioning of the payment of Christmas and holiday subsidies to employees, as a result of a Decision by the Constitutional Court.

Staff Costs	2011	2012	2013	2012 ^(*)	2013 ^(*)
Staff costs (€ million)	131.7	120.8	144.2	147.7	136.5
Average annual cost per employee (€)	24,612	22,722	28,541.7	-27,786.9	-27,013.0
Average monthly cost per employee (€)	1,758	1,623	2,039	-1,985	-1,930
Staff costs/ Turnover	15.79%	15.26%	17.12%	-20.34%	-17.67%
Staff costs/ EBITDA	38.10%	33.81%	38.39%	-41.34%	-37.17%

Nota 1: The amounts set out include, in addition to the remuneration, all associated social charges as well as other staff costs (training, safety equipment, accidents at work insurance, etc.).

Nota 2: The average annual and monthly cost per employee were calculated on the basis of the total number of employees and members of the executive governing bodies.

Nota 3: The staff costs/ turnover and staff costs/ EBITDA for 2013 were accounted with considering costs due to indemnities.

(*) Staff costs standardised to 14 months.

8. Research & Development and innovation

AdP Group R&D and Innovation strategy and network

During the first half of 2013 the Research, Development and Innovation (R&D+I) strategy for the AdP Group was defined, as well as the respective goals and associated processes. Within this context, an R&D and Innovation Network was set up for the Group, made up of technicians from various subsidiary companies.

In July the first R&D and Innovation session of the AdP Group has held with the goals of presenting the respective Group model for R&D and Innovation, the strategy to be implemented, the projects to be developed, the presentation of R&D+I network representatives and the programme to carry out the main challenges for the company. Of note in this meeting was the holding of two brainstorming sessions the aim of which being to list the main challenges of the Group in terms of R&D and innovation and the strategy to be adopted for their implementation.

Funding programmes for R&D+I projects

During 2013 various applications were submitted for community funds (LIFE2013+, Ecoinnovation e WaterJPI) for which we are still waiting replies of approval from the competent bodies:

- **LIFE WIMM:** Water Intelligent Modular Meter (LIFE2013+), in cooperation with AdP SGPS, EPAL and AdRA, which seeks the optimisation of water consumption and the reduction of non-invoiced water;
- **LIFE SWN:** SMARTWATERNETWORK (LIFE2013+), in cooperation with AdP SGPS, AdRA, AdO and ISQ, focused on optimising the operational management of tanks in supply systems;

- **ARTICA 4** nr (Ecoinnovation), in cooperation with Simtejo, with the aim of optimising the functioning of aeration tanks for the removal of nutrients;
- 4 applications to the **Water JPI** integrated within the theme of emergent pollutants (AdP Engenharia, Simlis, Simtejo and EPAL).

Six applications for the 7th Framework Programme were also submitted, with, however, only the Aquavir project being approved.

- **AQUAVIR Application**, involving the participation of EPAL and Simtejo, had as one of its objectives the development of online probes for the detection of a virus in water supply, wastewater and recreational systems, as well as validation of the method for virus quantification. The funding for this project was approved, with work having been started in November 2013;
- **ASP-CON Application**, with the involvement of Simtejo, aimed at implementing an innovative technological solution for monitoring process variables for activated sludge biological systems;
- **SWADE Application**, with the cooperation of AdRA, aimed at the development, demonstration and evaluation of a set of ICT-based services for the management of urban water scarcity and business intelligence analysis to ensure the sustainability of water resources;
- **SAVEWATER Application**, with the involvement of Aquasis, EPAL and AdP Serviços, with the aim of establishing water savings, especially in domestic settings;
- **SWARM Application**, with AdP SGPS forming part of the application as the Advisory Board, with the aim of researching innovations/technologies/models with its main focus on the industrial consumer;
- **BRIGHT Application**, with the involvement of Simtejo, aimed at demonstrating the potential of combining meteorological forecasting technologies and real-time data from sensors to with advanced management control of urban drainage systems.

Protocol with higher educational institutions

In 2013 various contacts were made with higher educational bodies, seeking to establish a cooperation protocol, with the goal of training and technical capacity building, the carrying out of research studies for water supply, wastewater and waste management, in new priority areas: reuse of water; treatment of water and wastewater; processes for treating waste, transportation of water and wastewater; recovery of sub-products, Water-Energy nexus, risk management related to floods and droughts, decision support systems and monitoring and smart technology.

New challenges

In 2014 two main goals were identified: capacity building of the AdP Group companies with R&D and Innovation competencies and increase the R&D and Innovation competencies in the AdP Group companies.

Given these goals, the following activities were identified as priorities:

- drawing up and submitting applications to Horizonte 2020 and Portugal2020;
- implementation of the Knowledge Portal;
- organise and carry out various thematic workshops, the goal of which being the dissemination of good practices between technicians of the AdP Group, standardisation of good practices among the companies (where applicable) and the drawing up a document of good practices indicating the state of the art and the identification of challenges;
- formalisation of protocols with universities;
- carrying out of Masters and PhD in business environment;
- preparation of processes for recording products and patents.

The potential R&D+I projects to be carried out will be within the following priority areas:

- optimisation of wastewater treatment systems;
- optimisation of water supply network management;
- decision support systems (wastewater);
- optimisation of drainage network management;
- decision support systems (water supply);
- information management;
- optimisation of supply water treatment systems:
- water quality in supply systems (in their origin, throughout the distribution system);
- energy production;
- reuse of wastewater.

9. Ethics and preventing corruption

The AdP Group is convinced that its daily concerns with efficiency or economic growth cannot be dissociated from ethical and responsible behaviour. To do this, it is believed that the fulfilment of its long-term interests is necessarily founded on strict compliance with the highest standards of ethical conduct. All those involved with the Group's companies in their commercial, institutional and social activities, have a legitimate interest in the transparency, dialogue and ethical behaviour of the AdP Group of companies and its employees.

The AdP Group's Code of Conduct and Ethics is an expression of the AdP Group's commitment to ethical behaviour in its internal and external relationships. It aims to strengthen applicable ethical standards and create a working environment that fosters respect, integrity and fairness.

More than a commitment, the Code of Conduct and Ethics reflects a desire for permanent improvement by a business group that sees respect for the rights of employees, the responsibility of defending and protecting the environment, transparency in its external relations and contributing towards sustainable development as the guiding principles of its activities.

The Code is applicable to all companies and binds all the AdP Group's employees, independently of their function or position.

The AdP Group's ethical values and guiding principles

The **Core Values** of the AdP Group are:

- Spirit of Service
- Excellence
- Integrity
- Responsibility
- Rigour

Its guiding **Principles** are:

- Respecting and protecting human rights
- Respecting the rights of employees
- Combating corruption
- Eradicating all forms of exploitation
- Eradicating all discriminatory practices
- A responsible approach to defending and protecting the environment
- Contributions to sustainable development

The Code of Conduct and Ethics is available for consultation at www.adp.pt, at the following address:

<http://www.adp.pt/content/index.php?action=detailfo&rec=2180&t=Codigo-de-Conduto-e-Etica>

In 2010 the AdP Group established an Ethics Committee which was given the duties of monitoring, with exemption and independence, the governing bodies of the Company, the disclosure and compliance with the Code of Conduct and Ethics in all the companies which make up the Group, proposing suitable measures for the development of a culture of professional ethics and deontology within the AdP Group and its dissemination by all its employees.

The Ethics Committee is made up of five members nominated by the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.

It is also worth noting that AdP Group companies have drawn up plans for controlling corruption and related risks in compliance with the recommendation made by the Prevention of Corruption Council on 1 July, 2009. This plan identifies areas that could potentially be subject to acts of corruption, as well as the main risks arising from them, the controls introduced to mitigate those risks and the probability of such acts occurring. The annual report on compliance with these Plans for Controlling Corruption and Related Risks is each year submitted to the Prevention of Corruption Council.

Of further note is that the AdP Group, in subscribing to the Global Pact of the United Nations in 2010, has committed to its strategies and policies fully respecting the 10 principles of this Global Pact, emphasising Anticorruption (Principle 10), where it is stated that "Companies should fight corruption in all its forms, including extortion and bribery."

10. Risk control

The AdP Group, and the Board of Directors of AdP SGPS in particular, devote a lot of attention to the risks inherent to Group activities through the regular monitoring of the key risks resulting from the daily operations of all its companies.

In 2013 work continued on the business risk management project, the main results of which included an integrated assessment of AdP Group risk and the systematisation of risk management processes.

The risks encountered are organised on the basis of a class and category structure defined in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) methodology, which is shown below:



Risks are evaluated on the basis of their probability and impact, taking into consideration both the inherent risk and the residual risk. In this way, it seeks to ascertain the effectiveness of the internal control system set up to maintain risks at a level deemed acceptable.

Risks are evaluated by considering several dimensions of each risk such that, when their impact is evaluated, the process takes into account several dimensions of each risk, specifically:

- financial;
- reputational;
- legal and/or regulatory; and
- level of alignment with business objectives.

The probability of risks occurring is also evaluated in accordance with a broad range of factors, namely:

- existence and effectiveness of controls;
- prior incidence of risk;
- complexity of risk; and
- installed risk management capacity (persons, processes, systems).

The Internal Auditing and Risk Control mission is to identify the inherent risks of the AdP Group businesses, to conduct internal audits into subsidiary companies in which AdP owns a majority stake, to determine the key controls needed to minimize or eliminate the impact of these risks and to carry out conformity tests to evaluate the results.

Given that it reports directly to the Board of Directors of AdP SGPS, the Internal Auditing and Risk Control department benefits from a clear independence from the boards of the companies it audits and it is thus given an appropriate level of operational autonomy in carrying out its work, optimising the use of available resources and avoiding structural duplication.

Risks related to governance, strategy and planning, conformity and reporting are dealt with and monitored by each individual company, and regularly considered by the AdP SGPS Board of Directors. This approach to operational and infrastructure risks, besides the coverage

provided by each company and their respective governing bodies, is complemented by centralised monitoring and control structures with responsibility for identifying and managing the principal risks.

In the prevailing economic context, the main risks to which the AdP Group is exposed are:

- political, economic and financial context;
- economic and financial sustainability;
- liquidity risk and interest rate;
- regulatory risk;
- environmental risk;
- reputation and image;
- disaster;
- fraud.

The Board of Directors ensures regular monitoring of the main risks identified, making sure it remains aware of developing trends and the levels of control in place. Monitoring shows that these processes are currently operating as intended.

11. Prevention of conflicts of interests

The members of the Board of Directors of AdP SGPS are aware of the conflict of interests as defined in Law N. 64/93, of 26 August, in the Public Manager Statute - (Decree-Law No. 71/2007, of 27 March, in its current wording) and the Principles of Good Governance of State-owned Companies (RCM No. 49/2007, of 28 March, in force until 2 December 2013), and also the provisions resulting from Decree-Law No. 133/2013, of 3 October. They are also aware of Law No. 4/83, of 2 February, in the wording of Law No. 25/95, of 18 August, and also the Recommendations of the Prevention of Corruption Council, issued on 7 November 2012.

In compliance with the provisions which are applicable, the members of the Board of Directors of AdP SGPS comply with the following obligations:

- deliver to the General Inspectorate of Finances, a declaration listing all shareholdings and assets held directly or indirectly in the Company, as well as all positions, roles and professional activities which they carry out (Article 22, No. 9 of Decree-Law No. 71/2007, of 27 March);
- deliver a Declaration of Assets and Earnings to the Constitutional Court (Law No. 4/83 of 2 February, in the wording of Law No. 25/95, of 18 August, Regulamentary-Decree No. 1/2000, of 9 March, and also Law 28/82 of 15 November);
- supply the Attorney General of the Republic with a Declaration of the Non-existence of Incompatibilities and Conflicts of Interest (Article 11 of Law No. 63/94, of 26 August and Article 22, No. 8 of Decree-Law No. 71/2007, of 27 March, in its current wording);
- not be involved in decision making when there is any direct or indirect interest (Article 22 of Decree Law No. 71/2007, of 27 March, in its current wording);
- comply with any further stipulations on these matters as set out in Decree Law No. 71/2007, of 27 March, in its current wording, and in the relevant sections of the Commercial Companies Act.

12. Reporting

AdP - Águas de Portugal, SGPS, S.A. complies with the principles regarding the disclosure of general and specific information, particularly those set out in Decree-Law No. 133/2013 of 3 October, as specified in the following table:

Information available on the SEE website	Published			Comments
	Y	N	NA	
Updated Company Statutes (PDF)	X			
Company history, vision, mission and strategy	X			
Company summary file	X			
Company Identification: Mission, goals, policies, req. serv. and public funding model	X			
Governance model/ ident. governing bodies: Governance model (identification of governing bodies)	X			
Fixed remuneration statute	X			
Remuneration and other benefits paid	X			
Regulations and transactions: Internal and external regulations	X			
Relevant Transactions with related entity/ies	X			
Other transactions	X			
Analysis of economic, social and environmental sustainability	X			
Evaluation of GGP compliance	X			
Code of Ethical Conduct	X			
Historical and current financial information	X			
Historical and current financial information	X			

Key: Y - Yes; N - No; NA - Not Applicable

AdP has an Internet website(www.adp.pt) where it publishes information on the Company.

13. Compliance with instructions, ministerial orders and other legislation

The AdP Group fully complies with instructions, ministerial orders and other legislation which is presented below.

Compliance with Legal Guidelines	Compliance			Quantification	Justification
	Y	N	NA		
Management Goals:			X		No management goals were defined for 2013
Financial Risk Management (consolidated data)	X			Average funding rate: 3.4%	As reported in the Economic and Financial Analysis chapter of section B - AdP Group Activity and in note 3 of the consolidated financial statements.
Debt Growth Limits (consolidated data)	X			Gross debt (-2%) Net debt (-4%)	Gross debt fell 55.8 million euros (-2%) Net debt fell 98.4 million euros (-4%) Permitted growth limit of 4% imposed by OE Law
Evolution of APP suppliers	X			- 16%	As reported below The APP should show a reduction of between 15% and 25%, RCM 34/2008
Payments in Arrears	X				As reported below
Shareholder Recommendations in approving the accounts			X		
Remunerations:					
No awarding of management bonuses, pursuant to Article 37 of Law 66-B/2012	X			Not applicable	
Governing bodies - reduction in remuneration pursuant to Article 27 of Law 66-B/2012	X			44,897	
Governing bodies - reduction of 5% per application Article 12 of Law No. 12-A/2010	X			23,632	
External Auditor - reduction in remuneration pursuant to Article 75 of Law No. 66-B/2012	X				
Other employees - reduction in remuneration pursuant to Article 27 of Law No. 66-B/2012	X			289,917	
Ban on increasing remuneration, under the terms of Art. 35 of Law No. 66-B/2012	X				
Article 32 of the Public Manager Statute					
Use of credit cards	X			Not applicable	
Reimbursement of personal representation expenses	X			Not applicable	
Public Procurement					
Application of public procurement standards by the company	X			Not applicable	As reported below
Application of public procurement standards by subsidiaries	X			Not applicable	As reported below
Contracts subject to prior approval by the TC			X	Not applicable	
Vehicle pool	X			Var. in 2013 of the total n°. of vehicles used by the company compared to 2012 - 70 vehicles (-3.6%)	As a result of the restriction and rationalisation of costs imposed on the AdP Group and set out in Law 66-A/2012 of 31 December (major planning options for 2013).
Operational Costs of Public Companies (Article 64 of Law No. 66-B/2012)	X			- 5 p.p.	As reported below The goal was to achieve reduction compared to the previous year, as per OE Law
Reduction in Employees (Article 63 of Law No. 66-B/2012)					
N° of employees (consolidated data)	X			-5.14%	Consolidated data regarding active employees (see table below)
N° of managerial positions (consolidated data)	X			0.96%	Consolidated data regarding active employees (see table below)
Total	X			- 4.90%	The goal was a 3% reduction in the total of employees and managers imposed by the OE Law
Principle of Treasury Unity (Article 124 of Law 66-B/2012)	X				As reported below

Evolution of the average payments periods RCM No. 34/2008, of 22 February, with the alteration introduced by Order No. 9870/2009, of 13 April) and disclosure of the delays in payments as defined in Decree-Law No. 65-A/2011, of 17 May.

Average Payments Period to Suppliers under RCM No. 34/2008, with the alterations introduced by Order N.º 9870/2009

APP	1 st Quarter 2012	2 nd Quarter 2012	3 rd Quarter 2012	4 th Quarter 2012	1 st Quarter 2013	2 nd Quarter 2013	3 rd Quarter 2013	4 th Quarter 2013	4 th Quarter Var. % 2013/ 2012
APP to Suppliers (days)	61	65	61	63	68	62	66	53	-16%

December 2013					
Overdue payments according to the terms of Article 1º DL No. 65-a/2011					
Overdue payments	0-90 days	90-120 days	120-240 days	240-360 days	>360 days
Goods and services purchases	33,983.75	0.00	94.00	0.00	420.81
Capital acquisitions					
Total					

Purchasing, public procurement and rationalization measures for the goods and services procurement policy

The AdP Group has a shared services unit - AdP – Águas de Portugal Serviços Ambientais, S.A. - that fulfils a centralising function, optimising and rationalising the acquisition of goods and services in the activities carried out by the companies which form part of the Group. A relational model has been created that establishes a standardised list of goods and services which are acquired by the Purchasing and General Support Department of AdP Serviços, which operates as the Group's central purchasing unit. The existence of this internal Group structure is justified because the goods and services that subsidiaries need to develop their activities have their own very specific and important particularities, ranging from the chemical reagents and laboratory supplies used by the water and effluent treatment units to the equipment and containers used by the Waste Business Unit, among others. The same criteria apply to energy, given that the Group operates a large number of installations that require High-Tension, Medium-Tension and Low-Tension (Special) electricity supplies, where the scale provided by the Group has enabled very significant synergies that have produced good results at the level of centralized procurement as illustrated by the recent tenders for the supply of electricity.

Measures for reducing operating costs

Reducing operating costs (consolidated data)

Cost savings plan (CSP)	2012	2013
Cost of goods sold and materials consumed	33.09	31.65
External services and supplies	222.35	226.90
Staff costs without compensations (standardised to 14 months)	147.69	136.52
	403.13	395.07
Turnover without diversions	726.17	772.49
CSP Ratio	56%	51%

Measures for reducing the number of permanent staff (consolidated data)

Staff	2010	2011	2012	2013
N° of permanent staff without governing bodies and managers ⁽¹⁾	5,617	5,060	5,035	4,776
N° of managers without governing bodies	230	225	209	211
N° of governing bodies ⁽²⁾	349	349	337	337
Staff expenses	[€]	[€]	[€]	[€]
Expenses with governing bodies	7,670,314	6,564,549	5,024,412	5,817,940
Expenses with managers without governing bodies	16,021,476	13,451,177	11,103,816	13,733,112
Expenses with permanent staff without governing bodies and managers	122,062,988	110,789,793	104,226,146	148,945,780
Terminations/ compensations	831,781	939,908	410,788	3,219,340

(1) In 2011, 2012 and 2013 this related only to employees without a suspended contract on 31/12 (employees with a suspended contract on this date were 33, 98 and 229, respectively).

(2) Includes directors, company secretary, supervisory board, general meeting, statutory auditor and external auditor.

In 2012 in accordance with the State Budget Law, the Christmas subsidy was not paid, nor were specialist holiday subsidies registered for payment in 2013. In 2013, by decision of the Constitutional Court, in addition to the specialist holiday subsidies to be paid in 2014, the Christmas subsidy was also paid, as well as the non specialist holiday subsidy for the previous year. As such, staff costs were recorded for 15 months in 2013 as opposed to 12 in 2012, and as such the values are not directly comparable.

The increase in costs of rescissions and severance pay in 2013 against other years is the result of a voluntary friendly rescission programme pursuant to Article 63 of Law 66-B/2012. This article set out a reduction by 31 December 2013 of at least 3% of the number of employees on the payroll on 31 December 2012. The downsizing target was reached and the increase in costs of rescissions and severance pay is basically the result of employment termination agreements with the employees who joined the programme.

Compliance with Law No. 66-B/2012, of 31 December and Order No. 2424/13 – SET concerning the Principle of the State Treasury Unity

The coordination and obtaining of finance for the company's activities is carried out by AdP SGPS, under the terms laid out in its institutional purpose, with the holding company seeking to create the necessary means to meet the needs of the companies included in its portfolio, always bearing in mind the objective of maintaining balance in the financing structure within a consolidated perspective.

The centralization of a significant portion of the funds in AdP SGPS has enabled it to cohesively and coherently manage the financial needs of the Group, with reduced impacts on the operational activity of its subsidiary companies. Permanent treasury cash surpluses were applied through the Treasury and Public Credit Management Institute (IGTCP), keeping the temporary surpluses as surety for the short-term financing obtained. For this purpose AdP SGPS requested, under the terms of Article 124(1) of Law No. 66-B/2012, of 31 December, a waiver from full compliance with the principle of State treasury unity (PUTE). This partial waiver was, under the terms of the aforementioned law, granted to the AdP Group companies through Order No. 2424/13, issued by the Secretary of State for the Treasury.

Applications in the IGCP

According to each type of application	Total	IGCP	Others
Medium and long term	28.57%	95.91%	1.07%
Short term	71.43%	4.09%	98.93%
Total	100.00%	100.00%	100.00%

14. Compliance with the Principles of Good Governance

(under the terms of RCM 49/2007 in force until 2 December 2013 and Decree-Law 133/2013, of 3 October)

Principles	Mission, objectives and general principles	
	Compliance	Explanation
State-owned companies should:		
<ul style="list-style-type: none"> Accomplish the mission and objectives that have been determined for the company in an economically, financially, socially and environmentally efficient manner in accordance with strict quality parameters, seeking to preserve and expand competitiveness, while respecting the principles of social responsibility, sustainable development, public service and meeting the needs of the community served. 	Total	<ul style="list-style-type: none"> AdP SGPS and its subsidiary companies comply with the mission and the objectives that have been determined in an economically, financially, socially and environmentally efficient manner. The Group publishes an evaluation of the activities it undertakes in its <i>Annual Report and Financial Statements</i>.
<ul style="list-style-type: none"> Promote and disseminate the mission, objectives and policies of both the company and the holding it controls. 	Total	<ul style="list-style-type: none"> AdP SGPS and its subsidiary companies disseminate their mission, their objectives and the policies they carry out through the <i>Annual Report and Financial Statements</i>, on the company and State Business Sector websites and its Employee Portal.
<ul style="list-style-type: none"> Set out activity plans and budgets appropriate to the available resources and sources of finance, taking into consideration compliance with the mission and objectives defined. 	Total	<ul style="list-style-type: none"> The companies in the AdP Group annually draft their activity plan and budget in accordance with the available resources and sources of finance taking into consideration the defined mission and objectives.
<ul style="list-style-type: none"> Define sustainable economic, social and environmental strategies, establishing the objectives to be attained and the respective instruments for planning, implementation and control. 	Total	<ul style="list-style-type: none"> The AdP Group defined an organized strategy and tactics that lead to it being a major actor on the sustainability stage. The Group's sustainability strategy is available for consultation in its <i>Sustainability Report</i>, which is available on the company and state business sector websites.
<ul style="list-style-type: none"> Adopt equality plans, following a diagnosis of the situation so as to attain effective equality in the treatment and opportunities made available to men and women, eliminating discrimination and enabling a balance between personal, family and professional lives. 	Total	<ul style="list-style-type: none"> One of the AdP Group commitments, and reflecting its sustainable strategy, is to "guarantee equality of opportunity", detailing its performance in the <i>Sustainability Report</i> of the Group.
<ul style="list-style-type: none"> Annually report to members of the Government, the Ministry of the Environment and the public in general on progress in fulfilling its mission, the degree to which it has obtained its objectives and to what extent corporate social responsibility and sustainable development policies have been complied with, as well as its terms of public service and the on-going level of company competitiveness. 	Total	<ul style="list-style-type: none"> The companies in the AdP Group fully comply with the reporting requirements of annual reports to the responsible ministries and the general public. The Group publishes an evaluation of the activities it has undertaken in its <i>Annual Report and Financial Statements</i>.
<ul style="list-style-type: none"> Comply with current legislation and regulations, ensuring that its behaviour is ethically irreproachable in regard to the application of fiscal norms, money laundering reporting requirements and competition, consumer protection, environmental and labour regulations, namely those relating to non-discrimination and the promotion of gender equality. 	Total	<ul style="list-style-type: none"> All AdP Group activities are carried out in strict compliance with legal, regulatory, ethical, deontological and best practice requirements. In this context, AdP acts in an ethically irreproachable manner in regard to the application of fiscal norms, money laundering reporting requirements and competition, consumer protection, environmental and labour regulations.

Mission, objectives and general principles		
Principles	Compliance	Explanation
<ul style="list-style-type: none"> Treat with respect and integrity their workers, contributing to their professional development. 	Total	<ul style="list-style-type: none"> The AdP Group is committed to training its employees, developing their skills and providing them with new internal, professional challenges and opportunities. In 2008, the company consolidated its Performance Management System, which is aimed at developing a developmental and positive approach. AdP also has <i>Professional Development Regulations</i> which enables employee to expand their portfolios of knowledge and skills through attending advanced training programmes.
<ul style="list-style-type: none"> Treat all clients, suppliers and other holders of legitimate rights equally. Establish and publish procedures for the procurement of goods and services and adopt adjudication criteria that ensure the efficiency of transactions and equal opportunities for all interested parties that meet the necessary requirements. 	Total	<ul style="list-style-type: none"> The AdP Group respects all current legislation relating to the procurement of goods and services and has implemented transparent internal practices based on economy, efficiency and equality of opportunity for all interested parties and in compliance with all due requirements.
<ul style="list-style-type: none"> Annually publish those transactions that were not conducted in accordance with market conditions, as well as a list of suppliers that represent over 5% of external supplies and services, when this value is more than €1 million. 	Total	<ul style="list-style-type: none"> AdP SGPS annually publishes those transactions that were not conducted in accordance with market conditions, as well as a list of suppliers that represent over 5% of total external supplies and services, when this value is more than €1 million in its <i>Annual Report and Financial Statements</i> and on the company and state business sector websites.
<ul style="list-style-type: none"> Conduct the company business with integrity, with appropriate levels of formality and avoiding any recourse to confidential or non-documented expenditures. 	Total	<ul style="list-style-type: none"> The AdP Group carries out its business with the greatest integrity, vehemently refuting any less than ethical practices. The AdP Group's <i>Code of Conduct and Ethics</i> expresses the AdP Group's commitment to ethical and transparent behaviour in its internal and external relationships. It aims to strengthen the ethical standards applicable to all stakeholders and contribute to consolidated sustainable development. <p>In addition, a <i>Risk Management Plan for Controlling Corruption and Related Risks</i> has been put into effect to strengthen the individual commitment of each employee to best practices in third party relationships.</p> <p>There is no confidential or non-documented expenditure at the AdP Group.</p>
<ul style="list-style-type: none"> Have or sign up to an ethics code with demanding ethical and deontological requirements and publicise this code among its employees, customers, suppliers and the public in general. 	Total	<ul style="list-style-type: none"> The <i>Code of Conduct and Ethics</i> of the AdP Group is available on the company's website, the site of the ESS (DGTF) and the Employee Portal.

Administrative and supervisory structures

Principles	Compliance	Explanation
State-owned companies should:		
<ul style="list-style-type: none"> Have administrative and supervisory bodies appropriate to the scale and complexity of the company, in order to ensure the effectiveness of decision-making processes and guarantee effective supervisory capacities. These bodies should not have more members than those in private companies of a similar scale and in the same sector of activity. 	Total	<ul style="list-style-type: none"> In compliance with the applicable legislation, the scale of the AdP governing and supervisory bodies are perfectly in keeping with the complexity of the AdP business group, ensuring the effectiveness of decision-making processes and guaranteeing genuine supervisory capacities in line with the business sector.
<ul style="list-style-type: none"> Have a governance model that ensures the effective segregation of executive management and supervisory roles and, in the case of companies of a larger scale and complexity, the supervisory role should be attributed to specialised committees, including an audit committee or a financial committee in accordance with the model adopted. 	Total	<ul style="list-style-type: none"> The AdP Corporate Governance Structure, which ensures the effective segregation of management and supervisory functions, is made up of, in accordance with the Company Statutes, the following governing bodies: the General Assembly, the Board of Directors, the Executive Board, the Audit Committee, the Statutory Auditor.
<ul style="list-style-type: none"> Non-executive members of the governing bodies, members of the general and supervision boards should annually issue a report evaluating the individual performance of executive directors as well as an overall evaluation of the governance structures and mechanisms in operation at the company. 	Total	<ul style="list-style-type: none"> The non-executive Directors annually issue a report on the performance of the executive Directors. The Supervisory Board issues quarterly reports and opinions on all the documentation provided with the consolidated financial statements. Both reports are published as part of the company's Annual Report and Financial Statements.
<ul style="list-style-type: none"> Have their accounts audited annually by independent entities, observing identical standards as those for companies listed on regulated markets. Non-executive members of the governing bodies and members of the general and supervisory boards should represent the company in relation to external auditors and are responsible for their selection, appointment, contracting and the approval of other possible services in addition to auditing, but only when the independence of the auditors is not in question. 	Total	<ul style="list-style-type: none"> The annual audit of the companies which make up the AdP Group is carried out by an independent external entity, with the privileged interlocutors being the Board of Directors, the Supervisory Board, the Accounting and Consolidation Department and the Corporate Finance Department.
<ul style="list-style-type: none"> Promote rotation and limiting terms of members of their supervisory boards 	Total	<ul style="list-style-type: none"> Members of the governing bodies of the companies that make up the AdP Group are elected for three-year mandates and are eligible for re-election. However, in accordance with legal and statutory requirements, the number of consecutive renewals may never exceed three terms of office, a requirement that has been scrupulously observed.
<ul style="list-style-type: none"> Management should create and maintain an appropriate control system to protect the company's investments and assets, and this should cover all the important risks assumed by the company. 	Total	<ul style="list-style-type: none"> Risk management, as a pillar of Corporate Governance, has been incorporated into all management processes and has been prioritised as a permanent concern for all AdP Group company directors and employees. In this context, the main aim of the Internal Audit and Risk Control is to identify risk factors relating to the Group's main business activities and the respective key controls necessary for reducing or eliminating their impact. The economic risks are mitigated by the criteria of prudence and safety that take into account the geographical dispersion of the investments made in the different business areas and the carrying out of studies prior to their implementation.

Remuneration and other rights		
Principles	Compliance	Explanation
State-owned companies should:		
<ul style="list-style-type: none"> Annually publish, in accordance with applicable legislation, the total remuneration, variable and fixed, paid to each member of the governing and supervisory bodies, differentiating between executive and non-executive functions. 	Total	<ul style="list-style-type: none"> Total remuneration, variable and fixed, paid to each member, of the governing and supervisory bodies, is published annually in the <i>Annual Report and Financial Statements</i> available on the company and state business sector websites.
<ul style="list-style-type: none"> Annually publish all subsidies and fringe benefits, specifically in regard to healthcare plans, vehicles and other benefits granted by the company. 	Total	<ul style="list-style-type: none"> All the benefits and bonuses received by each member of AdP's governing bodies are published in the <i>Annual Report and Financial Statements</i> and on the company and state business sector websites.

Preventing conflicts of interest		
Principles	Compliance	Explanation
Members of the governing bodies of state-owned companies should:		
<ul style="list-style-type: none"> Refrain from intervening in decisions involving their own interests, namely the approval of expenditures they have made. 	Total	<ul style="list-style-type: none"> Members of the Boards of Directors of companies within the AdP Group are fully aware of the regulations requiring them to abstain from participating in discussions and deliberations on certain subjects and comply fully with these requirements in carrying out their duties.
<ul style="list-style-type: none"> At the beginning of each mandate, whenever called upon to do so, members of the governing bodies should declare to the management and supervisory bodies and the General Inspectorate of Finance, any important shareholdings that they may own in the company, as well as any relevant relationships with suppliers, customers, financial institutions or other business partners that might generate conflicts of interest. 	Total	<ul style="list-style-type: none"> There are no incompatibilities between the management positions and other functions performed by members of the Board of Directors. The members of the Board of Directors comply with all the legal requirements regarding notification of accumulated management posts. The members of the Board of Directors, in accordance with the stipulations of the <i>Public Manager Statute</i>, notify the General Inspectorate of Finance of all their shareholdings and ownership interests, whether direct or indirect, in companies where they hold management positions.

15. Non-executive Directors' Report

Non-executive Director's report on the performance of the Executive Directors

1. Introduction

Under the terms of Article 7 of Decree-Law 8/2012, of 18 January, in my capacity as Non-executive Director elected through unanimous decision of the shareholders on 13 December 2013, and taking into account the requirement to comply with the instruction issued by the Directorate-General for the Treasury through official circular no. 832 of 14 February 2014, it is my duty to present a report on the performance of the Executive Directors.

2. Activity

Under the terms of the law, and the powers determined by the Public Manager Statute, and other duties determined by the Board of Administration, I have monitored, since the date of my election and with the limitations resulting from a non-executive status, the management of the company and the performance of the executive Directors and the Executive Board.

It is important to underline that the information provided in the Management report and in the Corporate governance Report complies, in general terms, with the specific legal framework for companies which form part of the State Business Sector: As mentioned in the Management Report, which contains a separate chapter on compliance with legal guidelines, the latter were complied with in accordance with the model provided for in Annex I of Official-Circular No. 832 of the Treasury and Finance Department (henceforth "Official-Circular"), particularly the measures for reduced remuneration, under the terms of Law No. 66-B/2012, of 31 December. As far as the Corporate governance report is concerned, it includes the items envisaged in Section II (Good Governance Practices) of Chapter II of Decree-Law No. 133/2013, of 3 October, with the model adopted being in conformity with the guidelines provided for in Annex II of the Official-Circular, including a grid referring to good corporate governance practices.

3. Opinion

As far as the monitoring which was carried out is concerned, I did not become aware of anything which prevents me from expressing an overall positive assessment of the performance of the Executive directors and can also bear witness to their commitment and diligence in carrying out the business of the company with rigour and transparency.

Lisbon 22 April 2014

Non-executive Director



José Manuel Barros



2004

After 10 years in operation, focus on completing the demanding programme of investments in infrastructure to achieve appropriate levels of service.

2005

Publication of the Water Law, which transposed the Water Framework Directive to Portuguese Law and laid down the foundations and institutional framework for sustainable water management.



2007

Publication of new strategic plans for the sector (PEAASAR 2007-2013, PERSU 2007-2016 and ENEAPAI 2007-2013).

First studies on the reorganisation of the downstream municipal systems.

Start of sale of companies in non-core activities.

2008

Record year of CAPEX (826 million).

Sale of Aquapor and other companies in complementary activities

Implementation of strategy to harness energy from the Group's own resources and assets.



The AdP Group's business activity

1. Macroeconomic background

Global

As in 2012, the global economy in 2013 showed moderate growth (3% in 2013 and 3.1% in 2012). Growth in the United States was lower than in the previous year (1.9% vs. 2.8%) and was supported by sustained private demand, while public demand fell in 2013. Growth in the emerging economies (China, India, Brazil, Russia, Mexico, Indonesia, Malaysia, Philippines, African countries, etc.) remained much higher than that in the developed countries, but was lower than it has been in recent years. Although foreign demand for goods produced by these economies was substantial, the fragility and unsustainability of their domestic demand are very much a concern. In 2014 and 2015, we can expect an economic recovery sustained by the developed countries' economies, though conservative monetary policies can be expected to continue due to ongoing risks and weaknesses.

European Union

There was a substantial recession in economic activity in the European Union in 2013 and gross domestic product (GDP) fell by around 0.4% (0.7% less than in 2012). 2014 is expected to be the turning point for economic recovery. This about-turn will be less effective in more vulnerable, severely stressed economies as a result of very high public and private debt and recessive tax policies keeping domestic demand levels low. On the other hand, exports can be expected to grow and this will contribute to some improvement in the economies of the European Union countries.

Inflation for the euro area should not reach 1% in 2013. Although they are as expected, these inflation levels reflect falling prices, even though they are being pressured by rises in prices of energy products.

The unemployment rate remained high at 12% in 2013, though it was still comparable to the 11.9% in 2012.

The countries with the lowest unemployment rates were Austria (4.9%), Germany (5.1%) and Luxembourg (6.2%) and with the highest were Greece (27.8%) and Spain (25.8%).

In November 2013, the European Central Bank decided to lower its reference rate to 0.25%, the lowest interest rate since the introduction of the euro. The aim of this measure was to halt the fall in inflation and boost economic recovery in the euro area.

Portugal

The Portuguese economy's performance has been conditioned by the correction of the macroeconomic imbalances that have seriously affected decisions, with a recessive impact and negative effects on the labour market.

Correction of imbalances in the public sector involves continuing the fiscal consolidation process, while in the private sector it entails reducing borrowing and continuing gradual, ordered deleveraging of the banking sector.

In 2013, Portugal continued to follow the financial adjustment programme after its request for assistance from the European Commission and International Monetary Fund. GDP is expected to have fallen around 1.5%, which is an improvement on the 3% drop in 2012. The gross Portuguese public debt will be approximately 128.7% of the country's GDP. The 2013 fiscal deficit, estimated at 4.9%, will be lower than the 5.5% of GDP agreed upon with the Troika.

The Portuguese economy is expected to have grown 1.3% year on year in the last quarter of 2013. This growth interrupted 11 quarters of contraction and was supported by a recovery in domestic demand, including investment. It also reflected fiscal consolidation in 2013 lower than that forecast at the beginning of the year.

The average unemployment rate is estimated at 16.4%, and 15.3% in the last quarter.

Portugal's economic situation in the near future will continue to be subject to fiscal and funding restrictions, although conditions of access to full funding in the markets have been improving. Issues of Treasury Bills and 10-year Treasury Bonds in the first quarter of 2014 are more positive signs than those expected in 2013.

2. The sector

The AdP Group continued to provide public services consisting of water supply, treatment of wastewater and treatment and recovery of household waste in 2013, in a context of substantial restrictions.

The restrictions placed on the state corporate sector date back to 2010 and increased considerably in the Economic and Financial Adjustment Programme in terms of growth in spending and borrowing.

The AdP Group's business activity is still expanding, though to a lesser extent, thanks to the start-up of more infrastructures. This can be seen in all the systems and follows an agenda of increasing environmental requirements.

The nature of a public service based on highly demanding infrastructures to ensure the public's health and wellbeing and facilitate economic activities and environmental sustainability makes meeting targets even more challenging.

The AdP Group's efforts to meet its targets have proved successful, as it has adapted in-house processes and counted on an important commitment from the entire workforce to ensure that quality of service is not affected.

At the same time, in 2013 the group implemented the measures set out by the government for the water and waste sector, which naturally have a decisive effect on the AdP Group as a leading player:

The government programme's guidelines on restructuring are as follows:

- reorganise the water supply and wastewater treatment sector, giving priority to its economic and financial sustainability;
- identify and solve the tariff deficit, revise the tariff system, open the way for participation by private entities in operation and management of systems, foster the efficiency, vertical integration and aggregation of demanding systems, maintain old networks and equipment and avoid construction of unnecessary capacity;
- separate the waste subsector in the Águas de Portugal Group and take the necessary measures to open it to the private sector.

Under its government mandate, the AdP Group continued working towards territorial aggregation for the water sector in terms of multi-municipal systems and public partnerships for municipal systems.

The group collaborated fully in the process of opening the waste subsector to private enterprise. The high point came in early 2014 with the approval of the privatisation model involving the block sale of AdP SGPS's holding in Empresa Geral de Fomento (EGF) in an international tender.

The restructuring of the sector has been the subject of a number of laws and legislative initiatives, such as:

- Law 35/2013 of 11 June making a second amendment to Law 88-A/97 of 25 July, the so-called Sector Delimitation Law, paving the way for the sale of shareholdings to private companies in the household waste management sector and abolishing the rule on a public majority shareholding in management entities with concessions in the waste subsector;
- review of the laws on public-service concessions for the operation and management of multi-municipal household waste treatment and selective collection systems awarded to companies that are entirely or almost entirely privately owned;
- projects to aggregate several multi-municipal systems and their management entities following publication of Decree-Law 92/2013 of 11 July, including the creation of three new multi-municipal systems (Norte, Centro Litoral and Lisboa e Vale do Tejo) by aggregating existing systems;
- creation of a new public partnership and continued negotiations on the formation of public partnerships with municipalities in multi-municipal systems by delegating the operation and management of municipal systems in public partnerships to multi-municipal system concession holders, thereby placing the service under a single management entity;
- measures to reduce the impact of non-compliance by municipal users in order to ensure continuity of the service;
- greater powers and independence for the sector's regulator in early 2014.

Work continued on drafting the new strategic plans for urban water services in 2013 (PENSAAR 2020 - A New Strategy for the Water Supply and Wastewater Treatment Sector) and household waste management services (PERSU 2020 - Strategic Solid Household Waste Plan). These plans will set the state's targets and goals for each sector and should be completed in early 2014.

They were prepared in articulation with the 2014-2020 Partnership Agreement that Portugal submitted to the European Commission for the Common Strategic Framework and that will determine use of European funds from the EU Cohesion Policy, Common Agricultural Policy, Common Fisheries Policy and Maritime Affairs Policy.

The sector's current stage of development and the European Commission's recent positions have shown a change in paradigm aimed at sustainability and efficiency along with stricter environmental requirements and more monitoring mechanisms, as demonstrated by a series of important ex-ante and ex-post conditions.

In addition to compliance with the European Commission's environmental requirements, intervention in terms of infrastructure is being followed by a kind of investment aimed at improvement, consolidation and reinforcement of existing assets. Furthermore, in addition to investment, it will be necessary to ensure that management entities can also evolve to more efficient, empowered organisational levels.

3. Regulation

Since 1993, the solutions adopted in business management headed by AdP in partnership with the municipalities have generated economies of scale resulting in more efficient use of available resources in Portugal. AdP has also been pursuing its goals of continuous improvement in the public water supply, urban wastewater treatment and household waste treatment and recovery services, having achieved progressive gains in productive and environmental efficiency to the benefit of users and consumers via tariffs.

The activities that the AdP Group has mainly been undertaking are services of general economic interest that are essential to people's wellbeing, business activities and protection of the environment.

In the year in which AdP is celebrating its 20th anniversary, the Group comprises 31 companies that are subject to strict regulation in the fields of the public water supply, urban wastewater treatment and the treatment and recovery of household waste in Portugal.

The AdP Group companies hold the concessions for operation and management of multi-municipal public water supply, urban wastewater treatment and household waste management systems and are covered by Decree-Law 294/94 of 16 November, Decree-Law 319/94 of 24 December and Decree-Law 162/96 of 4 September, in the version set out in Decree-Law 195/2009 of 20 August, falling within the regulatory activity of regulator dos Serviços de Águas and Resíduos (ERSAR), as defined by Decree-Law 277/2009 of 2 October.

They operate in strict compliance with current regulations, the provisions and recommendations issued by the regulator and shareholders' guidelines.

Decree-Law 277/2009 of 2 October increased and extended the regulator's powers and scope of action in terms of services provided to end users and also stepped up its powers of general regulation of the sector and authority to regulate and impose sanctions.

Law 67/2013 of 28 August approved the framework law on independent administrative bodies that regulate the economic activity of the private, public and cooperative sectors. ERSAR's new statutes were approved by Law 10/2014 of 6 March in this context.

Now that the powers of the sector's regulator have been increased, the AdP Group expects the sector to be placed on an agenda appropriate to its current stage of development in which the integrated focus is on social, environmental and economic sustainability.

During the restructuring of these sectors, the latest meeting of the ERSAR Advisory Board in January 2014 appreciated the tariff regulations for household waste management services. There is expected to be a similar development for water services.

The regulatory risk of regulated entities is a central concern.

The introduction of changes to the current economic regulation model is an important challenge for the regulator and management entities. In the sector's development phase in which the AdP Group companies find themselves, changes to the model in the context of other restructuring initiatives in the sector should be considered a natural evolution, where greater attention to management of infrastructures and productive efficiency is required.

Not all the multi-municipal water systems are in full operation and they are currently ending a demanding phase of investments in infrastructures. This means that their maturity must be taken into account.

The scheme of partnerships between the state and local authorities for the operation and management of municipal public water supply, urban wastewater treatment and waste management systems and their regulation abides by applicable legislation, such as Decree-Law 90/2009 of 9 April and Decree-Law 194/2009 of 20 August, partnership and management agreements and ERSAR provisions and recommendations applicable to municipal systems.

EPAL - Empresa Pública das Águas Livres was set up by Decree-Law 553-A/74 of 30 October to take over from the holder of the Lisbon public water supply concession, which ended on that date. Its status was approved by Decree-Law 190/81 of 4 July with a view to adapting it to the demographic growth in the Lisboa and Vale do Tejo region, which was already determining EPAL's progression towards being a regional supply company. Decree-Law 230/91 of 21 June, which still governs EPAL today, converted it into a public limited company with exclusively public share capital, now called EPAL - Empresa Portuguesa das Águas Livres, S.A. and adapted its status to its involvement in local solutions. By law EPAL is the management entity of Lisbon's water distribution system and the upstream supply of a number of Lisbon's neighbouring municipalities, with which it enters into agreements on supply conditions. It does not operate under a concession agreement but rather on the basis of its legally established status, which delegates to it the management of the state-owned system.

Economic regulation

Pursuant to the concession agreements, the annual regulatory cycle begins when the concessionaires submit to the grantor and regulator their draft budgets and tariffs for the following year(s). Decree-Law 195/2009 of 20 August established a time limit of 60 days for approval of proposals for all multi-municipal systems.

No multi-annual draft budgets or tariffs were submitted to the grantor or regulator in 2013, pursuant to Ordinance 11981/2009 of 19 May, complemented by Decree-Law 195/2009 of 20 August. Nonetheless, under current legislation, three AdP Group companies implemented the tariffs approved by the grantor for 2012-2014 (at constant prices). They were raised for 2013 on the basis of the inflation rate, as set out in Paragraph 4 (a) of Ordinance 11981/2009.

The 2013 budget cycle began in September 2012 and lasted until the end of February 2013. After draft opinions had been issued by the regulator and the AdP Group multi-municipal systems had submitted counterarguments, the grantor approved the tariffs.

Decree-Law 195/2009 of 20 August sets out that user tariffs take effect at the start of the economic period to which they refer, regardless of the date on which they were approved. This makes it easier to recover the costs of providing the services in a scenario of greater pressure on available financial resources.

The 2014 budget cycle began in September 2013, but no draft budgets or tariffs had been approved by 31 December 2013.

On this date, five draft opinions had still to be issued by the regulator concerning the budgets and draft tariffs of the AdP Group's multi-municipal water supply and wastewater treatment systems.

The draft budgets and tariffs for 2013 and 2014 were submitted pursuant to Ministerial Order 269/2011 of 19 September.

The prices of water sold by EPAL and the principles on which they are based are fixed in an agreement between Direção Geral das Atividades Económicas (Department of Economic Activities) and EPAL, which is then ratified by the Ministry of the Environment, Spatial Planning and Energy and the Ministry of the Economy. The agreement abides by the rules on prices set out in Decree-Law 230/91 of 21 June and the qualification of consumers set out in Ministerial Order 6-A/92.

EPAL's draft tariffs are based on the tariff policy principles for public water supply services set out in the Water Law, in which water is considered a scarce economic good that is essential to life and economic activities and should be assigned its fair value. Its price should reflect the real cost of supply, environmental costs and scarcity.

The purposes of establishing tariffs are set out in Article 82 (1) of the Water Law and in Decree-Law 230/91 of 21 June, which sets out that tariffs calculated must result in revenue that appropriately remunerates capital invested, adequate levels of self-funding and coverage of operating costs.

The agreement between the DGAE and EPAL on prices for 2013 was signed on 5 July and ratified on 18 July 2013. The overall average increase in EPAL tariffs for its different types of customers (direct customers and municipal customers supplied upstream) was 0.79%.

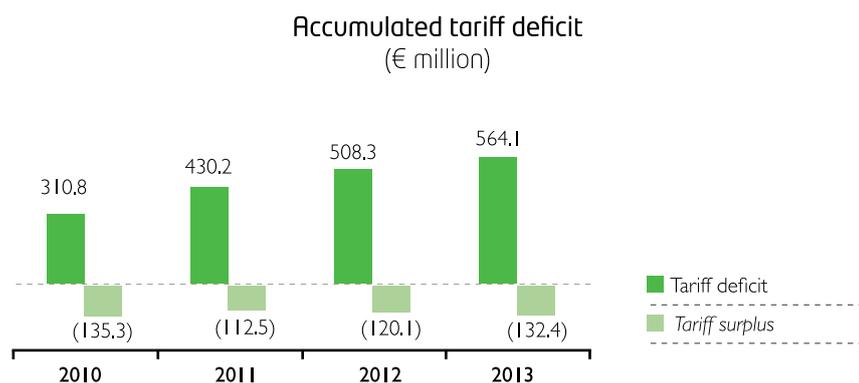
Under the management agreements, the draft tariffs for the partnerships between the state and local authorities are valid for five years after approval from the Partnership Committee. They are adjusted every year on the terms set out in the agreements.

In accordance with the regulatory model in effect for most multi-municipal system management entities, cost of service (cost plus) in a scenario of productive efficiency, under the terms of the agreement, there may be differences between the income necessary to cover all costs to the management entity of the operation and management of the system, including tax on the company's profits and remuneration of equity, and the amount of income actually generated in each economic period. These differences are called tariff deviations or cost-recovery deviations.

They may represent a deficit, if the income generated is lower than necessary, or a surplus, if the income generated is higher than necessary, once the amounts for gains in productivity and efficiency under the concession agreements have been assured.

The AdP Group's consolidated financial statements for 2013 carry tariff or cost-recovery deviations totalling 431.7 million euros (before tax and minority interests), 564.1 million euros deficit and 132.4 million euros surplus.

The graph below shows tariff or cost-recovery deviations (before tax and minority interests) in the AdP Group's consolidated accounts between 2010 and 2013.



In 2010, the regulator submitted draft legislation on the recognition and recovery of tariff deviations (deficits and surpluses) or cost-recovery deviations for each multi-municipal system and procedures for distributing contractual gains in productivity, as they were not detailed enough in the concession agreements or applicable legislation.

The sustainability of the sector and management entities, while complying fully with legislation, the concession and public partnership agreements, means that it is no longer possible to put off for any longer express recognition and detail of the regulatory model for recovering costs set out in the agreements. This includes defining the amount of management entities' tariff or cost-recovery deviations, thereby ensuring the recovery of cost-recovery deviations generated in the concession, as the rules on reimbursement urgently need clarifying.

Solutions involving aggregation of multi-municipal systems enshrine recognition and recovery of cost-recovery deviations in their agreements and the legal instruments supporting them.

Regulation of service quality

Pursuant to Decree-Law 277/2009 of 2 October, the regulator must regulate the quality of the service provided to users by the management entities and assess their performance.

Quality of service in public water supply, treatment of urban wastewater and management of household waste provided by the management entities is therefore assessed annually, currently using a second-generation assessment system that employs service quality performance indicators. This system's results are included in the Annual Report on Water and Waste Services in Portugal (RASARP).

Volume 3 of the RASARP, with the results of the assessment of quality of service provided by the management entities as at 31 December 2011, was published in 2013.

Regulation of quality of water for human consumption

The AdP Group companies provide high-quality services to most of the country's population. The quality of water for human consumption, which is mainly supplied by Group companies, has improved over the years. Pursuant to Decree-Law 277/2009 of 2 October, the regulator also acts as the competent authority for quality of water for human consumption for the water supply management entities.

Pursuant to Decree-Law 306/2007 of 27 August, every year the water supply management entities must draft and submit their Water Quality Control Programme (WQCP) to the regulator for approval. The regulator oversees implementation of the WQCP.

Quality of water supplied in 2013 UNA-PD, UNA-DR and EPAL (%)



As required by current legislation, the AdP Group companies implement the WQCP approved by the regulator. Any failures to meet the parameters are communicated to the entities in question. In 2013, under the approved WQCPs, 86,233 tests were performed and 236 (0.27%) nonconformities with parameters were detected.

Every year, compliance with the quality standards of water for human consumption in implementation of the approved WQCP is also included in volume 4 of the Annual Report on Water and Waste Services in Portugal.

For the first time, in volume 4 of the RASARP, the regulator gave seals of exemplary quality of water for human consumption to 61 entities in 2013, including EPAL and AdRA.

In 2004, the World Health Organisation published its Guidelines for Drinking-Water Quality (3rd Edition), which recommend risk assessment and management for control of drinking water quality in Water Safety Plans (WSPs). That year also witnessed publication of the Bonn Charter for Safe Drinking Water by the International Water Association.

Since 2004, the WSPs of a number of AdP Group companies - Águas do Noroeste – subsistema de Areias de Vilar, Águas do Douro e Paiva, Águas do Algarve and EPAL - have included a useful method for ensuring quality and safety in the public supply of drinking water, in order to supply water of high quality that their consumers can trust.

The AdP Group has been using a detailed risk management method since 2011, involving a manual that capitalises on the experience of companies with implemented WSPs. It sets out best practices and the latest methods for assessing and managing risk and helps implement these principles in other water supply systems.

Environmental regulation

The AdP Group's water and household waste service management entities also fall under authority of Agência Portuguesa do Ambiente (APA - Portuguese Environment Agency), the environmental regulator.

One of the APA's remits is to serve as the Portuguese Water Authority, in which capacity it issues licences for water use and oversees their implementation, enforces economic and financial rules on water resources and manages droughts and floods. It coordinates exceptional measures in the event of extreme drought or flooding and settles disputes among users regarding obligations and priorities in the Water Law and additional laws.

The APA also has responsibilities as the Portuguese Waste Authority. Its duties include operational control of information on waste management operations, planning and management of all types of waste and its origins, processing of SIRER and SILOGR information, validation of the information necessary for economic and financial waste management, enforcement of the Waste Management Charge regulations, definition, implementation and monitoring of national sectoral waste management policies and strategies, drafting of waste management plans and programmes, monitoring of their execution, approval of technical waste management models, an integrated approach to licensing of waste management operations, coordination and harmonisation of licensing criteria to be followed by regional waste authorities, monitoring of technical environmental or economic and financial audits of waste management operators' activity and technical analysis of applications for EU funds for household waste management infrastructures.

4. Economic and financial analysis

Net profit

The AdP Group's net profit totalled around 104.7 million euros, which is 10.8 million euros (+11.6%) higher than the 2012 figure.

This increase was mainly due to a significant improvement of 26.2 million euros in financial earnings.

Operating profit went down around 9.9 million euros, basically as a result of the following:

- there was a 24.8 million euro increase in turnover, with a rise of 46.3 million euros in sales and services and a 21.5 million euro reduction in tariff deviations;
- the 23.5 million euro increase in personnel costs was a result of the fact that the State Budget Law in 2012 provided for 12 months of pay while in 2013, following a Constitutional Court decision, 14 months' pay was reinstated plus an adjustment to costs in 2012 associated with accrual of leave for 2014. If personnel costs were directly comparable they would show a reduction against the previous year. There was also a 2.8 million euro increase in compensation paid for rescissions by mutual accord;
- there was a 9.6 million euro reduction in other operating gains and costs, due to receipt of compensation in 2012 that did not occur in 2013.

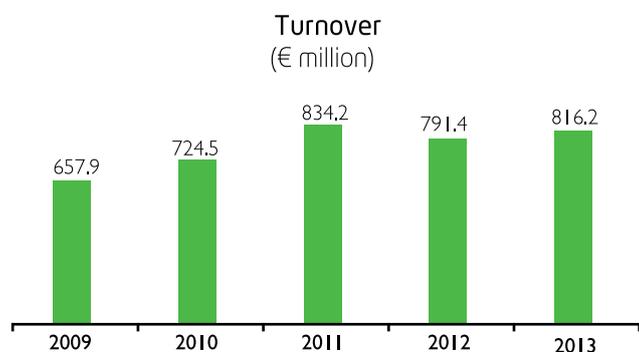
Turnover

Turnover totalled 816.2 million euros, an increase of 24.8 million euros or 3.1% against 2012. This increase was due to:

- a 6.6 million euro rise in water supply billing;
- a 7.1 million euro increase in processing of recyclables;
- a 10 million euro rise in energy sales;
- a 24.3 million euro increase in wastewater treatment;
- a simultaneous 21.5 million euro reduction in tariff deviation, which was the result of an improvement in the profitability of multi-municipal companies and the impact of a reduction in the main indexer of contractual shareholder remuneration, which fell from 7.46% (as per the order of 25 January 2013) to 6.29%.

If we ignore the effect of tariff deviations on turnover, it was 46.3 million euros or 6.4% higher than in 2012.

The performance of turnover was as follows:



EBITDA

EBITDA totalled 367.3 million euros, which was 10.1 million higher than in 2012, a 2.8% increase.

(Unit: € million)

	2009	2010	2011	2012	2013
Turnover	657.9	724.5	834.2	791.4	816.2
Tariff deviations	32.5	37.3	112.3	65.2	43.7
Operating profit (1)	122.7	176.6	287.6	248.8	238.9
EBITDA (2)	251.5	277.1	345.8	357.2	367.3
Financial earnings	(18.9)	(50.5)	(90.6)	(76.3)	(50.3)
Net profit for the year	65.3	79.5	89.6	93.8	104.7

(1) Earnings before interest and tax

(2) OP + Depreciation + Provisions + Impairment losses and reversals - Tariff deviations - Investment subsidies

The improvement in EBITDA of recurring activities was mainly due to an increase in turnover without tariff deviations (46.3 million euros) and an improvement in the cost of sales (1.5 million euros). On the other hand, there was an increase in supplies and services (4.5 million euros) and personnel costs (23.5 million euros), caused mainly by the reinstatement of Christmas and holiday subsidies and accrual of the holiday subsidy and month for 2014, as mentioned above, and a reduction in other operating gains/costs (9.6 million euros).

Financial earnings

Financial earnings recorded a loss of around 50.3 million euros, which represents an improvement of 26 million against 2012. This was due to a reduction in financial costs and an improvement in the conditions underlying interest rate hedging derivatives and the result of cancellation of two of these operations.

There was a reduction in the financial costs of short-term borrowing in 2013, thanks to the reduction of the base indexer used in short-term operations (three-month Euribor, which had an annual average of 0.22%, as opposed to 0.57% in 2012). There were no changes in average bank spreads or commissions charged to the Group in 2013.

There was also a reduction of around 5.6% in average use of short-term loans. Considering the trend towards a reduction in average bank spreads, we can expect the costs of short-term funding to continue to fall in 2014.

The financial costs of medium and long-term borrowing in from the EIB also fell as a result of a reduction in the average interest rate (due to the variable interest rate component). The average interest rate for this type of funding is lower than for short-term loans and averaged 2.7% in 2013. The long-term finance obtained by AdP SGPS via direct placing on the Japanese and European markets had an average cost of 1.8%.

The financial earnings were also a result of a gain from cancellation of two derivative contracts (around 10 million euros) in an operation that was part of an overall negotiation headed by the state. AdP SGPS benefitted from the outcomes of this larger negotiation. The increase of around 2.3 million euros in fair value of the other derivatives against 2012 is also worth mentioning.

Interest paid represented a cost of around 3.4% of the Group's total borrowing.

As a result of the AdP Group's prudential financial management, around 60% of its medium- and long-term debt has been negotiated at a fixed rate. The average spread of its long-term debt is lower than 50 bps on the variable indexer rate or fixed rate at the time it was fixed.

The investment funding structure that the Group has set up in recent years made it possible to reduce the volatility of financial costs, via the weight of long-term borrowing in total borrowing and the high fixed-rate component. The fixed-rate component in total bank loans reflects the continued existence of a conservative funding structure.

Where financial investments were concerned, there was a substantial increase in late-payment interest on municipalities' credits, due to a deterioration in the average payment times for services provided to these clients.

CAPEX

The Group's CAPEX amounted 162 million euros, which is around 33% lower year on year.

In view of the limitations imposed on SOES with regard to borrowing and the increase in the average payment time for municipal debts, in 2011 the AdP Group began an investment containment programme that entails rationalising and rescheduling contractual investments. These constraints continued for most of 2013, and so investment tended to go down.

Working capital

There was a 3% reduction in working capital needs in 2013 due to the stabilisation of municipal clients' debts. Debt not subject to payment agreements went down by around 41 million euros. On the other hand, there were active payment agreements with municipal clients to the amount of 188 million euros, around 46 million more than in 2012. A reduction in cyclical assets helped to reduce debts to current suppliers by around 10 million euros and to investment suppliers by 20 million euros.

(Unit: € thousands)

WCN	Annual figures			Variation		Variation %	
	2011	2012	2013	2012/ 2011	2013/ 2012	2012/ 2011	2013/ 2012
Cyclical assets							
Inventory	7,715	7,577	7,206	(138)	(371)	(1.8%)	(4.9%)
Clients	408,814	474,811	447,478	65,997	(27,333)	16.1%	(5.8%)
State	14,205	9,962	9,235	(4,243)	(727)	(29.9%)	(7.3%)
Other current assets	235,737	174,074	155,483	(61,663)	(18,591)	(26.2%)	(10.7%)
	666,471	666,424	619,402	(47)	(47,022)	(0.0%)	(7.1%)
Cyclical liabilities							
Suppliers	125,189	108,866	79,094	(16,323)	(29,772)	(13.0%)	(27.3%)
Other current liabilities	137,660	160,882	151,332	23,222	(9,550)	16.9%	(5.9%)
Tax on profit	20,850	11,622	12,693	(9,228)	1,071	(44.3%)	9.2%
State	29,200	28,579	30,374	(621)	1,795	(2.1%)	6.3%
	312,899	309,949	273,493	(2,950)	(36,456)	(0.9%)	(11.8%)
Total WCN	353,572	356,475	345,909	2,903	(10,566)	0.8%	(3.0%)

Financing structure

Continuing CAPEX as set out in the multi-municipal systems' concession agreements and based on the goals set in the strategic plans for the water and waste sectors has led to a degree of investment-related borrowing and client debts. The AdP Group's gross borrowing accounts for 40% of its assets.

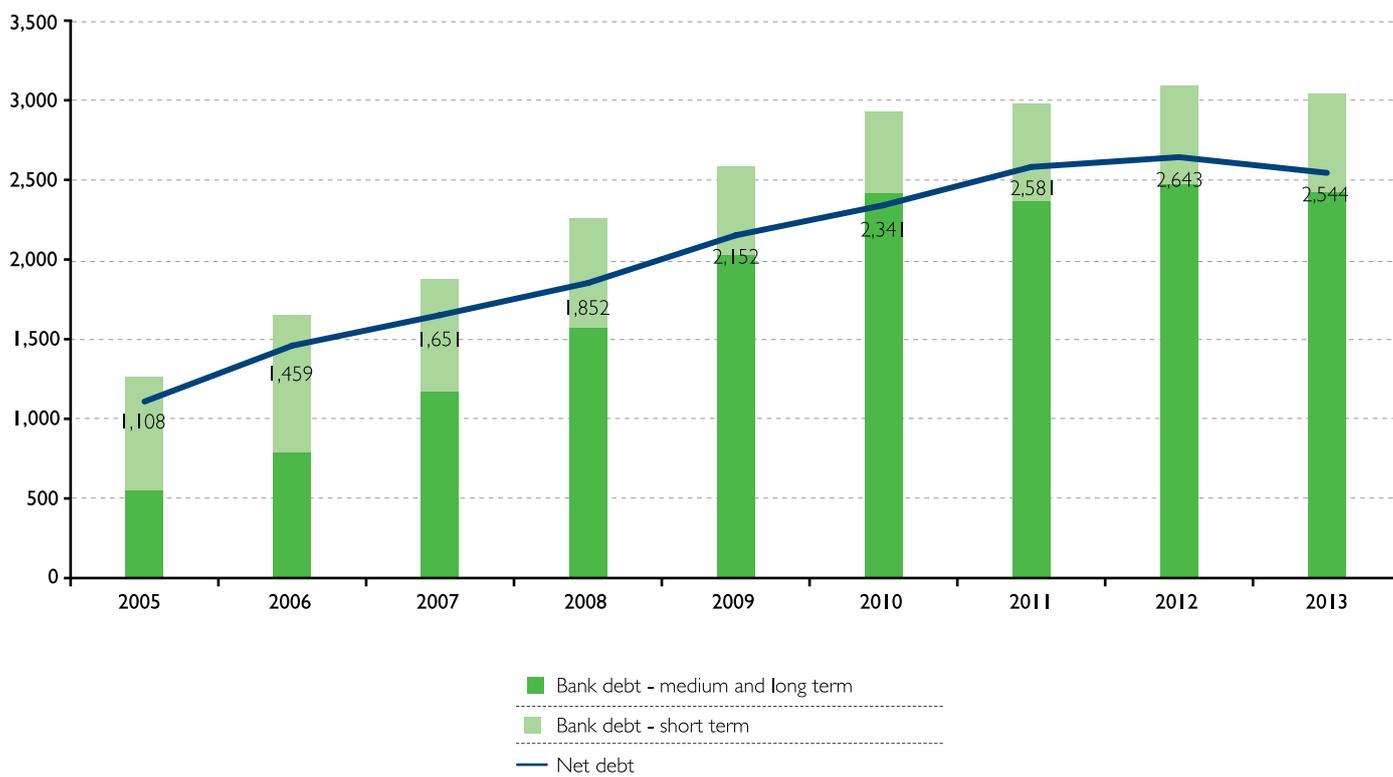
The AdP Group's borrowing totalled 3.04 billion euros in 2013, which was 2% lower than the 3.096 billion euros in 2012. Borrowing (net of deposits and permanent investments, such as contractual fund for constitution of capital), totalled 2,544.2 billion euros, 4% less than in 2012.

The weight of long-term financing was around 80% of the Group's gross borrowing, or 95.3% of its net borrowing.

Medium- and long-term borrowing (2,423.5 billion euros) is based essentially on loans from the European Investment Bank (EIB), issues of bonds and private placing.

The total financial cost of funding from the EIB was 3.2% in 2013 while that of medium- and long-term funding in the form of private placing or the issue of bond on the market by AdP SGPS had an average cost of 1.8%, excluding non-repeatable payments.

Unit: € thousands



Financial risk

The Group's activities are exposed to a variety of financial risks, including the market risk, credit risk, counterparty risk and liquidity risk.

The AdP Group's financial risk management policy is designed to minimise adverse effects arising from the unpredictability of the financial markets. Management is done centrally by the Group's holding company.

The Group's interest-rate risk management policy is aimed at reducing exposure of debt cash flows to market fluctuations by contracting structured financial instruments and endeavouring to achieve the corresponding reduction in financial costs.

The Group has taken a conservative position and, considering the long-term characteristics of its assets, has focused on obtaining long-term funding, particularly from the EIB. Furthermore, in 2004 AdP SGPS began obtaining external funding and carried out a private placement of debt in 2005 and three private bond issues in 2007.

Most of the long-term lines of finance were negotiated before 2008 on terms that were favourable at the time but are now a significant capital gain when it comes to servicing the debt.

Where interest rates are concerned, considering our focus on reintegration of investments, we have focused on obtaining fixed-rate loans (directly or using hedging instruments). Thanks to this strategy, around two-thirds of our long-term debt has a fixed interest rate and is therefore immune to future oscillations in rates.

Principle of centralised treasury management

Pursuant to its object, AdP SGPS is a flexible, efficient instrument that provides centralised, specialised management of the holdings in its portfolio. In addition to the strategic guidelines issued to managers that represent it and the provision of specialised administration and management services, it therefore constitutes a crucial element in the financial operation of its subsidiaries.

The Group's companies are made up of holdings in the environmental sector at different stages of maturity and so AdP SGPS is responsible for obtaining and coordinating the funding they need, while never losing sight of its ultimate goal, which is to maintain the balance of its consolidated funding structure.

Therefore:

- it monitored the companies' relationship with the Cohesion Fund to facilitate their access to it;
- it began negotiations with the EIB back in 1997 with a view to the funding of first-phase projects and obtained a 167 million euro line;
- it began new negotiations with the EIB in 2000 for second-phase investments and achieved three lines of funding (between 2005 and 2009) totalling 1,472 billion euros;
- it assisted in setting up a support line with the EIB for funding of the solid waste sector totalling 145 million euros to partially fund final-phase investments;
- as the EIB lines and Cohesion Fund support were not sufficient to fund the entire portfolio of projects, AdP SGPS began a process of accessing foreign markets in 2003. It carried out a private 10-year debt placement in Japan in 2005 and made three bond issues at 15 and 20 years totalling 600 million euros placed privately in 2007;
- it began contacts with external entities for the placement of long-term debt in order to prepare the market for future placements of this type of debt to fund the Group's needs.

The purpose of all these funds from long-term operations is to finance multi-municipal systems' investment and working capital in their first years of operation.

The focus on water supply and wastewater treatment systems has to do with the size of the investments and their timeframes.

The centralisation of a substantial part of funds in AdP SGPS has made it possible to manage the Group's financial needs cohesively and coherently. So far, this has prevented cash-flow shortages and insolvency issues, in spite of some serious problems for inland systems. To complement this medium- and long-term framework, AdP SGPS has also negotiated with the banking sector for short-term funding, thereby reducing individual banks' ability to penalise some subsidiaries in term of costs or loans.

The fact that AdP SGPS manages negotiation of credit lines centrally and that there are occasionally some surpluses has allowed the Group to keep its financial health at satisfactory levels with low impacts on its operations.

The Group has invested its permanent surpluses with Agência de Gestão da Tesouraria e da Dívida Pública - IGCP, E.P.E. while keeping its temporary surpluses as a guarantee for the short-term funding obtained from the financial system in order to ensure that the banks would continue to provide finance. As required by law, partial compliance was granted to the AdP Group companies in Ordinance 2424/13 of the Secretary of State of the Treasury.

5. Portfolio of shareholdings

Segment	Company	Holding	Head Office	Business
Parent	AdP - Águas de Portugal, SGPS, S.A.	-	Lisbon	Holding company
EPAL	EPAL, S.A.	100.00%	Lisbon	Upstream water supply and downstream water distribution
UNA-PD	Águas do Douro e Paiva, S.A.	51.00%	Porto	Upstream water supply
UNA-PD	Simria, S.A.	67.72%	Aveiro	Upstream wastewater treatment
UNA-PD	Águas do Zêzere e Côa, S.A.	87.46%	Guarda	Upstream water supply and wastewater treatment
UNA-PD	Simlis, S.A.	70.16%	Leiria	Upstream wastewater treatment
UNA-PD	Águas do Oeste, S.A.	51.00%	Óbidos	Upstream water supply and wastewater treatment
UNA-PD	Águas do Norte Alentejano, S.A.	51.00%	Portalegre	Upstream water supply and wastewater treatment
UNA-PD	Sanest, S.A.	51.00%	Cascais	Upstream wastewater treatment
UNA-PD	Águas do Algarve, S.A.	54.44%	Faro	Upstream water supply and wastewater treatment
UNA-PD	Águas do Centro, S.A.	70.00%	Castelo Branco	Upstream water supply and wastewater treatment
UNA-PD	Águas de Trás-os-Montes e Alto Douro, S.A.	70.08%	Vila Real	Upstream water supply and wastewater treatment
UNA-PD	Simtejo, S.A.	50.50%	Lisbon	Upstream wastewater treatment
UNA-PD	Águas do Noroeste, S.A.	56.66%	Barcelos	Upstream water supply and wastewater treatment
UNA-PD	Simarsul, S.A.	51.00%	Setúbal	Upstream wastewater treatment
UNA-PD	Águas do Centro Alentejo, S.A.	51.00%	Évora	Upstream water supply and wastewater treatment
UNA-PD	Águas do Mondego, S.A.	51.00%	Coimbra	Upstream water supply and wastewater treatment
UNA-PD	AdRA - Águas da Região de Aveiro, S.A.	51.00%	Aveiro	Downstream water supply and wastewater treatment
UNA-PD	AgdA - Águas Públicas do Alentejo, S.A.	51.00%	Beja	Upstream water supply and wastewater treatment
UNA-PD	Águas de Santo André, S.A.	100.00%	V.N. Sto. André	Water supply, wastewater treatment and waste
UNA-PD	Simdouro, S.A.	51.00%	V.N. Gaia	Upstream wastewater treatment
UNR	Empresa Geral de Fomento, S.A.	100.00%	Lisbon	Sub-holding company
UNR	Suldouro, S.A.	60.00%	Sermonde	Treatment and recovery of municipal solid waste
UNR	Valorlis, SA.	51.00%	Leiria	Treatment and recovery of municipal solid waste
UNR	Valorminho, S.A.	51.00%	Valença	Treatment and recovery of municipal solid waste
UNR	Resulima, S.A.	51.00%	Vila Nova de Anha	Treatment and recovery of municipal solid waste
UNR	Ersuc, S.A.	51.46%	Coimbra	Treatment and recovery of municipal solid waste
UNR	Amarsul, S.A.	51.00%	Moita	Treatment and recovery of municipal solid waste
UNR	Algar, S.A.	56.00%	Faro	Treatment and recovery of municipal solid waste
UNR	Valnor, S.A.	53.33%	Alter-do-Chão	Treatment and recovery of municipal solid waste
UNR	Resiestrela, S.A.	62.95%	Fundão	Treatment and recovery of municipal solid waste
UNR	Resinorte, S.A.	51.00%	Celorico de Basto	Treatment and recovery of municipal solid waste
UNR	Valorsul, S.A.	56.17%	S. João da Talha	Treatment and recovery of municipal solid waste
International	AdP Internacional, S.A.	100.00%	Lisbon	Sub-holding company
International	Aquatec, Lda.	100.00%	Maputo - Mozambique	Technical services
International	Águas do Brasil, S.A.	100.00%	Cabo Frio - Brazil	Sub-holding company for Brazil - closing
International	AdP Timor-Leste, Lda.	100.00%	East Timor	Technical services
Services	AdP Serviços, S.A.	100.00%	Lisbon	Instrumental - shared services
Services	Aquasis, S.A.	55.00%	Lisbon	Development/ implementation of geographical information systems for basic sanitation
Others	AdP Energias, S.A.	100.00%	Lisbon	Environmental management
Others	AdP Imobiliária, S.A.	100.00%	Lisbon	Operations suspended
Others	Clube de Golf das Amoreiras	100.00%	Lisbon	Closing
Others	Trevo Oeste, S.A.	43.24%	Alcobaça	Treatment and recovery of livestock effluent
Others	Miese	40.00%	Vila Real	Being sold

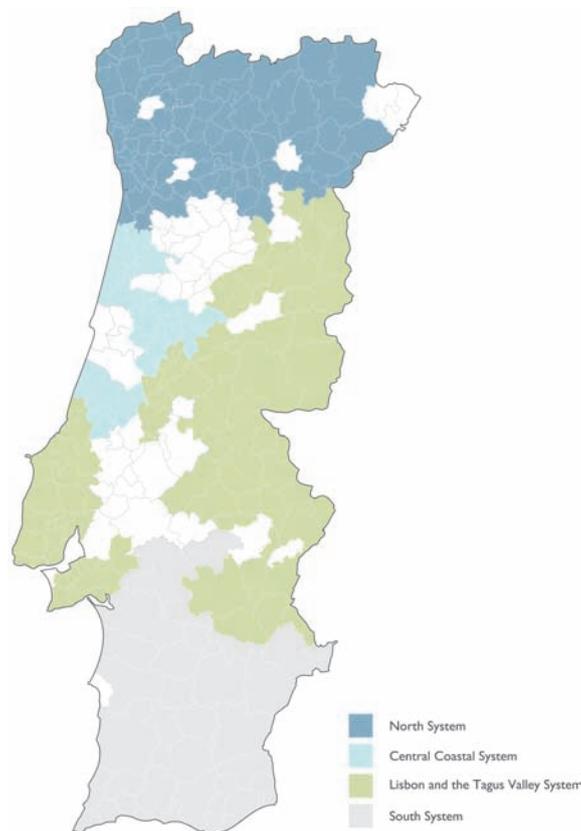
Main developments

One of the most important developments in 2013 was the UNA-PD's ongoing work on restructuring the water and sanitation sector as required by the Portuguese government. The activities focused particularly on aggregation of upstream systems and also upstream-downstream integration.

The main restructuring goals for the sector in Portugal entail guaranteeing its economic and financial sustainability by following the full cost recovery principle to ensure economic and financial sustainability of operations, make the necessary investments in the sector viable and draft a plan for solving tariff deficits. They also include creating socially fairer, more balanced sectors by respecting the principles of universal service and converging tariffs to balanced intervals based on socioeconomic criteria (e.g. asymmetry in buying power in different locations or income scales).

The idea of increasing territorial aggregation is the cornerstone of the model and is valid for both upstream and downstream systems. Upstream, it is a question of aggregating management entities to achieve gains in operating efficiency with economies of scale (geographical aggregation) and range (supply and treatment), in order to standardise each region's upstream tariffs from the coast to the interior. Downstream, the AdP Group focused on fostering integrated management of the urban water cycle, including upstream water supply and wastewater treatment, and promote economies of process and generate greater technical efficiency with a direct, immediate impact on the fight against water loss and infiltrations.

Where upstream aggregation was concerned, work continued on creating four main predefined national systems resulting from combining existing upstream systems managed by AdP Group subsidiaries. The South aggregation process has meanwhile been discontinued.



Sistema do Norte (North system): comprising the systems currently managed by Águas do Noroeste and Águas de Trás-os-Montes e Alto Douro (water supply and wastewater sanitation), Águas do Douro e Paiva (water supply) and Simdouro (wastewater sanitation), supplying 2.6 million people with water and 1.6 million with wastewater sanitation.

Sistema do Centro Litoral (Centre Coast system): systems managed by Simria and Simlis (wastewater sanitation) and Águas do Mondego (water supply and wastewater sanitation), supplying 0.4 million people with water and 1.6 million with wastewater sanitation.

Sistema de Lisboa e Vale do Tejo (Lisbon and Tejo Valley system): systems managed by Águas do Zêzere e Côa, Águas do Centro, Águas do Oeste, Águas do Norte Alentejano and Águas do Centro Alentejo (water supply and wastewater sanitation) and Sanest, Simtejo and Simarsul (wastewater sanitation) supplying 1.1 million people with water and 3.3 million with wastewater sanitation, plus the EPAL supply system (another 2.5 million people).

Sistema a Sul (South systems): systems managed by AgdA - Águas Públicas do Alentejo (a state-local authorities partnership), Águas de Santo André - urban component and Águas do Algarve (water supply and wastewater sanitation), supplying 0.6 million people with water and 0.6 million with wastewater sanitation.

Following the work done in 2012 for the other systems, it continued in 2013 on the project to aggregate the Sul systems. The general technical model and economic and financial model were completed and incorporated all the latest available information, such as expectations and an exhaustive analysis of the synergies that aggregation would bring.

Although it has not yet been possible to move forward with this project, the in-depth studies performed and submitted were very important, signifying completion of coverage of the country by this vast analysis and assessment.

The work continued in the Norte, Centro Litoral and Lisboa e Vale do Tejo systems with technical contributions essential to the aggregation process, such as detailed proposals for the different parts of the process. These documents were submitted to the overseeing body for appreciation as a detailed, advanced working basis and an essential contribution to later analyses and development by the entities involved.

The upstream system aggregation process has not yet been completed, though the AdP Group has made great efforts and taken significant steps in pursuit of this important component of the sector's restructuring.

Where upstream-downstream integration was concerned expectations were confirmed that the time was not right for a reasoned, informed discussion about the operation and integration of municipal systems in the management entities of the multi-municipal systems, because of a local election, which naturally placed end-of-term limitations on the political legitimacy of the municipal management entities.

Nonetheless, in 2013 the AdP Group completed the submission in two more regions of proposals prepared jointly with the municipalities, thereby ending the process started in 2012. We believe that these proposals and studies improved knowledge about the sector and not only ensured greater reliability but also showed that harmonisation of tariffs in the upstream systems was not enough to ensure harmonisation of end users' tariffs.

The year also witnessed finalisation of the proposal, appreciation by a number of bodies and preparations for the start-up of a new partnership of eight municipalities in the Noroeste region, the former to be managed by a management entity of the multi-municipal system. *Parceria Pública para a Exploração e Gestão do Sistema de Águas da Região do Noroeste* currently includes the municipalities of Amarante, Arouca, Baião, Celorico de Basto, Cinfães, Fafe, Santo Tirso and Trofa, which represents around 1.9% of mainland Portugal and 3% of mainland resident population (~300,000 inhabitants - Census 2011).

The AdP Group also continued a number of initiatives aimed at speeding up and bringing forward a number of challenges facing it in the start-up of operation and management of municipal systems.

At the end of the year, a new round of talks began with the municipalities of different regions, meaning that work could begin on preparing another two partnership proposals.

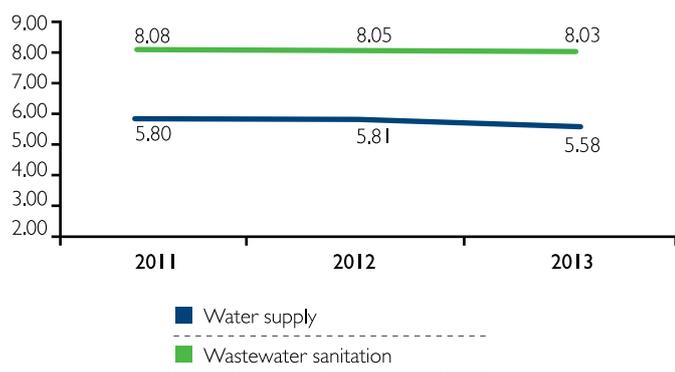
Main indicators

At the end of December 2013, there were 19 management companies of water supply and wastewater treatment systems, as shown in the figure at the start of point 6.1.

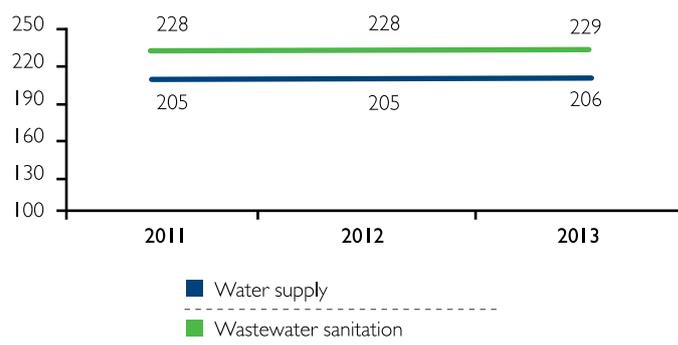
At the end of 2013, these companies covered 233 of the 308 municipalities in Portugal.

Two hundred and six of these municipalities belong to water supply systems, accounting for around 67%, and 229 are covered by wastewater sanitation systems, representing around 74%, thereby reaching around 5.58 million and 8.027 million people respectively.

Population covered
(million inhabitants)



Municipalities covered



The figures for the population actually served in 2013 are 4.892 million for water supply and 6.868 million for wastewater sanitation, representing increases of around 1% and 1.7% respectively.

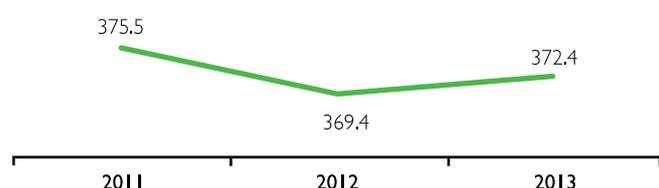
	2011	2012	2013
Municipalities covered			
Water supply	205	205	206
Wastewater sanitation	228	228	229
Municipalities served			
Water supply	188	192	197
Wastewater sanitation	210	212	215
Population covered (million inhabitants)			
Water supply	5.80	5.64	5.58
Wastewater sanitation	8.08	8.02	8.03
Population served (million inhabitants)			
Water supply	4.77	4.84	4.89
Wastewater sanitation	6.39	6.55	6.86

All together, these systems produced 372.4 million m³ of water for human consumption and collected and treated around 505.1 million m³ of urban wastewater:

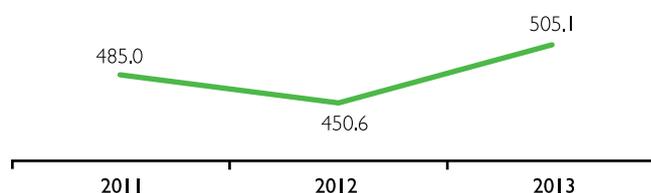
Public service provided (million m ³)	2011	2012	2013
Volume of water produced	377.2	369.4	372.4
Volume of effluent treated	485	450.6	505.1
Volume of water billed	375.3	371.4	372.1
Volume of effluent billed	443.8	432.9	447.7

There was a 0.1% decrease in the volumes of water for human consumption produced and an increase of around 14.7% in the volume of wastewater collected and treated by the aggregated UNA-PD systems in 2013. The wastewater data for 2013 include industrial effluent covered and actually treated. The graphs below show variations in water produced and effluent treated in the last three years.

Volume of water produced
(millions of m³)



Volume of wastewater treated
(millions of m³)



These figures make it possible to estimate a per capita average of around 209 litres a day per inhabitant served for the drinking water supply in the 197 municipalities served, which is roughly the same as that of the previous year, while the per capita average for wastewater in the 215 municipalities served is 207 litres a day per inhabitant, which is 10% higher than in 2012.

The statistics for each partnership and multi-municipal system management company are as follows:

Statistics per company 2013	Flow (10 ³ m ³ /yr)		Population served		Municipalities served	
	WS	WWS	WS	WWS	WS	WWS
Águas do Noroeste, S.A.	36,193	69,027	890,762	1,475,806	19	27
Águas de Trás-os-Montes e Alto Douro, S.A.	18,703	21,492	313,577	215,884	28	29
Águas do Douro e Paiva, S.A.	101,522	-	1,572,656	-	22	-
Simdouro, S.A.	-	18,809	-	319,151	-	4
Simria, S.A.	-	29,806	-	469,526	-	13
AdRA - Águas da Região de Aveiro, S.A.	13,027	865	294,136	200,901	10	10
Águas do Mondego, S.A.	23,679	23,079	299,073	247,768	10	11
Águas do Zêzere e Côa, SA	17,688	18,574	170,630	148,907	18	16
Águas do Centro, S.A.	16,191	12,781	191,123	155,121	17	17
Simlis, S.A.	-	13,127	-	218,817	-	5
Águas do Oeste, S.A.	26,194	20,741	327,558	347,084	15	14
Sanest, S.A.	-	62,162	-	651,464	-	4
Simtejo, S.A.	-	122,891	-	1,252,356	-	7
Simarsul, S.A.	-	22,529	-	408,140	-	7
Águas de Santo André, S.A.	18,697	7,810	28,921	31,450	2	2
Águas do Norte Alentejano, S.A.	8,915	7,557	103,006	91,850	13	15
Águas do Centro Alentejo, S.A.	7,455	8,144	88,928	88,974	7	7
AgdA - Águas Públicas do Alentejo, S.A.	19,720	7,685	199,828	176,912	20	20
Águas do Algarve, S.A.	64,456	38,021	411,520	367,994	16	16
Águas do Algarve, S.A.	372,441	505,101	4,891,718	6,868,105	197	224

WS - water supply/ WWS - wastewater sanitation

The decrease in flows of water for human consumption in 2013 reflected the recession that the country was experiencing. This was the case in Águas do Douro e Paiva, Águas do Oeste and Águas do Algarve. There was an increase in effluent treated in all the systems except the Algarve, where it fell by around 6%.

Infrastructures in operation, UNA-PD companies	2011	2012	2013	Δ 2013/ 2011	
				Value	%
Water supply systems					
• Volume of water produced (10 ³ m ³ /yr)	375,457	372,866	372,441	-426	-0.1%
• Number of water intakes	845	831	879	48	5.8%
• Number of WTPs	194	171	177	6	3.5%
• Mains network (km)	11,262	11,686	12,150	464	4.0%
• Number of pumping stations	2,062	2,176	2,283	107	4.9%
• Number of reservoirs	1,314	1,313	1,367	54	4.1%
Wastewater sanitation systems					
• Volume of effluent treated (10 ³ m ³ /yr)	486,695	440,235	505,101	64,866	14.7%
• Drains network (km)	6,358	6,685	7,117	432	6.5%
• Number of WWTPs	891	949	967	18	1.9%

The increase in the number of collectors was essentially due to Águas Públicas do Alentejo, where the municipalities of Arraiolos and Montemor-o-Novo were included.

The length of the mains network increased by 464 km, mostly due to Águas do Noroeste, Águas da Região de Aveiro and Águas Públicas do Alentejo, while the 432 km increase in the drainage network occurred in Águas da Região de Aveiro, Águas do Zêzere e Côa and Simarsul.

The increase in the number of pumping stations for treatment and WTPPs occurred mainly in Águas do Zêzere e Côa due to the projects in Mondego Superior (Gouveia, Celorico, Fornos de Algodres, Seia and Oliveira do Hospital), which were completed in the meantime.

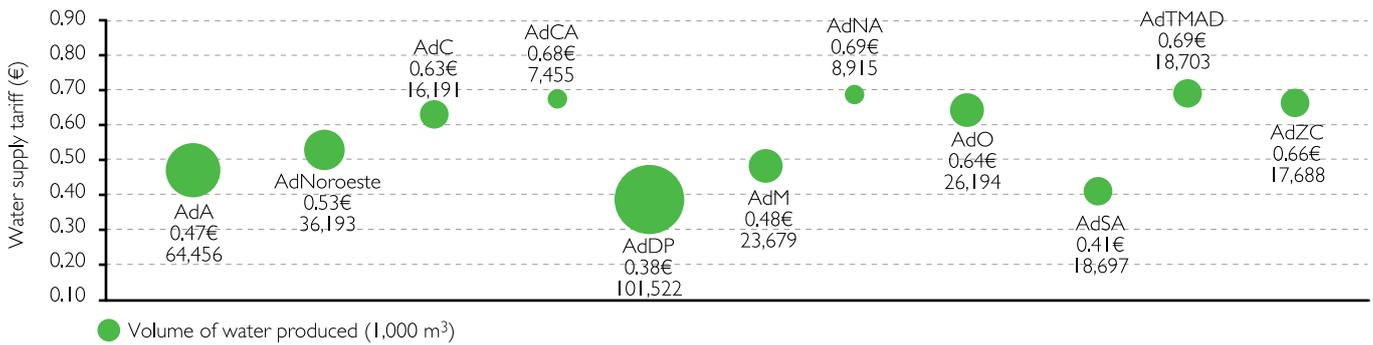
Tariffs

There are substantial differences between the UNA-PD companies in terms of tariffs. This stems mainly from amounts invested and the population served, because of highly diverse terrain and population density and different amounts of European Union co-finance grants.

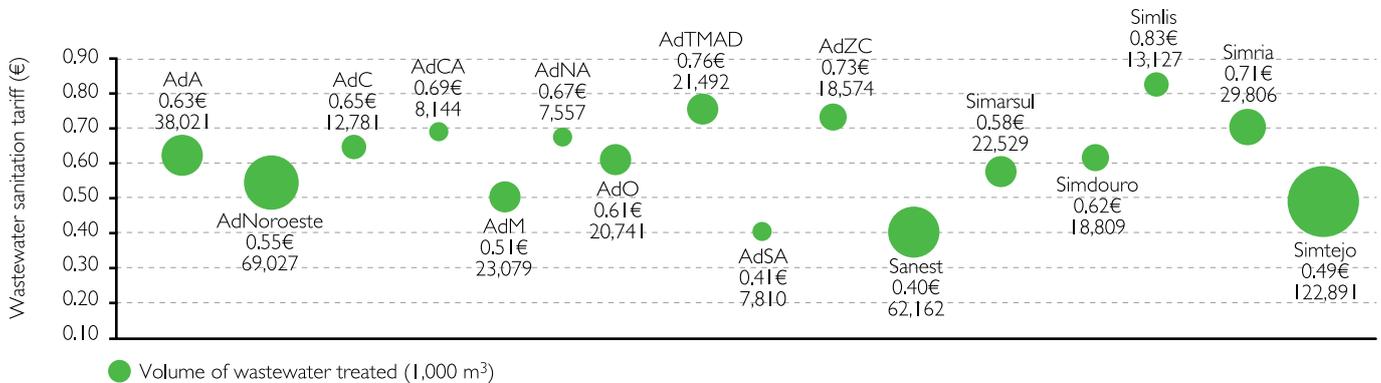
Water supply tariffs varied between 0.3773 and 0.6924 euros per cubic metre and wastewater sanitation tariffs between 0.4047 and 0.8258 euros per cubic metre in 2013.

The graphs below compare the tariffs charged by the multi-municipal system management companies with the volume of water supplied and of effluent treated. Águas Públicas do Alentejo has not been included in these graphs because of the exceptional nature of its tariff structure, which consists of a fixed annual component charged on the basis of the potential population served and a variable unit price charged on the basis of use of the service.

Volume/ tariff of water supply



Volume/ tariff of wastewater sanitation



Investment

Investments in water supply and wastewater treatment infrastructures in 2013 totalled 98 million euros, 23 million for water supply and 75 million for wastewater sanitation, as opposed to 134 million euros in 2012.

Market soundings were conducted for the construction of public works to the amount of 88 million euros, and 126 calls for tenders were issued (32 million euros and 55 calls in water supply and - 56 million euros and 71 calls in wastewater sanitation) as opposed to 55 million euros and 90 calls for tenders in 2012.

In terms of commitments to the construction of supply or treatment infrastructures, 105 building contracts were concluded following tenders. The amounts of the contracts totalled 87 million euros (51 contracts and 28 million euros for water supply and 54 contracts and 59 million for wastewater sanitation), as opposed to 79 contracts and 62 million euros in 2012.

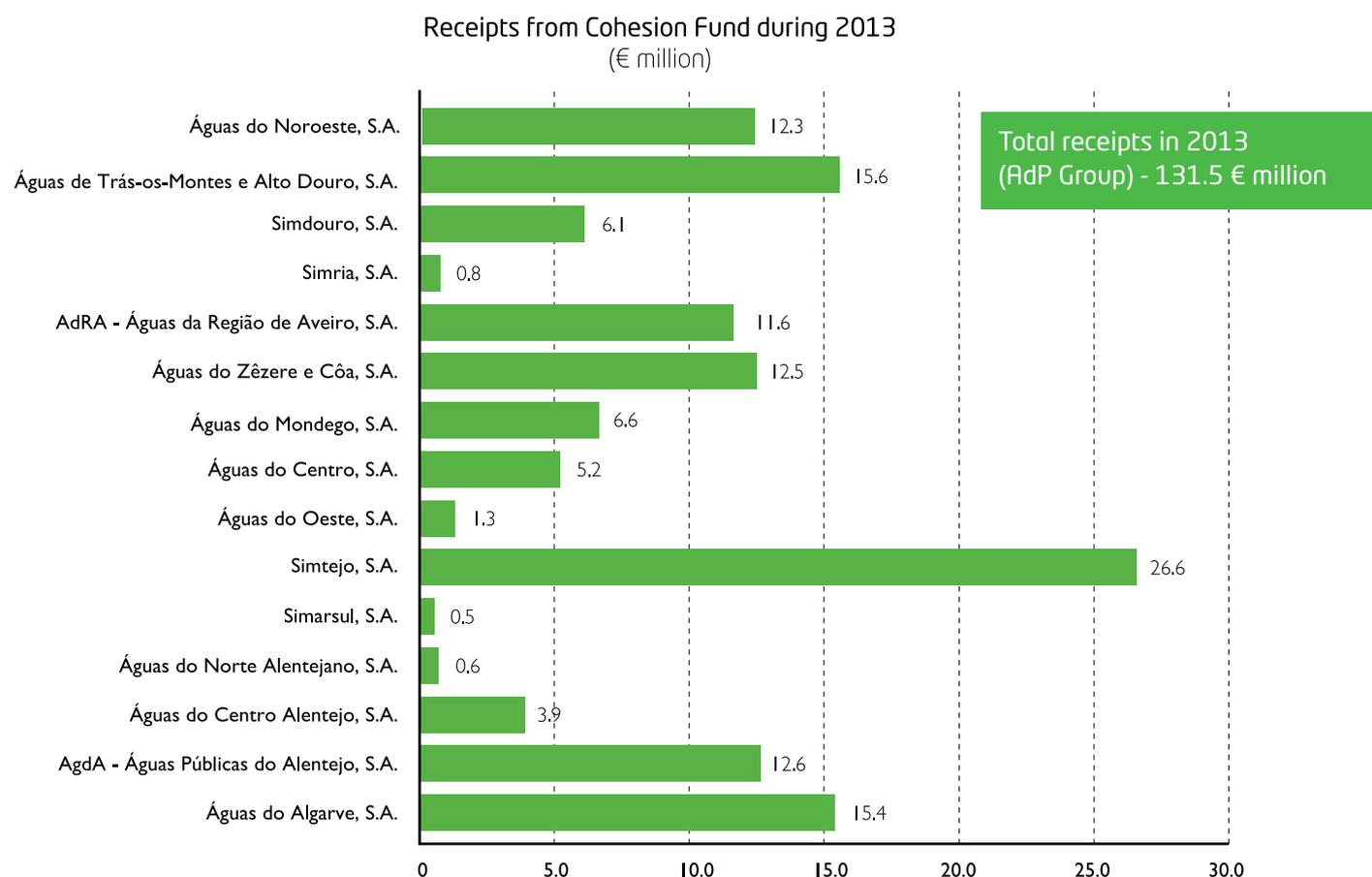
The table below shows aggregate figures compared to previous years for all the management companies of UNA-PD water supply and wastewater treatment systems.

Investments in infrastructures, tenders and public works contracts

UNA-PD investment in infrastructures	2011	2012	2013	Δ 2013/ 2011	
				Number	%
Investment in infrastructures (€ million)	217	134	98	-36	-26.9%
• Water supply	68	27	23	-4	-14.8%
• Wastewater sanitation	149	107	75	-32	-29.9%
Number of tenders issued	115	90	126	36	40.0%
• Water supply	43	52	55	3	5.8%
• Wastewater sanitation	72	38	71	33	86.8%
Value of market sounding (€ million)	146	55	88	33	60.0%
• Water supply	31	22	32	10	45.5%
• Wastewater sanitation	115	33	56	23	69.7%
Number of contracts concluded	106	79	105	26	32.9%
• Water supply	38	40	51	11	27.5%
• Wastewater sanitation	68	39	54	15	38.5%
Value of contracts (€ million)	90	62	87	25	40.3%
• Water supply	23	7	28	21	300.0%
• Wastewater sanitation	67	55	59	4	7.3%

More than has been usual in previous years, due to sparse financial resources available to the Group's companies, most investments by the management entities of multi-municipal water supply and wastewater treatment systems and partnerships were co-financed by European Union financial instruments, such as the Cohesion Fund under the Thematic Territorial Enhancement Operational Programme of the NSRF 2007-2013 (National Strategic Reference Framework).

In a year that was strongly conditioned by the Group's investment, in 2013 a total of 117.3 million euros of expenses incurred and paid was submitted for EU co-payment. European Union funding received under the Cohesion Fund totalled 131.5 million euros. It was distributed among the UNA-PD companies as follows:



At the end of 2013, 28 applications for Priority Axis II (urban water cycle) of the Thematic Territorial Enhancement Operational Programme /NSRF, were under way, representing a total investment of around 657.7 million euros and EU funding of around 412.9 million euros.

The total investment included via requests for payment in the Thematic Territorial Enhancement Operational Programme information system at the end of December 2013 was around 371.3 million euros. Due to financial corrections, however, the expenses certified in the SIPOVT totalled 319.9 million euros at the end of 2013. The amount of EU co-financing received was around 242.9 million euros, pursuant to these applications.

At the end of 2013, 22 applications to Cohesion Fund II were still open and we expect to receive 52.4 million euros from them.

Four applications for EIB loans (EQ EIB/NSRF) were approved in 2013, to a total of around 11.3 million euros. Meanwhile another 11 applications with a loan value of around 41.3 million euros were prepared.

Economic and financial analysis

The UNA-PD companies ended 2013 with a consolidated net profit of 40.2 million euros, which was 1.3 million euros (3.4%) higher than in 2012. This result was essentially due to growth in the tax component of the year to the amount of 1.7 million euros, as the operating result of 155.6 million euros (1.4% down on 2012), which was slightly negative and financial results (-74.2 million euros) were in line with 2012.

The reduction in UNA-PD's operating results in 2013 can be explained by an increase in operating costs, such as external suppliers and services (+2.7%), personnel costs (+22.6%) and depreciations (+4.4%), as investment subsidies, which are now included in operating profits under the International Financial Reporting Standards (IFRS), grew around 4.8 million euros (+9.7%) and the gross margin improved by around 12.2 million euros. This recovery in the gross margin resulted essentially from an improvement in turnover in wastewater treatment, especially for Águas do Noroeste, Águas de Trás-os-Montes e Alto Douro and Águas do Oeste.

The positive contribution by investment subsidies was felt in most of the companies, with the highest effect at Simarsul, thanks to two weighty factors that were not directly related to investment in 2013:

- approval by the IFDR (Financial Institute for Regional Development) of a mechanism for anticipating final balances of CF II applications (2006-2006);
- approval by the Board of Directors of the OPTE/NSRF of a mechanism for increasing reimbursements of the top-up fund and a higher co-financing rate, both of which increased EU subsidies received in 2013 against 2012.

The table below shows the economic and financial standing of the multi-municipal system management companies over the last three years.

UNA-PD aggregated systems - Economic and financial indicators

Unit: € thousands

	2011	2012	2013	Δ 2013 / 2012	
				Value	%
Turnover (without tariff deviations)	388,324	404,057	433,433	29,376	7.27%
Operating cash flow (EBITDA)	330,265	309,807	308,007	-1,800	-0.58%
Net income for the year	46,832	38,856	40,179	1,323	3.40%
Assets	4,839,020	5,364,418	5,369,389	4,971	0.09%
Current liabilities	848,012	794,410	761,412	-32,998	-4.15%
Non-current liabilities	3,673,455	3,926,030	3,908,421	-17,609	-0.45%
Financial income	-65,343	-74,329	-74,182	147	-0.20%

The main economic and financial indicators under the new IFRS were as follows:

Economic and financial indicators	2011	2012	2013
EBITDA margin	69.64%	65.83%	63.95%
Overall liquidity	0.68	0.71	0.69
Financial structure	6.05	5.63	5.08
Solvency	0.84	0.87	0.89

The reduction in general liquidity in 2013 was influenced by a decrease in client debts in current assets, which reduced current assets by more than the reduction in current liabilities.

The improvement in the financial structure indicator resulted in 2013 from a considerable increase in equity thanks to retained earnings. This also had a favourable effect on solvency.

Important events

In 2013, the activities of the system management companies included completion of some infrastructures and resulting start up of operations and supplies and provision of services to subsystems, improvement in customer service and substantial improvements in operability. This progress and the associated quality performance were also confirmed by a rise in national indicators for quality of water for human consumption published annually by ERSAR.

As at 31 December 2013, the commercial credit situation of the multi-municipal system concession holders companies with regard to overdue debt was 366.2 million euros, which was around 20.6 million euros higher than at the end of 2012. The debts of Águas do Zêzere e Côa and Águas do Centro Alentejo rose most (around 14.5 million euros), while Águas do Algarve showed the largest reduction (18.6 million euros).

This 20.6 million euro increase in overdue bills is tending to slow down in historic terms, however, as in the recent past annual average growth was 100 million euros.

All together, overdue debts to the UNA-PD companies on this date accounted for 84.1% of the total debt, at 435.4 million euros.

The companies' considerable efforts to collect debts from the municipalities, including conclusion of factoring agreements, offsetting of accounts against integrated municipal infrastructures and signing of payment agreements or orders, plus the introduction of the Local Economy Support Programme in late 2012, contributed to the results for 2013 and there is now a deceleration of overdue debt against previous years (6% increase in 2013 as opposed to 40.1% in 2012).

The companies with the largest amount of overdue invoices at the end of December 2013 were Águas de Trás-os-Montes e Alto Douro (60.3 million euros), Simtejo (59.5 million euros), Águas do Zêzere e Côa (54.1 million euros), Águas do Algarve (49 million euros) and Águas do Centro Alentejo (28.2 million euros).

As at 31 December 2013, Águas de Trás-os-Montes e Alto Douro, Águas do Zêzere e Côa, Simtejo, Simarsul, Águas de Santo André, Águas do Centro Alentejo and AgdA - Águas Públicas do Alentejo had overdue debts higher than billing for the previous year.

The municipalities of Lisbon, Évora and Chaves were at the top of the list of highest debtors at the end of 2013.

Payment agreements and orders totalled 232.9 million euros at the end of 2013, 141.8 million of which was covered by payment agreements and 91.1 million by payment orders. These amounts reflect increases of 48.4% and 47.9% respectively against the end of 2012.

There were 79 debt settlement agreements as at 31 December 2013, 32 of which were concluded in 2013.

On 28 August, Law 43/2012 created a Local Economy Support Programme, which was designed to regularise payment of the municipalities' debts to suppliers due for more than 90 days, provided that they were registered at the Department of Local Authorities. Several municipalities subscribed to this instrument and around 51 million euros were received in 2013 as a result.

Portfolio of shareholdings

Company	Management model and object	Period	Municipalities involved	Subscribed Share capital (€)	Paid-up shares (€)	AdP's shareholding
Águas do Noroeste, S.A.	Multi-municipal water supply and wastewater sanitation concession	50 years 2010-2060	Arcos de Valdevez, Amarante, Amares, Barcelos, Cabeceiras de Basto, Caminha, Celorico de Basto, Esposende, Fafe, Felgueiras, Guimarães, Lousada, Maia, Melgaço, Monção, Mondim de Basto, Paredes de Coura, Ponte da Barca, Ponte de Lima, Póvoa de Lanhoso, Póvoa de Varzim, Santo Tirso, Terras de Bouro, Trofa, Valença, Viana de Castelo, Vieira do Minho, Vila do Conde, Vila Nova de Cerveira, Vila Nova de Famalicão, Vila Verde and Vizela.	70,000,000	63,479,158	56.66%
Águas de Trás-os-Montes e Alto Douro, S.A.	Multi-municipal water supply and wastewater sanitation concession	30 years 2001-2031	Alfândega da Fé, Alijó, Armamar, Boticas, Bragança, Castro d'Aire, Chaves, Freixo de Espada à Cinta, Lamego, Macedo de Cavaleiros, Mesão Frio, Mirandela, Mogadouro, Moimenta da Beira, Montalegre, Murça, Peso da Régua, Resende, Ribeira de Pena, Sabrosa, Santa Marta de Penaguião, São João de Pesqueira, Sernancelhe, Tarouca, Tabuaço, Torre de Moncorvo, Valpaços, Vila Flor, Vila Pouca de Aguiar, Vila Nova de Foz Coa, Vila Nova de Paiva, Vila Real and Vinhais.	28,000,000	26,966,250	70.08%
Águas do Douro e Paiva, S.A.	Multi-municipal water supply concession	30 years 1996-2026	Amarante, Arouca, Baião, Castelo de Paiva, Cinfães, Espinho, Felgueiras, Gondomar, Lousada, Maia, Matosinhos, Oliveira de Azeméis, Ovar, Paços de Ferreira, Paredes, Porto, São João da Madeira, Santa Maria da Feira, Valongo and Vila Nova de Gaia.	20,902,500	20,902,500	51.00%
Simdouro, S.A.	Multi-municipal wastewater sanitation concession	50 years 2010-2060	Arouca, Baião, Castelo de Paiva, Cinfães, Paredes, Penafiel and Vila Nova de Gaia.	20,046,075	13,062,228	51.00%
Simria, S.A.	Multi-municipal wastewater sanitation concession	50 years 2000-2049	Aveiro, Águeda, Albergaria-a-Velha, Cantanhede, Espinho, Estarreja, Ílhavo, Mira, Murtosa, Oliveira do Bairro, Ovar, Santa Maria da Feira and Vagos.	16,712,225	16,712,225	67.72%
AdRA - Águas da Região de Aveiro, S.A.	State and local authorities partnership for integrated municipal systems	50 years 2009-2059	Águeda, Albergaria-a-Velha, Aveiro, Estarreja, Ílhavo, Murtosa, Oliveira do Bairro, Sever do Vouga, Vagos and Ovar.	15,000,000	15,000,000	51.00%
Águas do Mondego, S.A.	Multi-municipal water supply and wastewater sanitation concession	35 years 2004-2039	Ansião, Arganil, Coimbra, Condeixa-a-Nova, Góis, Leiria, Lousã, Mealhada, Mira, Miranda do Corvo, Penacova, Penela and Vila Nova de Poaires.	18,513,586	18,262,743	51.00%
Águas do Zêzere e Côa, S.A.	Multi-municipal water supply and wastewater sanitation concession	30 years 2000-2030	Aguiar da Beira, Almeida, Belmonte, Celorico da Beira, Figueira de Castelo Rodrigo, Fornos de Algodres, Fundão, Gouveia, Guarda, Oliveira do Hospital, Manteigas, Mêda, Penamacor, Pinhel, Sabugal and Seia.	26,607,560	26,607,560	87.46%
Águas do Centro, S.A.	Multi-municipal water supply and wastewater sanitation concession	30 years 2001-2031	Alvaiázere, Castanheira de Pera, Castelo Branco, Entroncamento, Ferreira do Zêzere, Figueiró dos Vinhos, Idanha-a-Nova, Mação, Pampilhosa da Serra, Pedrógão Grande, Proença-a-Nova, Sardoal, Sertã, Vila Nova da Barquinha, Vila Velha de Ródão, Oleiros and Tomar.	24,000,000	24,000,000	70.00%
Simlis, S.A.	Multi-municipal wastewater sanitation concession	30 years 2000-2029	Batalha, Leiria, Marinha Grande, Ourém and Porto de Mós.	5,000,000	5,000,000	70.16%

Company	Management model and object	Period	Municipalities involved	Subscribed Share capital (€)	Paid-up shares (€)	AdP's shareholding
Águas do Oeste, S.A.	Multi-municipal water supply and wastewater sanitation concession	35 years 2001-2035	Alcobaça, Alenquer, Arruda dos Vinhos, Azambuja, Bombarral, Cadaval, Caldas da Rainha, Lourinhã, Mafra, Nazaré, Óbidos, Peniche, Rio Maior, S. Monte Agraço and Torres Vedras.	30,000,000	30,000,000	51.00%
Sanest, S.A.	Multi-municipal wastewater sanitation concession	25 years 1995-2020	Amadora, Cascais, Oeiras and Sintra.	11,000,000	11,000,000	51.00%
Simtejo, S.A.	Multi-municipal wastewater sanitation concession	43 years 2001-2044	Amadora, Mafra, Lisboa, Loures, Odivelas and Vila Franca de Xira.	38,700,000	38,700,000	50.50%
Simarsul, S.A.	Multi-municipal wastewater sanitation concession	30 years 2004-2034	Alcochete, Barreiro, Moita, Montijo, Palmela, Seixal, Sesimbra and Setúbal.	25,000,000	25,000,000	51.00%
Águas do Norte Alentejano, S.A.	Multi-municipal water supply and wastewater sanitation concession	30 years 2001-2030	Alter do Chão, Arronches, Avis, Campo Maior, Castelo de Vide, Crato, Elvas, Fronteira, Gavião, Marvão, Monforte, Nisa, Ponte de Sôr, Portalegre and Sousel.	7,500,000	7,500,000	51.00%
Águas do Centro Alentejo, S.A.	Multi-municipal water supply and wastewater sanitation concession	30 years 2003-2032	Alandroal, Borba, Évora, Mourão, Portel, Redondo, and Reguengos de Monsaraz.	5,000,000	5,000,000	51.00%
Águas de Santo André, S.A.	Concession for collection, treatment and distribution of water; collection, treatment and disposal of effluent and collection, treatment and final disposal of waste	30 years 2001-2030	Santiago do Cacém and Sines.	1,000,000	1,000,000	100.0%
AgdA - Águas Públicas do Alentejo, S.A.	State and local authorities partnership for integrated municipal systems	50 years 2009-2059	Alvito, Arraiolos, Barrancos, Beja, Castro Verde, Cuba, Ferreira do Alentejo, Grândola, Mértola, Montemor-o-Novo, Moura, Odemira, Ourique, Santiago do Cacém, Serpa, Vendas Novas, Viana do Alentejo and Vidigueira	500,000	500,000	51.00%
Águas do Algarve, S.A.	Multi-municipal water supply and wastewater sanitation concession	30 years 2001-2031	Albufeira, Alcoutim, Aljezur, Castro Marim, Faro, Lagoa, Lagos, Loulé, Monchique, Olhão, Portimão, S. Brás de Alportel, Silves, Tavira, V. R. Sto. António and Vila do Bispo.	29,825,000	29,230,875	54.44%

EPAL - Empresa Portuguesa das Águas Livres, S.A.

EPAL - Empresa Portuguesa das Águas Livres, S.A. is a state-owned public limited company. It was originally founded in 1868 as CAL - Companhia das Águas de Lisboa and has been 100% owned by AdP - Águas de Portugal, SGPS, S.A. since 1993.

EPAL's object is the public supply of water for human consumption and other activities, in addition to providing services connected to the urban water cycle, in which it has recognised quality competences.

EPAL is responsible for direct or indirect upstream water supply to 34 municipalities on the north side of the River Tagus and for home distribution in the Lisbon municipality, where it has around 350,000 direct customers, accounting all together for around 2.9 million people or over 25% of the Portuguese population. Outside the municipality of Lisbon, the water is supplied to municipal and multi-municipal management entities, which distribute it to final customers.

EPAL uses the following sources to extract water:

- Castelo do Bode Reservoir;
- Tagus river;
- Alenquer, Lezírias and OTA artesian wells.

Water supply

Production and transport

- 2 Water Treatment Stations
- 710 km of water mains
- 31 pumping stations
- 28 reservoirs with a reserve capacity of 364,000 m³
- 127 delivery points

Distribution

- 1,448 km of distribution network
- 84,000 of mains connections
- 10 pumping stations
- 14 reservoirs with a reserve capacity of 441,000 m³
- 4 altimetric zones



Figure 1 – Region supplied by EPAL

Summary of activity

Activity	2011	2012	2013
Volume of water collected (m ³)	234,505,083	224,490,035	218,251,646
Volume of water sold (m ³)	210,286,101	205,210,051	198,667,724
Non-invoiced water in Lisbon distribution network	10.0%	8.7%	7.9%
N.º of direct clients	348,790	346,121	347,233
N.º of municipalities supplied - upstream (including Lisbon)	35	35	35
N.º of consumers	2,870,314	2,870,507	2,859,714 ⁽¹⁾
Total area supplied (km ²)	7,090	7,090	7,090 ⁽²⁾
N.º of employees at 31 December	739	736	694

(1) Population resident in the area supplied (population data referenced to 2012).

(2) Area in km² (data referenced to 2012).

Main events

In 2013 there was a 3.2% reduction in consumption against 2012. This put even more pressure on the company's management to reduce costs in order to remunerate the capital used while maintaining satisfactory levels of customer service at efficient prices. There was therefore special focus on optimising processes, rationalising resources and improving system efficiency. EPAL achieved substantial optimisation in supplies and services to the tune of 2.4 million euros (-7%) and 0.6 million euros (-21%) in cost of goods sold and materials used against 2012.

There was also considerable focus on innovation and the development of new tradable processes, technologies and products with high export potential, such as AQUAMATRIX®, which not only brought in new customers but also began the technological migration process. WONE® received national and international recognition and won three awards in 2013.

An innovative service called Waterbeep® was introduced in 2013. It provides information on direct customers' water consumption, so that they can monitor it over time, and issues alerts in the event of unusual consumption.

Academia das Águas Livres was set up with substantial funding from Instituto de Emprego e Formação Profissional (IEFP). Its purpose is to improve the qualifications of EPAL management staff and current employees and of young people wishing to work in the water and environment areas. One innovative initiative was the design and administration of a Water Tasting Course, which has been a great success, with all editions fully sold out.

The company introduced a social tariff, which was an initiative of great importance that was unprecedented in its 145 year history.

2013 will go down in the history of EPAL as the year in which it received the most high-level national and international awards, such as the WEX (Water and Energy Exchange) international innovation award, a Green Project Award, the ENEG water loss reduction award for its WONE® system, the Água & Ambiente/ERSAR award for knowledge of infrastructures and the ERSAR Seal for Exemplary Quality of Water for Human Consumption.

Considerable efforts were made during the year to optimise processes and teams in order to back-source some services that were being outsourced. These measures, such as building mains inspection, brought major economic benefits. This optimisation also enabled the company to downsize 42 employees in relation to 2012. This represented a 6% reduction or twice the target set by the 2013 State Budget Law.

Work began on the renovation of the Vale da Pedra treatment station at a cost of 13 million euros, which was a great improvement on the cancelled call for tenders (40 million euros). The company also started implementation of the technological conversion of its chlorination station with in-house resources. This not only brought economic advantages but also eliminated risks to workers and surrounding communities.

Important national and international cooperation agreements were concluded, including that between EPAL, S.A. and EPAL, E.P. (the largest water company in Angola), the EPAL/ Quercus Agreement, on joining forces and skills to protect the environment around Portugal's most important source of water; the EPAL/ Associação Hoteleira de Portugal Agreement to foster trust in Lisbon's tap water and the EPAL/ Fundação Arpad-Szenes Vieira da Silva Agreement strengthening relations between Museu da Água and other key museums in Lisbon.

The table below shows the main projects and activities in 2013.

Challenges	Projects and activities in 2013
Protection of water quality	<ul style="list-style-type: none"> • ongoing work on renovation and remodelling of Valada Tejo intake; • tender issued for remodelling and renovation of the Vale da Pedra Water Treatment Station; • revision of the Water Safety Plan in EPAL's supply system; • completion of a study entitled "Methods for delimiting protection perimeters of EPAL's surface water intakes", in cooperation with the Faculty of Science and Technology at Universidade Nova de Lisboa.
Management systems	<ul style="list-style-type: none"> • SAP - ongoing work on consolidating procurement and financial processes, implementation of the SAP system order form for acquisition of services; • AQUAMATRIX® - start of technological upgrade; • WONE® - technological development of third generation platform making it available in cloud computing, international launch of WONE® for network management and loss reduction, involving services and support software; • EPAL collaboration portal - designed to increase and facilitate information sharing among employees, making it the company's main in-house communication channel and a point of access to all contents and apps; • MILLENNIUM - a new attendance control web portal went into production; • GInterAqua - installation and configuration of a new version of GInterAqua Web, the main innovation being the geo-referencing multi-browser tool; • MAXIMO - development of the MAXIMO project to optimise corrective maintenance, develop and implement a preventive maintenance system for all assets aimed at proper control of scheduled work;

Challenges	Projects and activities in 2013
Management systems	<ul style="list-style-type: none"> • WeMake - implementation of a support tool for the integrated corporate responsibility system aimed at effective management of the whole system, process documentation management, audit management, update of applicable legislation and implementation and monitoring of corrective and preventive action; • integrated corporate responsibility system - audit of the first phase of the grant of occupational health and safety certification (OHSAS 18001:2008), maintenance of quality (ISO 9001) and environmental (ISO 14001); certification and inclusion of accreditation of the Meter Laboratory in the integrated corporate responsibility system; • EN ISO/IEC 17025- completion of the project to combine the management system (SGLAB) of EPAL's two testing laboratories.
Asset management	<ul style="list-style-type: none"> • development of an app for management of structure inspection and monitoring, a tool that assists in all inspection work by systematising inspection and maintenance of operational buildings; • calibration of meters - increase in the capacity test bench for large calibre meters for testing DN 350 flow meters, including new measurement approaches; • consolidation of asset management support information - measures were taken to consolidate information on operational assets for greater ease in analysing and reporting them, particularly in the area of equipment maintenance.
Security and reliability of infrastructures	<ul style="list-style-type: none"> • Increase in electronic security at critical EPAL facilities to optimise their static protection; • security audit of EPAL's information systems by the National Security Office; • optimisation of emergency means of communication, installing radios at the company's main facilities and in response team vehicles, in case of failure of the mobile phone network.
Innovation	<ul style="list-style-type: none"> • R&D project Fungi Watch: Benefits and hurdles associated with the presence of fungi in drinking water sources, in collaboration with IBET and Faculdade de Farmácia de Lisboa; • LDmicrobiota - Microbiotics of sediment in distribution systems and quality of drinking water, a joint project with the LNEC; • ChloriDec - Technology for real-time monitoring of chlorine decay rates in water supply systems, joint project with the LNEC and IST; • R&D project of Fundação para a Ciência e Tecnologia (FCT) entitled Emerging environmental contaminants: pharmaceutical products, in collaboration with the Faculty of Pharmacy at Universidade de Lisboa; • european project AquaVIR - Portable Automated Water Analyser for Viruses to develop a low-cost portable system for on-site installation and detection to monitor human enteric viruses in different types of bodies of water; • tests of materials in contact with water and of metals in treatment products (aluminium sulphate); • completion of AdaptaClima - a project provide EPAL with a medium- and long-term strategy for adapting to climate change; • Prepared project - finalisation of a project to create a common European platform of solutions for management entities in the water supply and treatment sector to adapt to climate change; • strategic risk management project - development and use of a methodology for integrated management of strategic risks (doctoral thesis with Cranfield University); • WATERBEEP - development and launch.
Customer management	<ul style="list-style-type: none"> • municipal customers - renegotiation of extension of supply contracts with the municipalities of Mafra and Batalha; • direct customers - On 1 January, EPAL took over management of the water mains network in the Parque das Nações area, acquiring another 2,850 customers and 14.5 km of mains network; • suspension portal - Google Maps platform of supply cuts on the EPAL website; • campaigns - end of the social responsibility campaign "Vamos dar o Litro contra a Fome" resulting in the donation of 44,500 litres of milk to the Food Bank; • introduction of a social tariff.

Challenges	Projects and activities in 2013
Other projects	<ul style="list-style-type: none"> • submission of an application for funding from the European Investment Bank (EIB) for EPAL's investment plan; • IWA World Water Congress - ongoing work on organising the congress; • signing of an agreement with Associação da Hotelaria de Portugal to disseminate the importance of the quality and reliability of water in member hotel's private systems; • agreements - signing on 15 November of a cooperation agreement between EPAL, S.A. and EPAL, E.P. for mutual sharing their specialised knowledge, experience and technical capacity; • agreements - on 5 June, World Environment Day, EPAL signed an agreement with Quercus, in which Quercus undertook to conduct studies, initiatives and activities to safeguard the environmental sustainability and water quality of the Castelo do Bode Reservoir; • agreements - signing on 28 November of a cooperation agreement between EPAL and Fundação Arpad Szenes - Vieira da Silva to enliven Amoreiras Garden and a create an Arts Garden.

Investments

In 2013, EPAL's investment totalled 6.6 million euros, which was lower than planned (10.9 million euros) and than the investment in 2012 (13.1 million euros). This reflected the company's concern for rationalisation of investments, as it endeavoured to ensure that they did not compromise the performance of assets but were still economically and financially sustainable.

Unit: € thousands

Investment	2013
Guaranteeing capacity	448
Guaranteeing reliability and security	4,416
Guaranteeing quality	386
Sustainability and innovation	156
Information and communication technologies	688
Other investments	534
Total	6,627

The following were the most important investments:

- restoration and remodelling of the Valada Tejo intake, 1.8 million euros;
- renovation of 9.3 km of the distribution network (distribution and supply mains), 1.6 million euros;
- 1.1 km extension of the distribution network, 0.4 million euros;
- structural works in the security project (0.3 million euros);
- work on operational structures, 0.2 million euros;
- information and communication technology, 0.7 million euros.

Funding of investment programme

EPAL's investment programme has been funded exclusively with cash flow from its operations and bank loans since 1999, as the company has received no EU funds.

EPAL used 185 million euros in medium- and long-term loans between 2002 and 2010, under the EPAL III funding agreement with the European Investment Bank to finance its investment programme.

Between 2011 and 2013, EPAL financed its investment programme entirely with its own cash flow and there was no need for recourse to bank loans.

It has only been possible to rely on self-financing of investments because of the company's rationalisation of spending and careful choice of investments. This has kept financial costs low and ensured high financial solidity.

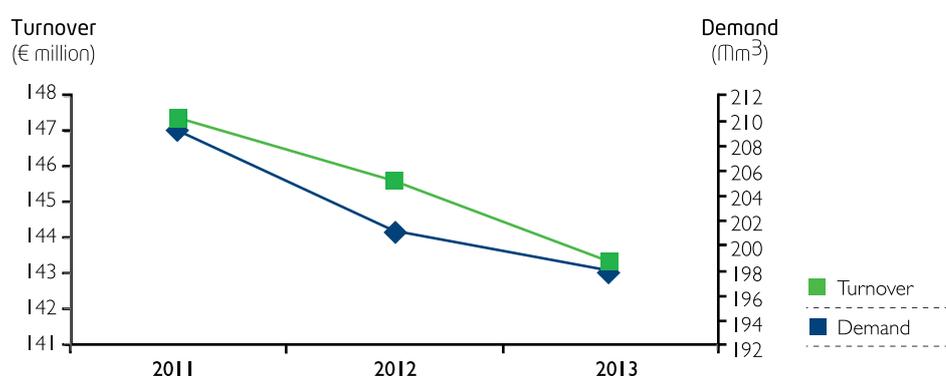
Economic and financial performance

Economic performance in 2013 was negatively affected by a 1.1 million euro reduction in turnover as a result of a fall in water consumption and a 2 million euro rise in personnel costs, due to reinstatement of the 2013 holiday and Christmas subsidies. Other negative effects arose from the reinstatement of the 2012 holiday subsidy, after a decision by the Constitutional Court, and the costs of severance pay, totalling 3.4 million euros, which were classified as non-recurring costs. The joint effect on operating profit and EBITDA was a 6.5 million euro reduction.

In spite of these adverse effects, the company achieved a net profit of 40 million euros thanks to very careful management of supplies and services and investments.

Economic and financial indicators	2011	2012	2013
Turnover	147,038	144,205	143,079
Financial income	-2,175	-1,572	-982
Net income for the year	42,556	43,577	39,962
EBITDA	86,509	87,537	81,430
Investment	11,958	13,072	6,627
Total assets	902,163	883,754	863,734
Current assets	110,627	107,874	108,246
Non-current assets	791,536	775,880	755,488
Total equity	524,415	535,230	536,266
Total liabilities	377,748	348,525	327,468
Current liabilities	64,524	60,748	59,631
Non-current liabilities	313,224	287,777	267,837
Total customer debt	22,952	23,500	25,706

Turnover accompanied the downward trend in demand, which fell 6.5 million m³ (-3.2%) against 2012.

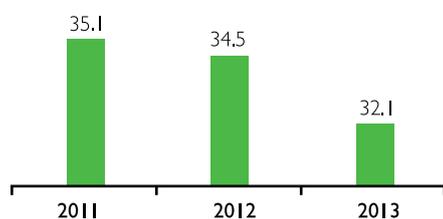


Water sold fell below 200 million m³ to 198.7 million. The amount sold upstream to other management entities was 145.1 million m³ and downstream to end users was 53.6 million m³.

The reduction in demand was more accentuated in upstream customers (water sold to other management entities), which fell 5.4 million m³ (-3.6%), resulting in a 1.6 million euro drop in revenue (-2.3%). In the municipalities of Cascais, Loures and Sintra, the reduction was over 1 million m³.

There was a 1.1 million m³ drop (-2%) in direct customers. Under operating costs, there was a substantial fall in supplies and services.

External Supplies and Services (€ million)



EPAL's strategic guidelines designed to reduce costs and increase production efficiency and strictly monitor operations reduced supplies and services by 2.4 million euros, 7% lower than in 2012.

In electricity, which represents 35% of total supplies and services, the company achieved a saving of 790,000 euros (-6.5%) against 2012, thanks to a reduction in volumes circulating in the system and improvements in energy efficiency from operating changes, including higher use of the Bode subsystem as opposed to the Tagus subsystem.

External supplies and services		2011	2012	2013	Δ 2013 / 2012	
					Value	%
Subcontracts	EUR	970,025	732,313	857,498	125,185	17.1%
Electricity	EUR	11,171,427	12,080,412	11,290,491	- 789,921	-6.5%
Fuel	EUR	657,556	638,289	618,452	- 19,837	-3.1%
Water	EUR	51,049	30,828	34,965	4,137	13.4%
Other fluids	EUR	55,027	75,805	42,312	- 33,493	-44.2%
Tools	EUR	278,181	253,893	228,632	- 25,260	-9.9%
Books and technical documentation	EUR	11,698	17,344	11,251	- 6,093	-35.1%
Office supplies	EUR	144,181	141,892	85,474	- 56,417	-39.8%
Gift items	EUR	10,223	50,260	37,574	- 12,686	-25.2%
Rents	EUR	1,362,449	1,337,660	1,252,701	- 84,959	-6.4%
Representation expenses	EUR	202,952	53,632	42,559	- 11,073	-20.6%
Communications	EUR	1,515,605	1,405,499	1,303,606	- 101,893	-7.2%
Insurances	EUR	1,011,814	956,903	925,287	- 31,616	-3.3%
Personnel transportation	EUR	19,106	20,845	23,330	2,485	11.9%
Travels and accommodation	EUR	237,088	259,263	293,207	33,944	13.1%
Fees	EUR	282,513	241,800	217,674	- 24,126	-10.0%
Litigation and legal services	EUR	29,963	35,650	15,825	- 19,826	-55.6%
Maintenance and repair	EUR	4,978,180	4,640,788	4,057,561	- 583,227	-12.6%
Publicity	EUR	249,497	228,050	262,649	34,599	15.2%
Cleaning, hygiene and maintenance	EUR	630,360	598,061	581,277	- 16,784	-2.8%
Surveillance and security	EUR	868,076	857,564	729,665	- 127,899	-14.9%
Specialized work	EUR	6,052,224	5,808,733	5,085,662	- 723,071	-12.4%
Others supplies and services	EUR	4,353,480	4,061,742	4,124,442	62,700	1.5%
Total	EUR	35,142,673	34,527,225	32,122,094	-2,405,131	-7.0%

One of the most effective efficiency and cost reduction measures was the transfer of part of the Vale da Pedra Water Treatment Plant's production to the Asseiceira WTP, a facility that has lower specific consumption of energy and reagents than Vale da Pedra. This saved on costs, along with lower specific sludge production, lower CO₂ emissions and the added advantage of producing better-quality water.

Where personnel was concerned, in addition to the above considerations about extraordinary factors that caused a substantial increase in personnel costs in 2013, there was a positive performance in terms of overtime, which went down around 30% (136,000 euros).

The absentee rate was 4.3%, in line with that in 2012.

EPAL ended the financial year with 697 employees (including the three members of the Board of Directors), 42 fewer than in 2012, mainly as a result of the 2013 friendly employment rescission programme.

Financial results improved by 0.6 million euros (38%), thanks to a 1.3 million euro reduction in financial costs with regard to interest on EIB loans.

The company did not obtain any new financing in 2013 and made repayments of 17.7 million euros on EIB loans, in accordance with the established repayment plan.

The company's corporate income tax was subject to an estimated 1 million euro tax benefit associated with the Extraordinary, Investment Tax Credit.

EPAL's EBITDA was 81.4 million euros. It was negatively influenced by the extraordinary personnel costs mentioned above.

EPAL's has a balanced financial structure and there is appropriate correspondence in terms of maturity between its investments and funding resources. At the end of 2013, the company's borrowing totalled 205.3 million euros, corresponding to total EIB loans, with remaining maturities between four and 16 years. The long- and medium-term EIB debts went down by 17.7 million euros. Fifty-three percent of the amount still outstanding constitutes fixed-rate and 47% variable-rate loans.

In addition to its good economic performance, EPAL continues to be financially solid and has a high capacity to meet its short-, medium- and long-term commitments.

6.2 Waste

Waste Business Unit (UNR)

Background

Empresa Geral do Fomento, S.A. (EGF), is the sub-holding company in the AdP Group responsible for the Waste Business Unit. Its goal is help improve quality of life and the environment by finding environmentally correct, economically sustainable solutions to the problems of household waste and ensuring that it is properly treated and recovered.

Waste treatment and recovery systems are managed by 11 concession holders set up in partnership with the municipalities served. They process around 3.1 million tons of household waste produced in 174 municipalities serving 60% of Portugal's population.

EGF plays a fundamental, dynamic, innovative role in solid waste recovery and treatment and in supporting the structuring and definition of environmental policies in Portugal. It is responsible, through the multi-municipal systems, for coordinating and implementing measures aimed at complying with national and EU strategies and targets for the sector. The vital issues currently include reducing disposal of biodegradable waste in landfills and increasing selective collection of materials.

Investments and activities in selective collection in terms of logistics and campaigns to raise public awareness of the importance of separating and placing materials in recycle bins resulted in a total of 233,000 tons collected in 2013. This figure is similar to that of 2012 due to the country's economic crisis and consequent reduction in consumption.

Where the recovery of biodegradable organic waste is concerned, EGF uses ground-breaking technology to boost use of energy from biogas produced by decomposing waste and to produce compost for use as an agricultural fertiliser. In addition to prolonging the useful life of landfills, organic waste recovery reduces greenhouse gases and fosters generation of electricity from endogenous sources.

Energy from waste recovery is also obtained by thermal processes, such as incineration, which produced power and steam. Slag from combustion is also treated and recovered and can be used as inert materials for construction, public works and possible reclaim of quarries and mines.

Main events in 2013

The main developments to be noted in 2013 were the following:

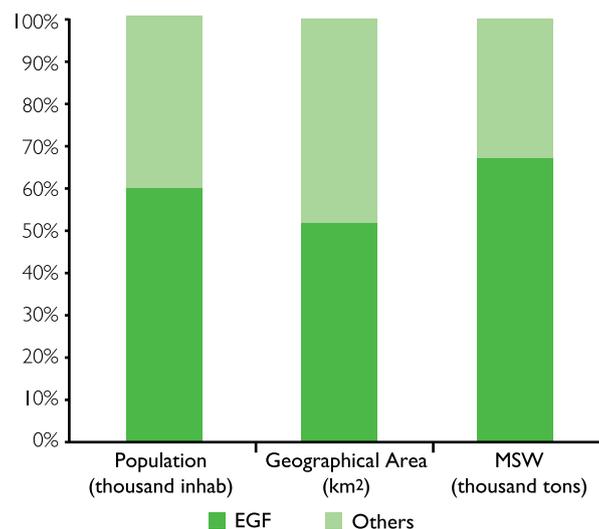
- start-up of mechanical treatment at MBT – mechanical and biological treatment units at Valorlis and Suldouro;
- renovation of mechanical treatment at the Riba d'Ave MBT run by Resinorte;
- issue of tenders for the upgrade and renovation of the Palmela MT unit run by Amarsul, the construction of an MT unit in Portimão and restoration of the São Brás de Alportel, MBT unit run by Algar;
- in energy recovery from landfill biogas, start-up of the Leiria energy recovery unit run by Valorlis and tenders for the supply and installation of energy recovery units for the Boticas, Bigorne, Santo Tirso, Guimarães and Celorico de Basto landfills run by Resinorte;
- for final disposal of treated household waste, completion of construction of cell 3 of the Valença landfill run by Valorminho and start of construction of the new Canedo landfill run by Suldouro;
- EGF holding company's monitoring and collaboration whenever requested in ongoing studies for privatisation of the company, in compliance with guidelines from the shareholder AdP and the government programme.

Indicators

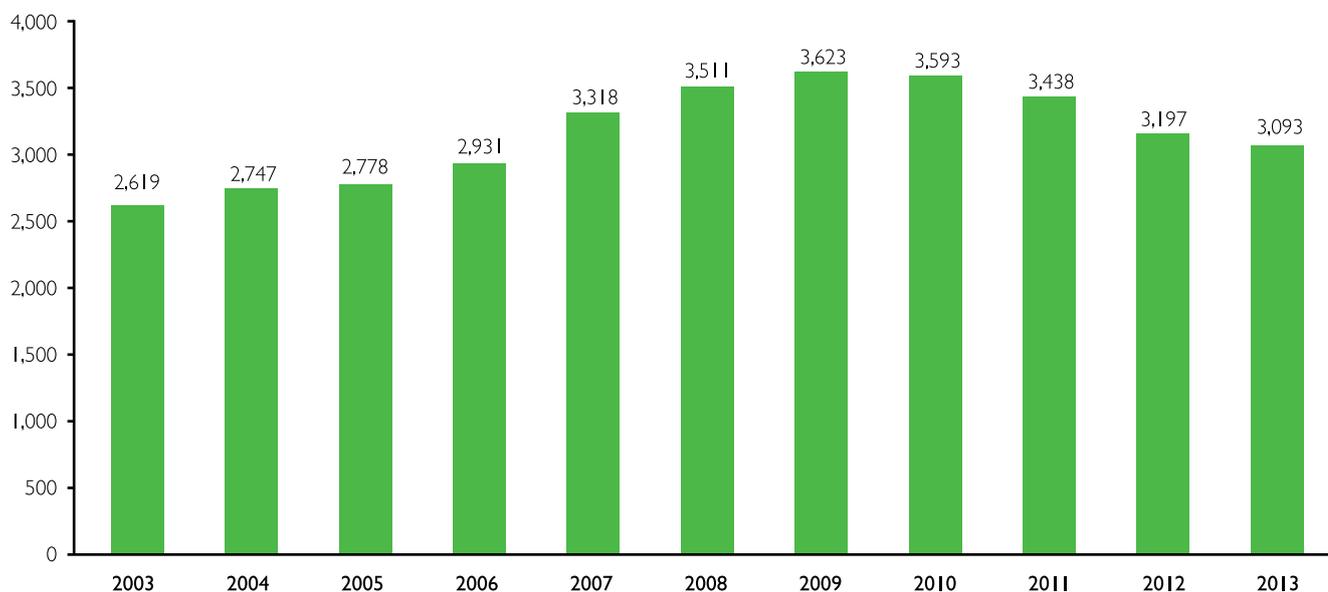
In 2013, EGF's multi-municipal systems treated and recovered 3.1 million tons of waste, 2.5 million of which were of municipal origin, i.e. around 65% of total national household waste.

Population, geographical area and treated waste

Company	Population (thousand inhab)		Geographical area (km ²)		MSW (thousand tons)	
Valorminho	77	1%	950	2%	35	1%
Resulima	320	5%	1,743	4%	128	4%
Resinorte	948	15%	8,031	17%	342	11%
Suldouro	443	7%	384	1%	182	6%
Resiestrela	198	3%	6,132	13%	71	2%
Ersuc	946	15%	6,694	14%	377	12%
Valorlis	305	5%	2,160	4%	116	4%
Valnor	265	4%	11,980	25%	137	4%
Valorsul	1,600	25%	3,378	7%	919	30%
Amarsul	783	12%	1,625	3%	434	14%
Algar	444	7%	4,997	10%	351	11%
EGF	6,329	60%	48,076	52%	3,093	68%
Others	4,233	40%	44,136	48%	1,435	32%
Portugal	10,562	100%	92,212	100%	4,528	100%

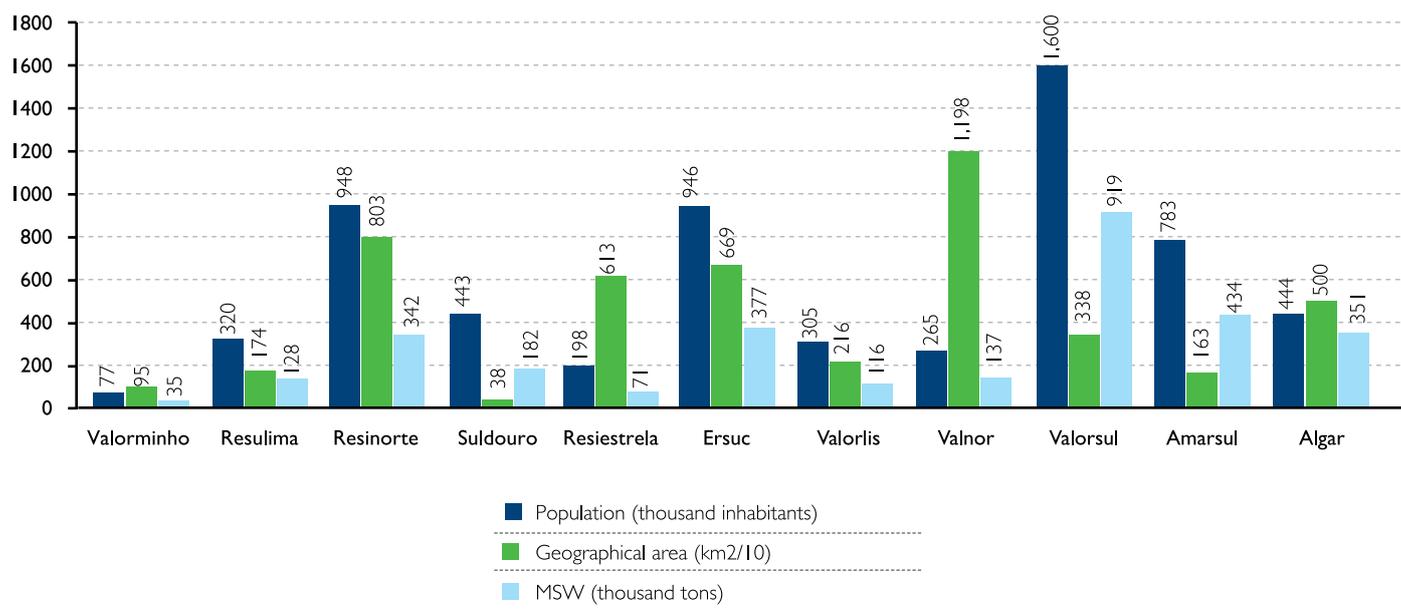


Evolution of Waste treated and recovered (thousand tons)



No new concessions have been incorporated in the EGF universe and no existing ones have been extended to new areas. There have been no major population fluctuations and since they went into operation the waste treatment and recovery systems cover 100% of the populations and geographical areas of the municipalities covered by the concession. There has been a reduction in the quantity of waste treated since 2010, which was more accentuated in 2012 and 2013, due to the country's economic crisis. The graph below shows the relative extent of each.

Company size, population served, waste and geographical area



The following table shows the different aspects and quantities of waste treated by company and type.

Unit: thousand tons

MMS	Waste	%	Waste (in MMS)							
			Total	Municipal SW Municipal SW (tariff)	Other tariffs	Private SW + Industrial Waste	Inert/ Construction and Demolition Waste	Selective Collection		
								Multi material	Organic	Others
Valorminho	35	1%	32	32	0	0	0	3	0	0
Resulima	128	4%	115	114	0	1	1	11	0	0
Resinorte	342	11%	304	304	0	2	3	30	0	3
Suldouro	182	6%	163	163	0	2	1	14	0	2
Resiestrela	71	2%	65	65	0	0	0	5	0	1
Ersuc	377	12%	341	341	0	7	0	28	0	0
Valorlis	116	4%	104	104	0	0	2	10	0	0
Valnor	137	4%	102	102	0	9	10	12	0	4
Valorsul	919	30%	607	605	2	207	0	68	22	15
Amarsul	434	14%	367	367	0	7	35	24	0	0
Algar	351	11%	288	280	8	20	12	28	0	3
Total	3,093	100%	2,488	2,478	10	256	65	233	22	28

Finally, the next table shows some operating statistics for the different companies. The II concession holders are different in terms of geographical location, areas of higher or lower population density, the economic level of the people served and waste treatment technologies used. There is therefore a degree of heterogeneity in their operating performance, as demonstrated by some of the figures.

Performance indicators

Company	Waste (thousand tons)	Waste/ Population served (kg/per capita)	Accumulated investment/ Waste (€/tons)	EBITDA/ Waste (€/tons)
Valorminho	35	460	357	18
Resulima	128	399	195	15
Resinorte	342	361	476	23
Suldouro	182	410	398	36
Resiestrela	71	361	504	39
Ersuc	377	399	428	16
Valorlis	116	381	474	30
Valnor	137	515	495	24
Valorsul	919	574	378	24
Amarsul	434	555	253	15
Algar	351	791	376	17
EGF	3,093	489	382	22

Financial indicators

EGF indicators

The table shows EGF's main individual and group indicators.

Unit: € thousands

(EGF - Individual)	2013	2012	2011
Turnover	800	1,064	1,241
Operational income	(980)	(431)	(1,828)
EBITDA *	6,536	6,465	8,315
Financial income	6,848	5,734	8,210
Net profit	5,767	5,150	6,386
Non-current assets	88,317	90,276	90,832
Financial investments	88,064	90,058	90,071
Assets	100,816	100,714	104,926
Liabilities	2,778	6,443	15,805
Equity	98,038	94,271	89,121

* Includes financial profits.

	2013	2012	2011
Solid waste (thousand tons)	3,093	3,197	3,539
Population served (thousand tons)	6,329	6,382	6,381
N.º of municipalities covered	174	174	174
Geographical area (km²)	48,076	48,009	48,009

Subsidiaries' indicators

The table below shows the main indicators of EGF's subsidiaries.

Unit: € thousands

Indicators 2013									
Companies	Investment (net) 2013	Accumulated investment 2013	Turnover	EBITDA	Net profit	Total municipal (customer debt)	Net assets	Net debt	Equity
Valorminho	754	12,599	1,595	636	281	365	8,339	0	2,304
Resulima	62	24,837	5,111	1,928	243	482	23,318	0	4,863
Resinorte	2,609	163,048	17,670	7,768	1,569	14,071	135,544	37,507	11,194
Suldouro	9,092	72,298	11,806	6,590	1,727	7,340	67,735	11,044	10,790
Resiestrela	1,437	35,999	5,174	2,805	1,462	3,907	37,543	4,281	7,480
Ersuc	2,719	161,433	21,640	6,210	1,201	4,729	123,309	14,546	17,981
Valorlis	3,256	55,191	6,855	3,451	132	298	36,143	16,788	4,183
Valnor	281	67,610	9,982	3,294	675	2,486	64,309	16,505	13,937
Valorsul	2,816	347,235	59,876	22,259	6,411	6,884	222,690	33,055	61,559
Amarsul	2,039	109,675	16,764	6,339	958	19,691	117,242	36,287	14,698
Algar	4,064	132,237	16,238	5,917	574	9,076	106,900	22,446	11,818
Total subsidiaries	29,129	1,182,161	172,711	67,195	15,232	69,330	943,073	192,459	160,807

Considering the importance of customers' debts, especially those of municipalities, the following table indicates their performance in 2013. They showed a downward trend for the first time in a number of years.

Customers' debts

Unit: € million

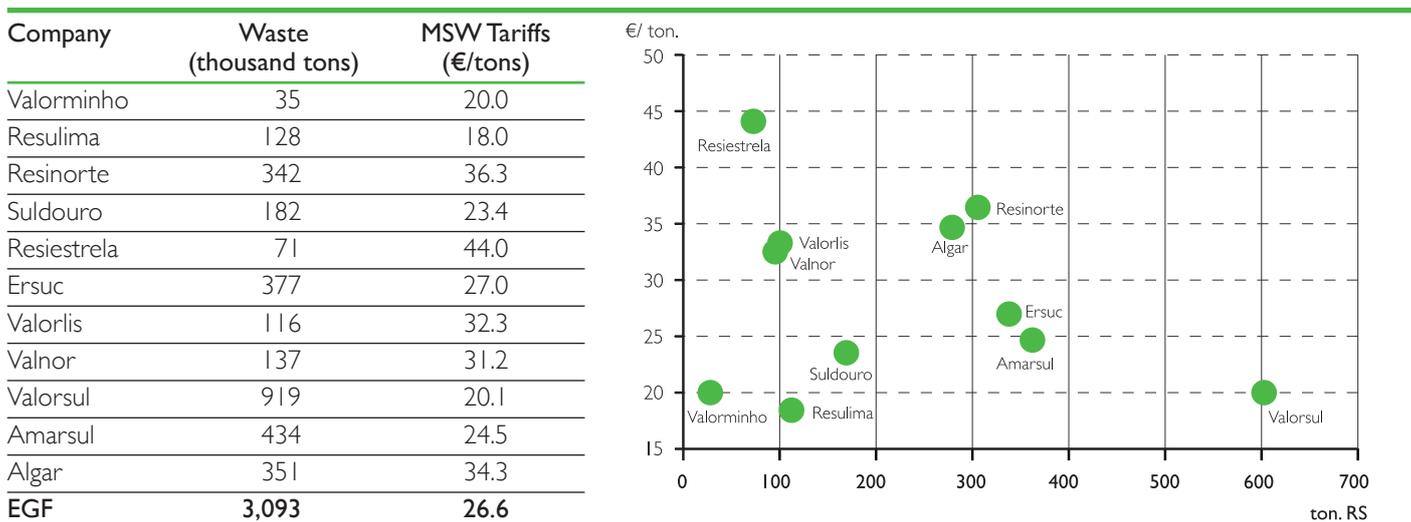
	2010	2011	2012	2013	Absolute variation (dec. 13 - dec. 12)	Relative variation (dec. 13 - dec. 12)
Total debt to MMS	78.0	91.1	103.7	92.3	-11.5%	-11.0%
Municipal debt	57.7	70.3	78.7	69.3	-9.4%	-12.0%
Outstanding debt (municipalities)	42.9	56.5	65.9	58.1	-7.8%	-12.0%
Municipal debt with agreements	nd	17.9	21.0	27.5	-6.5%	-31.0%
Agreements with municipalities (N°.)	nd	34	31	30	-1.0%	-3.0%

Service costs, revenue per company and product, revenue history

The average tariff in 2013 was around €26.60 a ton. The larger companies usually have lower tariffs due to economies of scale. It is also necessary to consider the effect of the technologies used, as companies with simpler waste treatment technologies based on landfills and use of energy from them can also provide a less expensive service, such as Valorminho and Resulima.

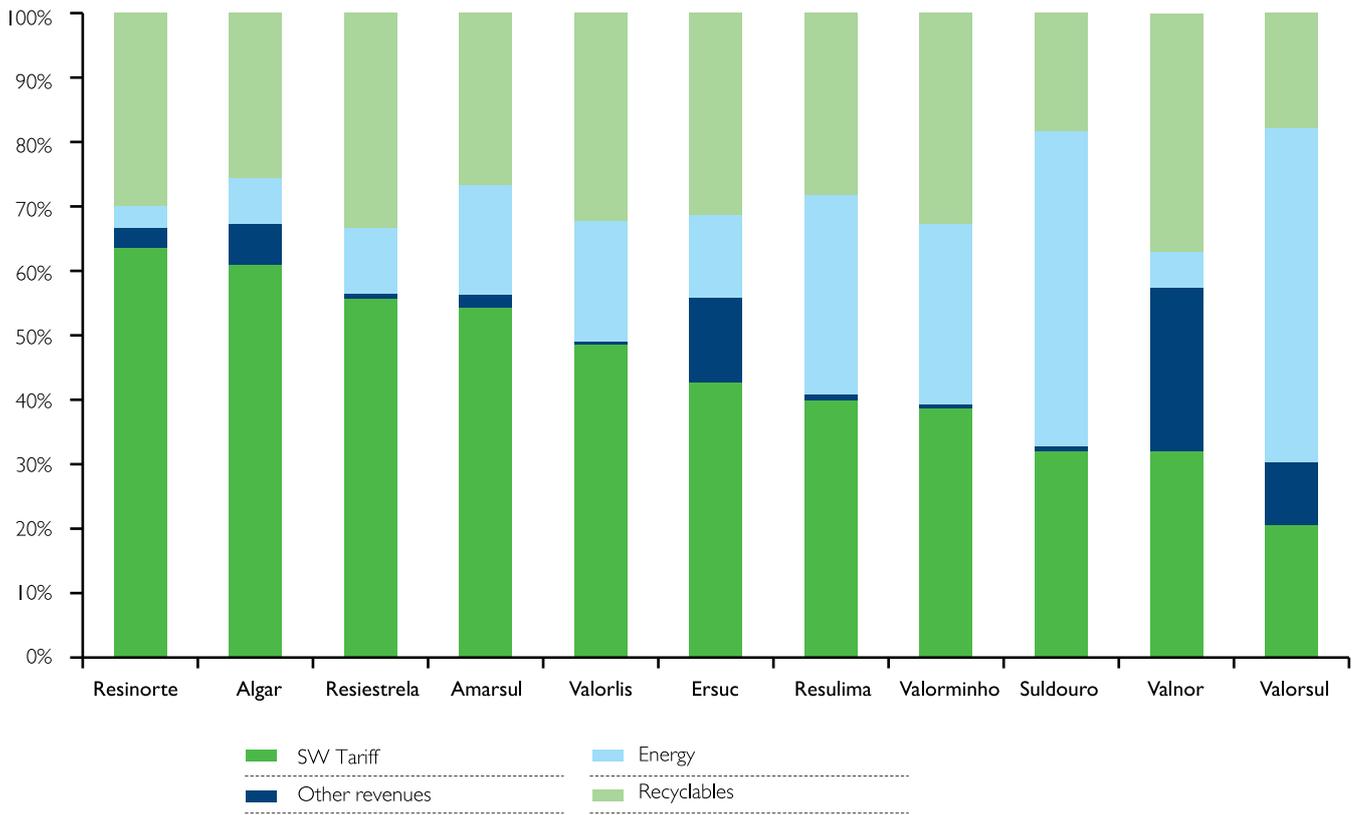
On the other hand, the size of the territory and the existence of few urban areas, such as for Resiestrela and Valnor, negatively affect tariffs, as shown in the figures below.

Size and tariffs



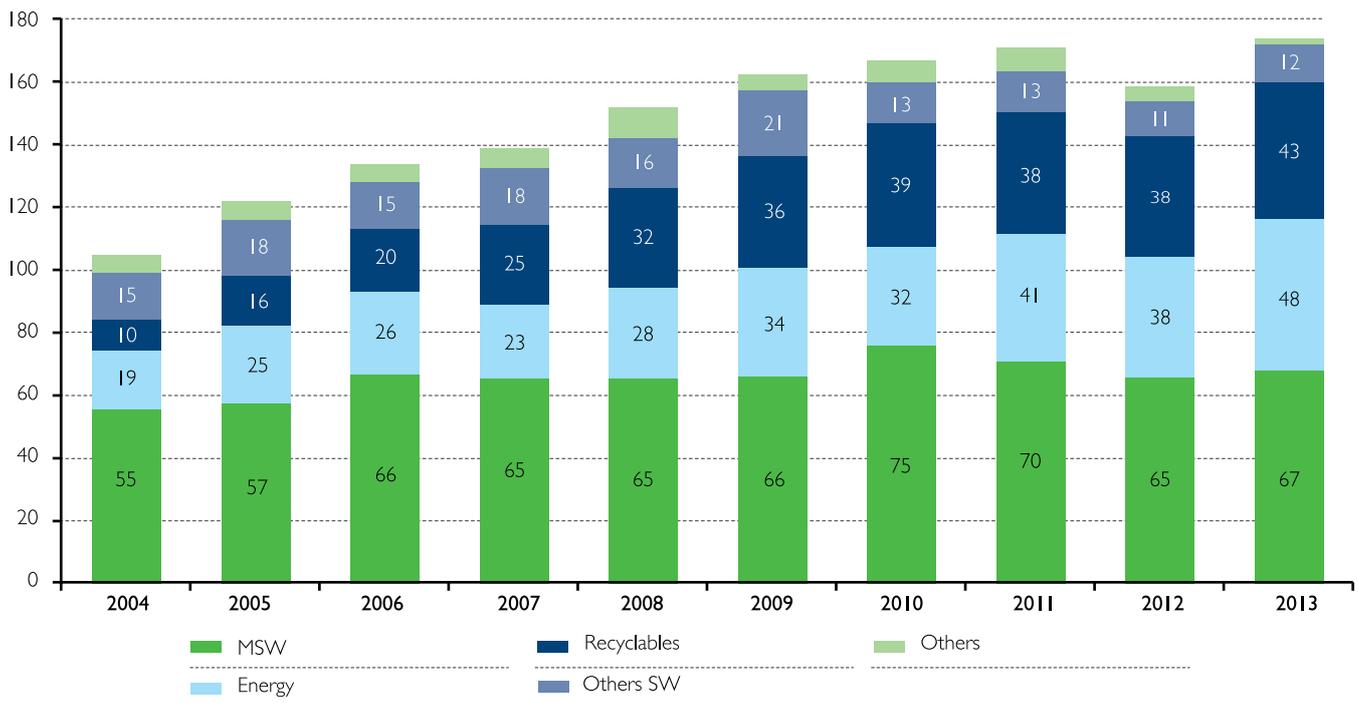
Companies with lower extra-tariff revenue need higher tariffs to cover operating expenses.

Turnover by company and type



In any case, dependence on revenue from tariffs has been falling significantly, especially in the last three years. The energy and recyclables components are growing in importance in companies' turnover. An all-time high of 172 million euros in turnover was achieved in 2013.

Turnover by type



Shareholdings

In December 2013, the EGF universe comprised 11 companies, all of which were subsidiaries. It also held a small position in two joint ventures set up for ground decontamination, ACE EGF/Snesges Urbindústria and ACE EGF/Quimiparque.



The following chart shows shareholdings and basic information on the concessions.

Portfolio of holdings

Company	Concession period	Municipalities involved	AdP holding	Share capital (euros)
EGF	Holding company	n.a.	100.0%	56,000,000
Valorminho	25 years 1996-2021	Caminha, Melgaço, Monção, Paredes de Coura, Valença and Vila Nova de Cerveira.	51.0%	900,000
Resulima	25 years 1996-2021	Arcos de Valdevez, Barcelos, Esposende, Ponte da Barca, Ponte de Lima and Viana do Castelo.	51.0%	2,500,000
Resinorte	30 years 2009-2039	Alijó, Amarante, Armamar, Baião, Boticas, Cabeceiras de Basto, Celorico de Basto, Cinfães, Chaves, Fafe, Guimarães, Lamego, Marco de Canaveses, Mesão Frio, Moimenta da Beira, Mondim de Basto, Montalegre, Murça, Penedono, Peso da Régua, Resende, Ribeira de Pena, S. João da Pesqueira, Sabrosa, Santo Tirso, Semancelhe, Santa Marta de Penaguião, Tabuaço, Tarouca, Trofa, Valpaços, Vila Nova de Famalicão, Vila Pouca de Aguiar, Vila Real and Vizela.	51.0%	8,000,000
Resiestrela	25 years 2003-2027	Almeida, Belmonte, Celorico da Beira, Figueira de Castelo Rodrigo, Fornos de Algodres, Fundão, Guarda, Manteigas, Mêda, Penamacor, Pinhel, Sabugal and Trancoso.	63.0%	3,750,875
Suldouro	25 years 1996-2021	Vila Nova de Gaia and Santa Maria da Feira.	60.0%	3,400,000
Ersuc	33 years 1997-2030	Águeda, Albergaria-a-Velha, Alvaiázere, Anadia, Ansião, Arganil, Arouca, Aveiro, Cantanhede, Castanheira de Pêra, Coimbra, Condeixa-a-Nova, Estarreja, Figueira da Foz, Figueiró dos Vinhos, Góis, Ílhavo, Lousã, Mealhada, Mira, Miranda do Corvo, Montemor-o-Velho, Murtosa, Oliveira de Azeméis, Oliveira do Bairro, Ovar, Pampilhosa da Serra, Pedrógão Grande, Penacova, Penela, Sever do Vouga, São João da Madeira, Soure, Vagos, Vale de Cambra and Vila Nova de Poiares.	51.5%	8,500,000
Valorlis	25 years 1996-2021	Batalha, Leiria, Marinha Grande, Ourém, Pombal and Porto de Mós.	51.0%	2,000,000
Valnor	35 years 2001-2036	Abrantes, Alter do Chão, Arronches, Avis, Campo Maior, Castelo Branco, Castelo de Vide, Crato, Elvas, Fronteira, Gavião, Idanha-a-Nova, Maça, Marvão, Monforte, Nisa, Oleiros, Ponte de Sôr, Portalegre, Proença-a-Nova, Sardoal, Sertã, Sousel, Vila de Rei and Vila Velha de Ródão.	53.33%	10,000,000
Valorsul	25 years 2011-2034	Alcobaça, Alenquer, Amadora, Arruda dos Vinhos, Azambuja, Bombarral, Cadaval, Caldas da Rainha, Lisboa, Loures, Lourinhã, Nazaré, Odivelas, Óbidos, Peniche, Rio Maior, Sobral de Monte Agraço, Torres Vedras and Vila Franca de Xira.	56.2%	25,200,000
Amarsul	25 years 1997-2022	Alcochete, Almada, Barreiro, Moita, Montijo, Palmela, Seixal, Sesimbra and Setúbal.	51.0%	7,750,000
Algar	25 years 1996-2021	Albufeira, Alcoutim, Aljezur, Castro Marim, Faro, Lagoa, Lagos, Loulé, Monchique, Olhão, Portimão, S. Brás de Alportel, Silves, Tavira, V. R. Sto. António and Vila do Bispo.	56.0%	7,500,000
Empresa Geral do Fomento, SNESGES, URBINDÚSTRIA A.C.E.		nd	1.0%	0
EGF, QUIMIPARQUE, A.C.E.		nd	1.0%	0

6.3 Energy and other businesses

AdP Energias

Background

AdP Energias - Energias Renováveis e Serviços Ambientais, S.A. (AdP Energias) was set up on 11 September 2001 with the name RECICLAMAS – Multigestão Ambiental, S.A.. In September 2010, the company changed its name and object to reflect its current mission, i.e. its role in developing different ways of using the energy from the AdP Group's assets and resources.

AdP Energias is responsible for environmental management in the generation, use and supply of different forms of renewable energy to external consumers, the creation of systems for collecting, transporting or treating sludge and its use or final disposal, development of processes or facilities for improving energy efficiency and consultancy and services in these or similar or complementary areas and other environment industry sectors.

Main events

In 2013, AdP Energias reinforced its strategy of becoming the AdP Group's vehicle for the energy sector; not only in renewables, where it maximises use of energy from AdP Group's own resources, but also by rationalising energy consumption and reducing or offsetting greenhouse gas emissions by establishing an integrated energy efficiency plan.

The fiscal consolidation defined in previous years, including limitations on borrowing by state companies, had a decisive effect on the company's strategy. These circumstances were compounded by the economic and financial difficulties associated with the financial market's lack of liquidity. Nonetheless, in spite of these constraints, AdP Energias pursued an ambitious, but realistic medium-term activity and investment plan in its two areas of operation: energy and treatment and final disposal of sludge from wastewater treatment plants.

The following were AdP Energias' different areas of intervention, not only in this year's projects but also in the preparation of medium-term projects.

Biomass

AdP Energias maintained its 40% holding in MIESE, Vila Real/Alijó - Sistemas Energéticos a Biomassa, Lda. It is currently in the process of selling MIESE to FTP – Energia e Ambiente, S.A., extending this sale to the other shareholders.

Photovoltaic energy - Micro-generation

The partnership between AdP Energias and the different multi-municipal systems formed in 2009 to develop and install solar photovoltaic micro-generation plants continued.

2013 was particularly difficult because of bad weather causing the destruction of plants and resulting reductions in generation. These facilities have been rebuilt.

Photovoltaic - Mini-generation

There are currently 10 solar photovoltaic mini-generation plants in production. Like the micro-generation plants they were built in a partnership.

Four plants set up under a partnership between AdP Energias, Águas do Algarve and Águas do Norte Alentejano formed in 2012 went into production in June 2012. 2013 was their first full year of generation and sale of energy to the public grid (Olhão, Boavista, Portalegre and Tramaga).

The other six were built under an ESCO partnership involving AdP Energias, Águas do Algarve, Águas do Centro Alentejo and Águas do Norte Alentejano and a partner selected in a market consultation, Galp Energia (Corval, Reguengos, Redondo, Borba, Tolosa and Almargem).

Five facilities were completed at the end of December 2012 and went into production in June 2013. The Almargem Plant was only completed in September 2013 and went into production and began energy sales to the public grid in October 2013.

A third ESCO investment phase was prepared in a number of multi-municipal systems for 2014 and 2015 with a maximum power of 10 MW.

Micro-hydro plants

The partnership between AdP Energias and Águas do Noroeste for the construction of the Beiriz small hydro plant is behind schedule due to a six-month delay in delivery of the turbine by the factory.

Energy management in AdP Group companies

Under the joint strategy of AdP Energias and the AdP Group companies to develop and implement their integrated energy efficiency plan, work has already been done to optimise consumption via rational energy use.

The work began in 2012 to promote energy efficiency and special status generation projects in AdP Group companies and the first steps were taken in the field in 2013.

The first phase of implementation of the plan has begun and consists of performing energy diagnoses enabling us to set harmonised targets and goals for reducing energy consumption via efficient use by the AdP Group, with particular focus on multi-municipal water supply and wastewater treatment system management entities.

A market sounding of qualified companies for this diagnosis was conducted in December 2013.

Once again, the work will be done in partnership with the different AdP Group companies.

A funding operation using specific lines of support is planned for 2014 for the installation of the efficiency measures being analysed in the diagnoses.

Integrated management of treatment plant sludge

As decided in previous years, the construction of energy recovery plants ceased to be an option for the AdP Group due to its economic and financial constraints.

Given that the assumptions as to the need to solve the problem of final disposal of wastewater treatment sludge had not changed, the Group has been redefining its strategy for the sector in the form of the AdP Group strategy for wastewater treatment sludge.

The following action was taken in this area:

- Development of the AdP Group's Memorandum of Understanding (MOU) with the cement industry continued after it was formally signed in late 2012. Key consultancy companies were used to give independent, pragmatic, objective opinions on the studies.
- As in previous years, AdP Energias continued its collaboration with multi-municipal wastewater treatment system management companies to find and analyse the most technically and economically efficient solutions for treatment and final disposal of wastewater treatment sludge in different regions of mainland Portugal.
- An MOU signed with Dream Energy is for the implementation of a wastewater sludge treatment unit involving drying and photovoltaic concentration, which is unique. Co-payment of the investment was approved by IAPMEI and the administrative process should be completed for work to start in 2014.
- In the Centro region, there were developments in the possible implementation of the existing unit by a private company. Pursuant to the Public Contract Code (CCP) there must be a call for tenders to allow a subconcession for sludge for Simria, a new entity. It will be necessary to obtain permission from the supervising authority to extend the service provision time.
- Monitoring of an Águas do Noroeste sludge management study was completed. Its aim was to implement a sludge management system in line with the AdP Group's strategy.
- Preparations continued for the construction of the first solar sludge drying unit in the Algarve. There was an update of the request for prior information on the possibility of licensing for the building of the unit in São Bartolomeu de Messines. A tender was issued in accordance with the CCP.
- With a view to making partial use of Sanest's thermal sludge drying unit in Guia, AdP Energias has been working on a project to install solar panels to generate electricity and reuse biogas produced and alter the equipment so that the thermal drying unit can operate affordably for Sanest.

Other projects

As in previous years, given that the AdP members of the Board of Directors of Trevo Oeste are AdP Energias employees, collaboration continued with AdP SGPS to develop economically appropriate business solutions for the AdP Group's development of joint solutions for treatment of pig farming effluent.

AdP Energias has been increasing its work at Trevo Oeste due to the need to define the company's strategy, as its future is in the balance.

Financial indicators

AdP Energias ended the 2013 financial year with a net profit of 51,000 euros, which was 95,000 euros less than in 2012.

This was mainly due to a 141,000 euro fall in operating profit, as opposed to the 250,000 euros achieved in 2012.

The fall in operating profit in 2013 was due in part to a 76,000 euro reduction in operating income at AdP Energias and 33,000 euro increase in operating costs.

Nonetheless, AdP Energias recorded a profit for the second year running in 2013.

AdP Energias' turnover fell by 204,000 euros, influenced essentially by transfer of its position in the Organic Rankine Cycle (ORC) business to Suldouro and a drop in energy generated in the micro-generation business. There was damage to some plants and they had to be written off and replaced. This resulted in a 115,000 euro drop in income from this business against 2012.

AdP Energias' turnover was influenced to the tune of 80% by the micro-generation business, 18% by mini-generation and 2% by other business.

AdP Energias' earnings in 2011 and 2012 reflected income from the ORC business, solar photovoltaic power generation by micro-generation equipment and, in late 2012, mini-generation equipment.

In 2013, EBITDA was 409,000 euros, which was 137,000 euros (25%) lower than in 2012. In spite reductions in spending on suppliers and services (12,000 euros) and personnel costs (11,000 euros), it was lower than the reduction in turnover at AdP Energias (204,000 euros).

AdP Energias' assets fell by 786,000 in 2013, mainly due, as mentioned above, to the transfer of its position in the ORC business to Suldouro, which recorded at 633,000 euros as an intangible asset.

At the end of 2013, AdP Energias' non-current assets were essentially micro-generation and mini-generation plants, along with investments in courses in the mini-hydro plants, CPV, sludge and energy efficiency businesses.

AdP Energias maintained its 40% position in MIESE, recorded at 327,000 euros in 2013.

There was a decrease in customers in non-current assets and other current assets, which also influenced total assets at the end of 2013.

On the liabilities side, there was an 837,000 euro decrease on 2012. It was influenced by the transfer of position in the ORC business to Suldouro and the amounts invested in this business were therefore regularised in 2013.

Liabilities at the end of 2013 were mostly influenced by a debt to AdP SGPS (single shareholder of AdP Energias) for a 1,200,000 euro loan. The loan was contracted in 2011 and continued until 2013. It was used essentially to cover AdP Energias' investments over the years.

The financial earnings of AdP Energias in 2013 were 4,000 euros higher than in 2012, as a result of interest rates on the 1,200,000 euro subsidy.

Unit: € thousands

Financial indicators	2011	2012	2013	Variation 2013/2012	
				Value	%
Turnover	772	911	707	(204)	(22%)
Operating cash flow (EBITDA) ¹	216	546	409	(137)	(25%)
Current and non-current assets	4,863	4,991	4,205	(786)	(16%)
Current and non-current liabilities	2,178	2,160	1,323	(837)	(39%)
Financial income	(72)	(90)	(87)	4	4%
Net profit for the year	(67)	146	51	(95)	(65%)

¹ Operating income + Depreciations + Provisions

6.4 Internacional

International Business Unit (UNI)

Background

The UNI's mission is the economically sustainable management of the AdP Group's business outside Portugal. It acts as a showcase of the Group's international abilities and competences and lever for its internationalisation.

As part of its work, it also plays an important role in cooperation, as some of its sustained or ongoing initiatives are related to cooperation and social responsibility rather than just a business purpose. Economic sustainability is, however, a fundamental driver in its activity.

AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A. (AdP I) was set up in 2001 to support the Group's international strategy.

AdP Internacional's operations are aimed at economic and environmental sustainability and its main guidelines are as follows:

1. consolidate existing projects focusing on expansion to new businesses in markets in which it already has a significant presence or considerable experience;
2. sustain growth in the area by acquiring new businesses while minimising investment and using a fee-based perspective;
3. strengthen organisational structure and focus management on creation of value for shareholders and thereby develop new economically sustainable businesses;
4. assist in the internationalisation of other Portuguese companies in the environment sector.

Main events

Nine technical assistance projects were undertaken in 2013:

- Technical assistance to the Water Supply and Treatment Department of the Secretariat of State for Water, Ministry of Energy and Water in Angola in partnership with Ogimatech and Tese, funded by the European Union.
- Support for the formation of a water and treatment company in Uíge Province, Angola, with Angolan government funding.
- Support for the formation of a water and treatment company in Sumbe (Kwanza Sul Province, Angola) in partnership with KPMG and COBA, with funding from the African Development Bank.
- Technical assistance for projects and inspections, with Angolan government funding.
- Support for the formation of a water and treatment company in Caxito (Bengo Province, Angola), with Angolan government funding.
- Technical assistance in the construction of a wastewater treatment plant in Matadi, Democratic Republic of Congo, in a consortium with the Sousa Pedro construction company, with World Bank funding.
- Technical assistance to the National Water Department in analysis of projects and additional studies in Angola.
- Technical assistance to the National Water Department in analysis of projects and works supervision in Angola.
- Technical assistance in commercial management using Aquamatrix software for Águas da Região de Maputo, Mozambique.

The continuation of the technical assistance contract with the Angolan Water Supply and Treatment Department, which began in 2010, and considerable involvement in new contracts signed in 2012 and 2013, which achieved substantial operational development in 2013, show the results of investments made by AdP Internacional in Angola, by developing and consolidating the work of its branch office (AdP Angola).

The operations of AdP Timor-Leste were reactivated, as several business opportunities were identified in the treatment and solid waste sectors, mainly resulting from partnerships in Timor with companies operating in them. With its experience from other services, AdP Internacional feels that it can be an asset. After contacts with institutions and companies and considering the market opportunities, AdP Timor-Leste was awarded a technical assistance contract in the implementation of the Díli Sanitation and Drainage Master Plan. It is expected to go ahead in 2014.

Following a strategic reorientation for businesses in Mozambique, in 2013 AdP Internacional provided guidance to Aquatec, an instrumental company in the country for consultancy on technical assistance services for the water, sanitation and waste sectors.

Aquatec world in Mozambique in 2013 under its first technical assistance contract with Águas da Região de Maputo and made contacts in search of partnerships for other business ventures.

Financial indicators

The economic and financial indicators shown reflect the instrumental nature of AdP Internacional, which transfers the necessary resources for its subsidiaries to operate and direct engagement in projects in foreign markets in which it is present and via its branch office in Angola (AdP Angola).

Unit: € thousands

Economic and financial indicators	2011	2012	2013	Variation 2013/ 2012	
				Value	%
Turnover	1,656	3,750	4,339	589	15.7%
Operating cash flow (EBITDA*)	(1,262)	(545)	(933)	(389)	(71.4%)
Net assets	6,524	7,598	8,338	740	9.7%
Liabilities	7,208	8,425	9,135	710	8.4%
Financial income	(248)	(326)	(322)	4	1.3%
Net profit for the year	(1,216)	(914)	(884)	30	3.3%

* EBITDA = Operational Income + Depreciation + Provisions

The company recorded a net loss of 884,000 euros, which was 30,000 euros better year on year.

There was an increase of almost 590,000 euros in turnover in 2013, thanks to growth in the company's activity in Angola, i.e. continuation of technical assistance to the Angolan Water Supply and Treatment Department, the appearance of new projects for Caxito, APEC, APSO and Matadi and completion of the Uíge, Sumbe and AT APF projects.

The deterioration in EBITDA at the end of 2013, which was negative by 933,000 euros, reflects an increase in the weight of structure costs in AdP Internacional's business, in spite of the year-on-year increase in turnover, and the effect of billing by AdP Angola to AdP Internacional in the amount of 536,000 euros, which is not the case in 2013.

Operating loss in 2013 was greater year on year (-65,000 euros) which can be explained by the effect of billing from AdP Angola to AdP Internacional in 2013 and also the creation of a new provision of 177,000 euros for the debt of EPAL-EP and reversal of a provision set up on the sale of Águas de Moçambique (345,000 euros).

This deterioration in the operating result, also due to the increase in structure costs (more employees), was a consequence of AdP Internacional's search for new markets in order to increase its representation.

AdP Internacional's liabilities increased by around 710,000 euros in 2013, as a result of an rise in bank loans because of an increase in the company's activity, problems in releasing cash flow from projects and a reduction in the balance of suppliers and provisions set up.

Net assets grew 740,000 euros against 2012. This can be explained almost exclusively by a 704,000 euro variation in customers resulting from an increase in the company's business activity and the consequent increase in projects. Financial performance went down by 4,000 euros in 2013 to around -322,000 euros.

AdPI plans to continue the sustained growth in its activity and consolidate the image of the AdP Group in its current markets and new markets such as Azerbaijan, North Africa (particularly Morocco and Algeria) and East Timor.

6.5 Shared services

Shared Services Business Unit (UNSP)

The UNSP is responsible for shared services in the AdP Group and comprises the companies that operate in support or auxiliary areas. Its mission is to provide the Group's business units and subsidiary companies with the common support services that they need efficiently and at competitive prices, thereby achieving economies of scale. It provides technologically advanced solutions, abides by good management practices and makes a decisive contribution to pursuing the Group's corporate goals.

AdP Serviços

AdP - Águas de Portugal, Serviços Ambientais, S.A. (AdP Serviços) specialises in providing the common support services necessary for the Group's companies and business units to operate. These services are provided by seven departments, which perform corporate activities and shared services, and the Board of Directors support staff.

Dept.	Mission	Dept.	Mission
Planning and Operations	Assisting the BoD in defining strategy, goals and policies for shared services, demonstrating the benefits of the shared services model and developing and controlling procedures for managing relations with the companies, monitoring management of AdP Serviços projects of strategic importance to the business	Financial Services and Accounting Department	Providing accounting services to the holding company and instrumental companies and consolidating the AdP Group's accounts, ensuring standardisation of principles, procedures and tools with a view to ongoing improvement in the Group companies' business processes
Procurement and General Support Department	Achieving business advantages arising from the Group's size, undertaking centralised negotiations in strategic areas, thereby, in conjugation with the e-procurement system, achieving process and capital gains that each company individually would not be able to achieve	Marketing and Communication Department	Providing the Group's companies with an integrated strategic marketing, communication and graphic design service based on the fundamental values of creativity, efficiency and quality
Information Systems Department	Implementing strategies and guidelines on information systems from the holding company in order to standardise them, managing the network infrastructure and software of the instrumental companies	Legal Department	Providing legal consultancy to the Group's companies on litigation, company law, regulation, public contracts and environmental law
Human Resource Department	Performing human resource procedures centrally, such as contract management, salary processing, training, recruitment and selection, among others	Engineering Department	Providing engineering services in the three implementation phases of concession contracts (planning, construction and operation) to Group companies and the holding company to consolidate a technical culture in the Group, improve process efficiency and create synergies, serving as a communication and transmission channels for the technical know-how accumulated by the Group companies

Main events

The work of AdP Serviços in 2013 focused on developing and consolidation group-wide processes capable of generating optimisation and operational efficiency for the AdP Group companies.

At the same time, AdP Serviços continued to assist AdP SGPS in drawing up a roadmap for the Group's restructuring, including monitoring ongoing aggregation and verticalisation.

Progress was also achieved in the preparation and implementation of asset-management processes in the UNAPD companies and introduction of the new framework agreement in the insurance category.

Where procurement processes were concerned, relations with ESPAP were tightened especially with regard to generalist categories.

AdP Serviços's mission is to obtain business advantages resulting from the Group's size. It is responsible for developing centralised negotiation processes in strategic areas, thereby achieving process gains and operating capital gains that each company alone would not be able to achieve, in conjugation with the e-procurement system. The main challenges are simplification of processes for an effective flow of information within the organisation, so that managers' decisions can be based on an overall vision of the company. This avoids duplicating processes, reduces operating costs and brings value added to the companies' operations. The advantages also arise from greater specialisation of procedures to make them as close as possible to its reality and operational needs.

In 2013, the company completed centralised negotiations for insurance, which can be expected to result in economies of scale do estimated at 12% against 2012. The value under negotiation rose by around 48% (5 million euros per year).

The other categories did not undergo any significant changes other than those resulting from the companies' current constraints and operational needs.

Purchases resulting from centrally negotiated contracts totalled 82,487,527 euros with an estimated direct benefit for the subsidiaries of 13,991,787 euros, or 17%.

Indirect benefits for the companies included an estimated 1 million euros from the launch of four procurement procedures, calculated by extrapolating the direct costs of preparing them, in view of the number of companies covered by them.

The following were the most important projects and initiatives at AdP Serviços in 2013:

- tender for new framework agreements or renewal of existing ones for insurance, energy and reagents;
- management of communications and logistics of the celebrations of the AdP Group's 20th anniversary;
- involvement of several AdP Serviços areas in starting verticalisation of the Noroeste multi-municipal system;
- legal support in the privatisation of EGF;
- legal support in defining a new legal framework for aggregation of multi-municipal systems;
- execution and management of the "EcoAttitude AdP" campaign at AdP's head office building;
- high participation in the Corporate Asset Management Working Group, which established new corporate policies in this area;
- start of the centralised process of preparing functional aptitude reports pursuant to Decree-Law 195/ 2009;
- implementation of inventory and integration of the assets of Águas de Santo André and Águas do Centro Alentejo;
- centralised assistance in adapting the regulations -Type of Water Supply and Wastewater Treatment Operation;
- coordination of the AdP Working Group that belongs to the working group at the Ministry of the Environment, Spatial Planning and Energy responsible for preparing the strategy for the water supply and wastewater treatment sector 2014 – 2020.

Main financial indicators

Unit: € thousand

IFRS - Financial Indicators	2011	2012	2013	Δ 2013/ 2012
Services	10,079	9,967	9,726	(2%)
Other income and gains	2,951	2,683	1,891	(30%)
Operating cash flow (EBITDA) ¹	4,504	4,431	2,902	(35%)
Current assets	3,349	5,050	4,530	(10%)
Non-current assets	23,600	22,425	21,449	(4%)
Current liabilities	5,919	7,140	6,194	(13%)
Non-current liabilities	17,344	15,406	13,843	(10%)
Financial profits	(471)	(427)	(293)	31%
Net profit	1,691	2,244	1,013	(55%)

¹ Operating profit + depreciation + provisions

AdP Serviços made a net profit of 1,013,000 euros in 2013, which was 55% lower than in 2012 and reflected a reduction in other gains (building) and an increase in personnel costs (subsidies).

The year showed a good operating performance with EBITDA of 2,902,000 euros, although it was lower than in 2012.

The services provided were roughly the same as previous years, though they were down 2% on 2012.

Other income and gains are continuing to show a downward trend as a result of a new reduction in the price per square metre of use of the building, due to reductions achieved in previous years with costs and interest associated with it.

Assets totalled 25,979,000 euros, lower than in 2012, as a result of a reduction in receivables and other assets (amounts billable for 2013), in spite of an increase in available funds.

Liabilities fell, due to a deviation in non-current liabilities (depreciation of leasing the building) and current liabilities (reduction in bank overdraft).

The financial loss of 293,000 euros was once again an improvement as a result of a continuing fall in interest rates (Euribor 3M) associated with the building's lease.

Estimated cost savings for the Group

Building

AdP Serviços adjusted the price per square metre at which use of the offices was billed in 2013 from 31 to 26.55 euros, resulting from a decrease in costs of the building.

This signified a 283,000 euro saving for the companies as follows:

- AdP SGPS (with UNA-PD): 180,400 euros
- AdP Internacional: 19,000 euros
- EGF: 45,000 euros
- Aquasis: 34,000 euros
- AdP Energias: 5,700 euros

Engineering

The Engineering Department revised its hourly rates, which resulted in an average reduction of 6%, in view of lower costs in the department and as a way of best adapting to the market. This revision resulted in a 78,000 euro saving for the AdP Group companies.

Marketing

There was an average reduction of 10% in retainers against 2012 in the Marketing Department, representing a saving of 64,000 euros for the Group companies.

Aquasis

Background

Aquasis - Sistemas de Informação, S.A., originally called Aquasis - Consultores de Engenharia Municipal e Ambiente, Lda., was founded in 1991 by hydraulic engineers. Since it was set up Aquasis, S.A. has combined its know-how about hydraulic and sanitary engineering in general and water supply and wastewater and rainwater drainage system in particular with the development of information systems.

Since its foundation Aquasis, S.A. has been developing information systems for companies and management entities of sanitation systems. It is a pioneer in implementing this type of technology in Portugal.

As a result of its strategy, Aquasis, S.A. made a name for itself in the market and was partially taken over by the AdP Group - Águas de Portugal, SGPS, S.A. in 2002, when its name was changed to Aquasis - Sistemas de Informação, S.A.

Today, Aquasis, S.A. is an AdP Group - Águas de Portugal, SGPS, S.A. company that develops and consolidates information technology for:

- developing information technology solutions and services for the operation, maintenance and technical management of water supply, wastewater and rainwater treatment and treatment and solid household waste recovery systems;
- providing services and implementing these solutions at AdP Group companies and companies and management entities in the sector in all its components, such as process analysis, supporting computer architecture, treatment and processing of data, technical assistance, post-implementation support and training;
- promoting the solutions in national and international markets in general.

Membership of the AdP Group makes Aquasis, S.A. unique, meaning that it stands out from other information technology companies in Portugal. Its characteristics include:

- total specialisation in management companies water supply, wastewater and rainwater drainage and solid household waste treatment systems;

- close, direct collaboration with operational companies, which, combined with its engineering know-how, means that it is totally familiar with the business and the problems involved;
- possibility of testing methodologies and solutions in a real environment with operational companies thereby guaranteeing that they are suited to the reality of the sector and business;
- guarantee of durability of solutions, with permanent teams devoted to development, implementation, training and post-installation support in operational and technological changes and meeting users' needs.

This has also increased the competitiveness of Aquasis, S.A. in the national and international markets as proven by the growth in its market shares.

The internal restructuring of Aquasis, S.A. in 2013 defined a proposal of value for the company in line with its vision, which is based on the assumption that smarter water and treatment systems spring from a connection between business processes, cutting-edge technology and a passion for innovation.

Its critical success factors are therefore:

- **Activities**

- Integrity and accuracy
- Result orientation
- Culture of innovation

- **Clients**

- Orientation towards customer satisfaction
- Excellence of service
- Demonstration of capital gains achieved

- **Organisation and processes**

- Knowledge management
- Efficiency of processes
- Organisation aligned with innovation

- **In-house culture and skills**

- Creativity and innovation
- Motivation and team spirit
- Excellent core-business skills

Main events

Following a meeting of Aquasis, S.A. management staff on the subject of growing and innovating in the water market, the company was restructured. It defined a new vision and changed its organisation chart.

This restructuring was conducted in line with shareholders' recommendations and consolidated in 2013. It is based on an ambitious strategic vision that is essentially intended to strengthen the company's national and international position as a key partner of water, treatment and waste management entities, align business processes and information technology solutions and maximise operating efficiency and rationalisation of costs.

A number of sessions entitled "An Hour and a Half on..." were held to inform all employees about the company's activities as part of the restructuring, where managers of each area of Aquasis, S.A. presented their products and services. These sessions not only served for everyone to share information but were also important forums for reflection on methods for addressing the market.

The Aquasis, S.A. portal was opened during the celebration of the company's 22nd anniversary on 22 February 2013. The portal is not only a fundamental part of the company's commercial strategy but also guarantees greater proximity to customers for sharing of information and advertising of new products and services.

Following the definition of a more aggressive strategy for advertising Aquasis, S.A. and its products the first forum for the sharing and dissemination of good practices was held in April 2013 on the subject IMS as a Factor of Efficiency and Competitiveness in Water Supply and Treatment Management Entities.

The forum was held in the LNEC Auditorium and was attended by 254 participants representing 84 companies with an interest in the sector, such as water supply and treatment management entities. The meeting was opened by Professor António Jorge Monteiro, as president of the APESB, and closed by Jaime Melo Baptista, president of ERSAR. Presentations were given by different Portuguese and foreign water supply and treatment management entities, all of them addressing the use of Aquasis, S.A. solutions that help improve their efficiency and competitiveness.

Aquasis, S.A. undertook considerable technical and commercial work within and outside the AdP Group, in Portugal and abroad in 2013.

Aquasis solutions

G/Interaqua

IMS G/InterAqua is an integrated solution on a common technological platform including desktop, web and mobility components. It is designed to provide support in the registration of infrastructures (assets) and the planning of operation and maintenance in most of the companies and management entities in the sector.

This solution is currently not only the corporate solution for the AdP Group's companies but also indisputably the IMS solution used most in Portugal by water supply and wastewater and rainwater treatment companies and management entities.

In addition to providing technical assistance and evolutive maintenance of IMS G/InterAqua to current Aquasis, S.A. customers, the following new customers were acquired in 2013:

- Serviços Municipalizados de Loures: supply and installation of IMS G/InterAqua;
- Águas de Santarém: supply and installation of IMS G/InterAqua;
- AGERE: evolutive maintenance of IMS G/InterAqua;
- Serviços Municipalizados de Água e Saneamento de Torres Vedras: evolutive maintenance of IMS G/InterAqua;
- Aigües de Reus, Empresa Municipal SA: supply and installation of IMS G/InterAqua.

Commercial activities began and bids with high chances of success were submitted to the following management entities:

- EASB - Empresa de Águas e Saneamento do Lobito;
- EASL - Empresa de Águas e Saneamento de Benguela;
- RDTL - República Democrática de Timor-Leste;
- EMAS - Empresa Municipal de Águas e Saneamento de Beja, E.M.;
- SGU - Sociedade de Gestão Urbana de Vila Real de Santo António;
- FAGAR - Faro, Gestão de Águas e Resíduos, E.M.

AQUAFIELD

In 2012, Aquasis, S.A. completed development of an operational mobility solution called AQUAFIELD. It is based on IMS G/InterAqua and designed for recording, planning and managing work orders.

AQUAFIELD was developed after a detailed analysis of management entities' processes for executing work orders for water supply and wastewater and rainwater drainage systems, as follows:

- total coverage of operational flow (from start to finish of the work order);
- registration and planning of work orders and allocation to operational teams;
- on-site assessment of the work order;
- reservations of material at the work site;
- integration with other IS – customer management and ERP;
- definition of optimised closure of valves.

The solution was originally installed at Águas do Sado, a partner in the design of the solution. In 2013 we began the whole process and advertising and marketing the solution, which was adopted by the following management entities:

- EPAL, Empresa Portuguesa das Águas Livres, S.A.
- Águas da Figueira, S.A.
- Serviços Municipalizados de Loures
- Serviços Municipalizados de Água e Saneamento de Almada

After the different sales campaigns, this solution is expected to be installed at the following management entities:

- Águas de Cascais, S.A.
- SIMAS de Oeiras e Amadora
- AGERE – Empresa de Água e Resíduos de Braga, E.M.
- EMAS - Empresa Municipal de Águas e Saneamento de Beja, E.M.

AQUAMAN

Aquasis, S.A. has set up a strategic partnership for assets maintenance and management with IBM Portuguesa, S.A. in an Independent software vender agreement.

Under this partnership, Aquasis, S.A. developed the AQUAMAN solution for integrated management of asset maintenance adapted to the needs of management entities of water supply and wastewater and rainwater treatment systems.

In 2013, Aquasis, S.A. migrated the asset maintenance and management information system used by the operational AdP Group companies to AQUAMAN.

Use of AQUAMAN made a number of substantial technological and functional improvements, such as:

- integration with the IMS G/InterAqua solution;
- integration with the companies' operations solution;
- export of search results from the app to Excel with no need for reports;
- autonomy of users in generating dynamic reports;
- possibility of extracting variables for producing ERSAR indicators;
- new work and resource planning tool (work orders and labour), with graphic interaction for updates;
- greater availability of the system and solving of performance problems in the previous solution.

Sales campaigns began for AQUAMAN and bids were submitted to the following entities, with all probability of success:

- Aeroportos de Moçambique, EP
- SIMAS de Oeiras e Amadora
- A.S. – Empresa das Águas de Santarém – EM, S.A.
- Luságua - Serviços Ambientais, S.A.

Summary of Indicators

Unit: € thousand

Financial indicators	2011	2012	2013	Δ 2013/ 2012
Turnover	2,297	1,937	2,598	34.1%
Operating cash flow (EBITDA) ¹	76	89	257	187.8%
Net profit for the year	28	-130	79	160.9%
Net assets	1,851	2,146	2,451	14.2%

¹ Operating profit + Depreciation + Provisions

7. Future outlook

The sustainability of operations and management efficiency are major goals for the Board of Directors and these are the basic principles of our strategic options for the AdP Group.

This framework covers ongoing reorganisation processes, which are essential for achieving higher environmental quality, greater operating efficiency and economic and financial sustainability in the sectors in which the AdP Group operates. It is part of a broader goal of guaranteeing that these essential public services continue to be universal and fair and are provided to the country's population with quality and controlled costs.

The strategy for reorganising of the water and waste sectors is based on creating the right conditions for structurally and permanently preventing the accumulation of debts by the multi-municipal water and waste systems and recover accumulated and growing tariff deficits, both of which are at critically high limits and are affecting the AdP Group's sustainability. The Group's solidity is fundamental in ensuring the restructuring effort and meet the huge challenges that remain in these sectors.

In addition to guaranteeing economic and financial sustainability by regulating cost recovery tariffs and recovering the tariff deficit, as set out in the economic and financial models for aggregations of multi-municipal systems, the introduction of itemised invoices is expected to prevent multi-municipal systems' debts from accumulating. Gains from economies of scale and range resulting from aggregations and optimised processes in integrated municipal systems management will reduce costs of water supply and treatment with benefits to final consumers. The introduction of more efficient processes will also help reducing losses and foster economic and environmental efficiency of downstream systems.

The goals of the current restructuring are fulfilment of national and European environmental targets, access to services by the populations served by adapting tariffs to their economic resources, territorial equality and promotion of higher efficiency and economic efficacy that, when all is said and done, ensure the systems' economic and financial sustainability. We will continue to pursue them in 2014 and beyond. According to studies, the sector's restructuring is expected to generate annual savings of around 175 million euros.

The regulator is now independent and has greater powers. It will play a decisive role in the success of public policies in our fields as will our partner municipalities, whose collaboration is essential in improving the efficiency of this sector of services that are vital to the public's quality of life.

The AdP Group will continue to work towards optimising the efficiency and rationality of use of resources by opting for virtuous circle investments that guarantee quality of service while also ensuring the economic sustainability of projects and continuing to make the necessary efforts to reduce costs.

Where future prospects are concerned, the guidelines and goals of the sector's strategic plans (PENSAAR 2020 - A New Strategy for the Water Supply and Wastewater Sanitation Sector and PERSU 2020 - Strategic Plan for Urban Solid Waste) are very important and should be completed by June 2014. They will define targets and goals for each of these sectors and govern the work of the AdP Group companies. They will also articulate with the Common Framework Strategy, which will guide the use of European funds.

In addition to investments in consolidating and expanding the water supply systems and especially wastewater treatment systems, in energy eco-efficiency and in adaptation to climate change, the AdP Group's investment strategy for upcoming years will focus particularly on energy efficiency. This will include greater efficiency in consumption and development of a strategy for making more use of the Group's own resources to generate energy from water, heat or treatment of emissions from operating facilities.

Considering that reuse and treatment of water and wastewater, recovery of by-products and the water-energy nexus are priority investment areas in our innovation strategy for water in the new community support framework Horizon 2020, the AdP Group's strategy includes the development and implementation of innovative solutions, such as optimisation of operational management of water and treatment systems.

On the international business, the AdP Group will continue its strategy of consolidating and growing businesses in the markets in which it operates and addressing new markets. It will also proceed in accordance with the principles of economic and financial sustainability.

In 2014, will proceed the process of selling the Group's shareholding in EGF, in which AdP is collaborating very closely with the Government.

A final remark to the IWA World Water Congress that will be held in Lisbon in September 2014. For the AdP Group, as a key international player, this is an opportunity to share the model that it has developed over 20 years and to exchange experiences with business groups of world renown.

8. Relevant facts after the close of the financial year

An amendment to the Organic Law on the Regulator of Water and Waste Services (Law 4/2014 of 6 March was approved).

Decree-Law 45/2014 of 20 March marked government approval of the reprivatisation of the shareholding held by AdP SGPS, S.A. in EGF. Council of Ministers Resolution 30/2014 A of 8 April 2014 approved the specifications for public tender for the sale of EGF and was published in DR. n° 71, II série, of 10 April 2014.

9. Company branch offices

AdP - Águas de Portugal, SGPS, S.A. (AdP SGPS) has no branch offices.

AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A., which is owned 100% by AdP SGPS, has a branch office in Angola called AdP Angola.

10. Final remarks

The Board of Directors would like to highlight the performance of everyone who was directly or indirectly involved in the pursuit of the AdP Group's goals in 2013:

- the managers and employees of AdP SGPS and all the companies for their effort, dedication, competence and professionalism in their work;
- the directors and managers of all the Group's companies for their commitment during the year;
- the members of the other corporate bodies for their competent, impartial monitoring of the company's operations;
- the shareholders for their guidance, commitment, confidence and support;
- our customers, private partners and financial institutions for their confidence and cooperation;
- the regulator for its amenability and collaboration;
- the national and international entities with which we had dealings, especially the coordination, supervisory and regulatory bodies in the environmental sector;
- ministers and ministry staff in the sectoral and financial oversight of the AdP Group.

Lisbon, 22 April 2014

The Board of Directors



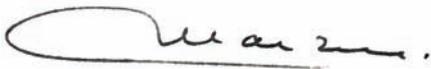
Afonso José Marçal Grilo Lobato de Faria
(Chairman)



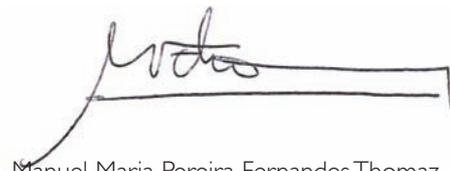
Álvaro António Magalhães Ferrão de Castello-Branco
(Member)



Gonçalo Ayala Martins Barata
(Member)



Manuel Joaquim Barata Frexes
(Member)



Manuel Maria Pereira Fernandes Thomaz
(Member)



José Manuel Barros
(Non-executive member)

11. Proposed appropriation of profit

The net profit of AdP SGPS in 2013 was €66,589,985.86 (sixty-six million five hundred and eighty-nine thousand nine hundred and eighty-five euros and eighty-six cents).

In view of the above, pursuant to Article 19 of the company's Articles of Association and Articles 31 to 33 of the Companies Code, the Board of Directors proposes that the net profit for 2013, as shown in the separate financial statements, should be appropriated as follows.

- Legal reserve - €3,329,499.30 (three million three hundred and twenty-nine thousand four hundred and ninety-nine euros and thirty cents);
- Retained earnings – 49,260,486.56 (forty-nine million two hundred and sixty thousand four hundred and eight-six euros and fifth-six cents);
- Dividends – €14,000,000.00 (fourteen million euros).

Lisbon, 22 April 2014

The Board of Directors



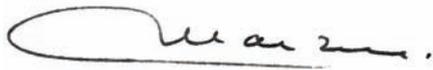
Afonso José Marçal Grilo Lobato de Faria
(Chairman)



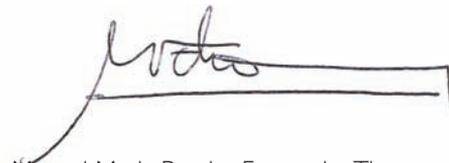
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(Member)



Gonçalo Ayala Martins Barata
(Member)



Manuel Joaquim Barata Frexes
(Member)



Manuel Maria Pereira Fernandes Thomaz
(Member)



José Manuel Barros
(Non-executive member)

12. Annex

On the closing date of the financial year of 2013, the share capital of AdP - Águas de Portugal, SGPS, S.A. was owned in full by the following shareholders:

Shareholder	%	Shares	Value (EUR)
Parcaixa, SGPS, S.A.	19.00	16,511,000	82,555,000
Parpública - Participações Públicas, SGPS, S.A.	81.00	70,389,000	351,945,000
Total	100.00	86,900,000	434,500,000

As required by law, we hereby state that the company has no outstanding debts to the state public sector.

A hand is shown in silhouette, reaching upwards with fingers spread. The background is a blurred landscape featuring a body of water, trees, and buildings under a clear sky. The overall tone is bright and natural.

2009

First state-local authority partnerships (new system for operating and managing municipal water and waste systems).

Increase in Group's operations when new municipalities join multi-municipal systems.

2010

New aggregations of neighbouring systems.

Strategic repositioning in international business (opening of branch of AdP Internacional in Angola, sale of Águas de Moçambique and reactivation of Aquatec).

Formation of AdP Energias.



2012

Preparation for aggregation of multi-municipal systems into larger systems and integrated management of municipal systems.

2013

Formation of state-local authority partnerships to manage the Noroeste region water system, which will be run by Águas do Noroeste.

Publication of legal regime allowing aggregation of multi-municipal systems.

Amendment of the Sector Delimitation Law for greater private majority holdings in waste concessions.



Separate financial statements

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Statement of financial position

(amounts in euros)

	Notes	2013	2012
ASSETS			
Non-current assets			
Intangible assets	7	-	596,713
Tangible fixed assets	8	1,309	1,569
Financial investments	9	747,914,587	745,155,155
Loans to Group companies	10	192,352,517	201,680,575
		940,268,413	947,434,012
Current assets			
Trade receivables	11	18,723,078	28,758,610
Group companies	12	83,088,856	82,180,856
Other receivables	13	5,093,569	4,260,561
Cash and cash equivalents	15	192,817,176	158,034,093
		299,722,679	273,234,120
Total Assets		1,239,991,092	1,220,668,132
EQUITY			
Share capital	16	434,500,000	434,500,000
Adjustment of shareholdings in subsidiaries and associate companies		26,056,136	26,438,662
Fair value reserve		(718,163)	(6,529,704)
Legal reserve		15,001,702	12,888,141
Retained earnings		46,974,232	29,934,064
Net income for financial year		66,589,986	42,271,203
Total Equity		588,403,893	539,502,366
LIABILITIES			
Non-current liabilities			
Provisions	17	13,007,984	11,946,887
Bank loans	18	603,716,230	605,055,721
Derivatives	19	12,030,548	54,624,093
		628,754,762	671,626,701
Current liabilities			
Bank loans	18	6,502,946	-
Trade payables	20	777,239	356,331
Income tax for the year	14	10,360,555	3,353,673
Other creditors	21	5,191,697	5,829,061
		22,832,437	9,539,065
Total Liabilities		651,587,199	681,165,766
Total Liabilities and Equity		1,239,991,092	1,220,668,132

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria (Chairman)
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 Manuel Maria Pereira Fernandes Thomaz (Member)
 José Manuel Barros (Non-executive member)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Income statement

(amounts in euros)

	Notes	2013	2012
Provision of services	22	11,263,309	10,663,579
Turnover		11,263,309	10,663,579
External supplies and services	23	(5,880,850)	(5,448,629)
Personnel costs	24	(4,341,034)	(3,755,847)
Amortisation in financial year	25	(865)	(12,398)
Provisions and reversals in financial year	17	(1,061,095)	(730,003)
Other operating expenses	26	(116,912)	(284,320)
Other operating income and gains	27	600,513	894,577
Operating profit		463,066	1,326,959
Financial expenses	28	(15,565,153)	(33,497,218)
Financial income	29	46,865,819	36,478,326
Gains on investments	30	45,814,917	38,229,370
Financial income		77,115,583	41,210,478
Profit before tax		77,578,649	42,537,437
Income tax for the year	14	(10,988,663)	(266,234)
Net income for financial year		66,589,986	42,271,203
Earnings per share (basic and diluted)	16	0.77	0.49

Statement of comprehensive income

	2013	2012
Net income for financial year	66,589,986	42,271,203
Fair value of cash flow hedging instruments	5,811,541	(6,529,704)
Comprehensive income	72,401,527	35,741,500
Comprehensive income per share	0.83	0.41

The Board of Directors

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The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Statement of changes in equity

(amounts in euros)

	Share Capital	Adjustments in shareholdings	Legal reserve	Other reserves cash flow instruments	Retained earnings	Net income for financial year	Total
Balances as at 1 January 2012	434,500,000	27,094,733	11,530,460	-	18,482,051	27,153,623	518,760,866
Fair value of financial (hedging) instruments	-	-	-	(6,529,704)	-	-	(6,529,704)
Realisation of revaluation reserves (subsidiaries)	-	(656,072)	-	-	656,072	-	-
Allocation of 2011 profit	-	-	1,357,681	-	25,795,942	(27,153,623)	-
Dividends payout	-	-	-	-	(15,000,000)	-	(15,000,000)
Net profit of 2012 financial year	-	-	-	-	-	42,271,203	42,271,203
Balances as at 31 December 2012	434,500,000	26,438,662	12,888,141	(6,529,704)	29,934,064	42,271,203	539,502,365
Realisation of revaluation reserves (subsidiaries)	-	(382,526)	-	-	382,526	-	-
Fair value of financial (hedging) instruments	-	-	-	5,811,541	-	-	5,811,541
Allocation of 2012 profit	-	-	2,113,561	-	40,157,643	(42,271,203)	-
Dividends payout	-	-	-	-	(23,500,000)	-	(23,500,000)
Net profit of 2013 financial year	-	-	-	-	-	66,589,986	66,589,986
Balances as at 31 December 2013	434,500,000	26,056,136	15,001,702	(718,163)	46,974,232	66,589,986	588,403,893

The Board of Directors

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The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Statement of cash flow

(amounts in euros)

	2013	2012
Operating activities		
Trade receivables	55,356,867	33,965,740
Trade payables	(6,102,407)	(6,962,349)
Payments to personnel		
Wages	(1,859,059)	(1,875,689)
Social Security	(946,215)	(843,792)
Other	(107,691)	(728,866)
Income tax and VAT receipts/(payments)	513,712	(2,310,917)
Other receipts/(payments) related to operating activity	(9,107,568)	(2,443,958)
Total operating activities (1)	37,747,639	18,800,168
Investments		
Receipts from:		
Financial investments	49,922,804	74,090,708
Interest and similar income	4,105,025	3,345,985
Dividends	45,848,202	38,215,674
Sub-total	99,876,031	115,652,367
Payments relating to:		
Financial investments	(70,223,606)	(22,500,576)
Tangible fixed assets	-	(799)
Sub-total	(70,223,606)	(22,501,375)
Total Investments (2)	29,652,425	93,150,993
Funding activities		
Receipts from:		
Borrowings	10,000,000	207,478
Sub-total	10,000,000	207,478
Payments relating to:		
Borrowings	(5,000,000)	-
Interest and similar expenditure	(15,619,927)	(20,141,805)
Dividends	(23,500,000)	(14,669,177)
Sub-total	(44,119,927)	(34,810,982)
Total funding activities (3)	(34,119,927)	(34,603,504)
Change in cash and cash equivalents (1 + 2 + 3)	33,280,137	77,347,657
Cash and cash equivalents at start of period	158,034,093	80,686,436
Cash and cash equivalents at end of period	191,314,230	158,034,093
Change in cash and cash equivalents	33,280,137	77,347,657

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria (Chairman)
 Álvaro António Magalhães Ferrão de Castello-Branco (Member)
 Gonçalo Ayala Martins Barata (Member)
 Manuel Joaquim Barata Frexes (Member)
 Manuel Maria Pereira Fernandes Thomaz (Member)
 José Manuel Barros (Non-executive member)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Notes to the financial statements

1. Economic activity of AdP SGPS S.A.

1.1. Introduction

AdP - Águas de Portugal, SGPS, S.A. (hereinafter also called AdP or the Company) was incorporated on 29 September 1993, with its head office at Rua Visconde Seabra no. 3, in Lisbon. The core business activity of AdP, SGPS, S.A. is the management of investments as an indirect way of carrying out economic activities.

1.2. Business activity

AdP SGPS, S.A. was incorporated in 1993. It was entrusted with the responsibility of developing multi-municipal systems in Portugal for the collection, treatment and distribution of water for public consumption and the collection, treatment and disposal of urban wastewater. The Company's mission was extended in 1996, beginning a process of diversification in terms of business segments and geography. It expanded into the segments of water distribution systems and the collection of effluents directly from the communities served, in Portugal and abroad. In 2000, in the context of strategic guidelines leading to the consolidation of the main business group in the environmental area, AdP, SGPS, S.A. became sole owner of Empresa Geral do Fomento, S.A. and, through that ownership it controlled its subsidiaries, which had been made responsible for developing the multi-municipal systems for collecting and treating urban solid waste. Council of Ministers Resolution No. 72/2004 of 16 June, which set the guidelines of a restructuring model for the water sector in Portugal, redefined the strategic positioning of the AdP Group, focusing it on completing the cycle of instrumental and basic sanitation infrastructure in the referred corporate restructuring of that sector. Hence, the AdP Group should therefore continue its business in core areas and sell off or spin-off other areas. In March 2005, the Programme of the XVII Constitutional Government emphasised the contribution of the AdP Group to the national challenge of building environmental infrastructure and ensuring their management, in order to achieve the levels of service that developed countries should provide. It brought forward a strategy for the water and waste business sector different from that established by Council of Ministers Resolution No. 72/2004. The guidelines point to the consolidation of this business group, provided it with conditions to ensure the development of the State's environmental policy for the sector in areas such as water supply, sanitation and waste treatment, plus the possibility of the establishment of strategic partnerships that strengthen its response capacity, develop national capacities and structure investments, considering the goals of the Strategic Plan for Water Supply and Sewerage (PEAASAR) and the Strategic Plan for Urban Solid Waste (PERSU). Joint ministerial Order No. 169/2006 of the Ministries of Finance and Public Administration and of the Environment, Spatial Planning and Regional Development approved the recommendation to the board of directors of Águas de Portugal, SGPS, S.A. concerning the mission of the company for the mandate underway, defining the missions and guidelines by Business Unit. The prevailing business model in the AdP Group is based on the concession agreements between the Portuguese State and each of the subsidiaries of the AdP Group, which establish the rules for the operation and management of the respective multi-municipal systems, on an exclusive basis, for a period of twenty-five to thirty years. These concessions establish the criteria for setting and approving the tariffs to be charged by the companies each year, to ensure adequate financial equilibrium of the concessions, according to the following criteria:

- a) ensure, within the period of the concession, the amortisation of the effective amount of the initial investment of the concession holder, deducting co-funding and non-repayable subsidies;
- b) ensure the good functioning, maintenance and safety of all assets assigned to the concession, as well as the planned replacement of those assets;
- c) focus on the costs required for efficient management of the system and the existence of revenue not originating from the tariff;
- d) guarantee the payment of the operating expenses of the Monitoring Committee, the current regulator - ERSAR (Water and Waste Services Regulator), as well as ensure the adequate remuneration of the concession holder's equity, based on the date of paying in the capital.

1.3 Shareholders

The shareholders of AdP SGPS, S.A. are:

	% Share	Amount subscribed	N.º of shares	Type of shares
Parública, SGPS, S.A.	81.00%	351,945,000	70,389,000	Registered
Parcaixa, SGPS, S.A.	19.00%	82,555,000	16,511,000	Registered
	100.00%	434,500,000	86,900,000	

1.4 Approval of the financial statements

These financial statements were approved by the Board of Directors on 22 April 2014. It is the opinion of the Board of Directors that they faithfully reflect the operations of the company as well as its position, financial performance and cash flows.

2. Accounting policies

These separate financial statements have been prepared in accordance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) which preceded it, adopted by the European Union (EU), and in force for the financial years starting 1 January 2013.

The most important accounting policies used in the preparation of these financial statements are set forth below. These policies have been applied consistently in comparable periods, unless otherwise specified.

2.1 Basis of presentation

2.1.1 Introduction

The amounts presented are expressed in euros (EUR), unless otherwise specified. AdP's financial statements have been prepared according to the historical cost principle, except with respect to derivatives and financial investments held for trading which are recorded at their fair value (market value). The preparation of financial statements in accordance with IAS/IFRS requires the use of estimates and assumptions that influence the reported amounts of assets and liabilities, and the reported amounts of income and expenses in the reporting period. Although these estimates are based on the management's best knowledge in relation to current events and actions, actual results may ultimately differ from those estimates. The management nonetheless believes that the adopted estimates and assumptions do not incorporate any significant risks that might require material adjustments to the value of assets and liabilities in the next financial year.

2.1.2 New standards and policy changes

No voluntary policy changes to accounting policies were made in the financial year ended 31 December 2013, with respect to those considered in the preparation of the financial information relating to the prior year and presented in the comparisons, and which may have arisen from the application of new standards issued after 31 December 2012.

New standards, interpretations and amendments, with entry into force from 1 January 2013

Amendments to IAS 1 Presentation of financial statements (Regulation No. 475/2012 of 5 June) - Presentation of items of other comprehensive income: **(i)** The amendments introduce new terminology for the title of "Statement of comprehensive income", which is renamed in the standard as "Statement of income and other comprehensive income". However, the application and use of the renamed title is not mandatory, and entities may continue to use titles in their financial statements that are not used in the standard. **(ii)** The amendments to IAS 1 retain the ability to present profit or loss and other comprehensive income either in a single statement or in two separate statements, provided they are consecutive. The amendments to IAS 1 require however that the items of other comprehensive income are grouped into two categories: **a)** items that will not be subsequently reclassified in profit or loss, and **b)** items that may be subsequently reclassified in profit or loss as soon as certain conditions are met. The amendments to IAS 1 must be applied retrospectively; therefore the presentation (separate groups) of items of other comprehensive income must also be modified to reflect these changes in the comparative period.

Amendments to IAS 19 Employee benefits (Regulation No. 475/2012 of 5 June): The most significant changes in this new version of IAS 19 relate to the accounting for changes in the established benefit obligations and assets of the plan. The changes in the new version of IAS 19 require that the amendments in established benefit obligations and changes in the fair value of assets of the plan are recognised when they occur; thus eliminating the corridor approach allowed by the previous version of IAS 19. This change speeds up the recognition of past service costs. This new version of IAS 19 ensures that all actuarial gains and losses should be immediately recognised in other comprehensive income. Moreover, interest costs and the expected return on plan assets, used in the previous version of IAS 19 are replaced in this new version for an amount of "net interest on the net liability (asset) of defined benefits", which is calculated using the discount rate on the liability (asset) net of established benefits. This new version of IAS 19 also introduces certain changes in the presentation of established benefit costs, including more extensive disclosures. The new version of IAS 19 should be retrospectively applied.

Adoption of IFRS 13 Fair value measurement (Regulation No. 1255/2012 of 11 December): IFRS 13 establishes a single framework to calculate fair value in accordance with IFRS (except for share-based payments under IFRS 2, leasing transactions under IAS 17 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in the measurement of inventories, or the value in use for assessing impairment) and provides comprehensive guidance on how to calculate the fair value of both financial and non-financial assets and liabilities. IFRS 13 defines fair value as the price that would be received for the sale of an asset or paid to

transfer a liability in an orderly transaction between market participants at the measurement date. The fair value in IFRS 13 consists of an "exit price" regardless of whether that price is directly observable or estimated using another valuation technique. IFRS 13 includes extensive requirements for additional disclosures. IFRS 13 only requires prospective application, from 1 January 2013, therefore disclosure requirements are not required for comparative information of prior periods before the initial application of the standard.

Amendments to IAS 12 Income taxes (Regulation No. 1255/2012 of 11 December) - Deferred tax: recovery of underlying assets: The aim of these amendments is to introduce an exception to the measurement principle contained in IAS 12, in the form of a rebuttable presumption that the carrying amount of an investment measured at fair value will be recovered through the sale and that an entity will be required to use the tax rate applying to the sale of the underlying asset. These amendments to IAS 12 phase out SIC 21 Income Taxes - Recovery of Revalued Non-Depreciable Assets, the content of which is now included in this standard and also now includes more illustrative examples.

Amendments to IFRS 1 First-time adoption (i) Severe hyperinflation and removal of fixed dates for first-time adopters: (Regulation No. 1255/2012 of 11 December): the purpose of these amendments to IFRS 1 is to introduce a new exemption, namely entities that were subject to severe hyperinflation are allowed to use fair value as the cost considered for their assets and liabilities in the opening financial statement in accordance with IFRS. The amendments also replace the references to fixed dates in IFRS 1, by reference to the transition date. (ii) Government loans (Regulation No. 183/2013 of 4 March): amendments to IFRS 1 process loans received from Governments at an interest rate lower than the market rate and aim to provide first-time adopters of IFRS with exemption from full and retrospective application in the transition to IFRS.

IFRIC 20 Stripping costs in the production phase of a surface mine (Regulation No. 1255/2012 of 11 December): the aim of IFRIC 20 is to provide guidance on the recognition of production costs associated with stripping as an asset and the initial and subsequent measurement of assets corresponding to the stripping activities in order to reduce the diversity found in how entities account for stripping costs incurred during the production phase of a surface mine.

Amendments to IFRS 7 Financial instruments: Disclosures and to IAS 32 Financial instruments: Presentation (Regulation No. 1256/2012 of 13 December): The aim of the amendment to IFRS 7 is to require the presentation of additional quantitative information on offsetting financial assets and financial liabilities, so that users can better compare and reconcile the disclosures in accordance with IFRS and disclosures in accordance with the accounting principles generally accepted in the USA (GAAP). The IASB amended IAS 32 in order to provide additional guidance to reduce inconsistencies in the practical application of the standard > Regulation No. 1256/2012 of 13 December.

Annual improvements: 2009-2011 cycle (Regulation No. 301/2013 of 27 March)

The improvements include amendments to five IFRS's, which are summarised below:

IFRS 1 First-time adoption - Repeated application of IFRS 1: The amendments clarify that an entity may apply IFRS 1 if the most recent financial statements did not contain an explicit and unreserved statement of compliance with IFRS, even if it had applied IFRS 1 in the past.

IFRS 1 First-time adoption - Borrowing costs: the amendments clarify that borrowing costs capitalised in accordance with previous GAAP before the date of transition to IFRS may be used without adjustment in the amount previously capitalised at the date of transition.

IAS 1 Presentation of financial statements - Clarification of requirements for comparative information: the amendments specify that a third statement of financial position is required when: **a)** an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements, and **b)** the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that the related notes accompanying the third statement of financial position are not required to be presented.

IAS 16 Tangible fixed assets - Classification of service equipment (spare parts, reserve and maintenance equipment): the amendments clarify that spare parts, spare and maintenance equipment must be classified as tangible assets when they meet the definition of tangible fixed assets established in IAS 16 and classified as inventories in other situations.

IAS 32 Financial instruments: presentation - Tax effect of distributions to holders of equity instruments: The amendments clarify that the income tax on distributions to holders of equity instruments must be accounted for in accordance with IAS 12 Income taxes.

IAS 34 Interim financial reporting: the amendments clarify that the total assets and total liabilities of a specific reporting segment should be separately disclosed if these amounts are regularly presented to the officer responsible for making operating decisions and if there has been a substantial change in the value disclosed in the last annual financial statements for that reporting segment.

New standards, interpretations and amendments, entering into force for financial years beginning on or after 1 January 2014

Adoption of IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosure of interests in other entities and the amended versions of IAS 27 Separate financial statements and IAS 28 Investments in associates and joint ventures (Regulation No. 1254/2012, of 11 December) > The aim of IFRS 10 is to provide a single consolidation model that identifies the control relationship as the basis for consolidation of all types of entities. IFRS 10 replaces IAS 27 Consolidated and separate financial statements and SIC 12 Consolidation - Special purpose entities. IFRS 11 establishes principles for financial reporting by the parties to joint arrangements and replaces IAS 31 Interests in joint ventures and SIC 13 Jointly controlled entities - Non-monetary contributions by entrepreneurs. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and non-consolidated structured entities. As a result of these new IFRS's, the IASB also issued an amended version of IAS 27 and IAS 28.

Amendments to IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosure of interests in other entities (Regulation No. 313/2013 of 4 April) > The aim of the amendments is to clarify the intention of the IASB when it first issued the transition guidance relative to IFRS 10. The amendments also provide additional transition flexibility for IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information only to the preceding comparative period. Moreover, the amendments of disclosures relating to non-consolidated structured entities eliminate the obligation to present comparative information for periods prior to the first time application of IFRS 12.

Amendments to IFRS 10 Consolidated financial statements, IFRS 12 Disclosure of interests in other entities and IAS 27 Separate financial statements (Regulation No. 1174/2013 of 20 November): IFRS 10 is amended to better reflect the business model of investment entities. It requires these entities to measure their subsidiaries at fair value through profit or loss, rather than undertaking the respective consolidation. IFRS 12 is amended to require a specific disclosure be made about these subsidiaries of the investment entities. The amendments to IAS 27 have also eliminated the option that was given to investment entities to measure their investments in certain subsidiaries at cost or at fair value in the separate financial statements. The amendments to IFRS 10, IFRS 12 and IAS 27 imply, therefore, amendments to IFRS 1, IFRS 3, IFRS 7, IAS 7, IAS 12, IAS 24, IAS 32, IAS 34 and IAS 39 in order to ensure coherence between international accounting standards.

Amendments to IAS 36 Impairment of assets (Regulation No. 1374/2013 of 19 December): The main changes involve: **(i)** removal of the requirement to disclose the recoverable amount of cash-generating units for which no impairment was reported; **(ii)** introduction of the requirement to disclose information about the key assumptions, valuation techniques and applicable level of fair value hierarchy for any individual asset (including goodwill) or for any cash-generating unit for which impairment losses were recognised or reversed during the period, and for which the recoverable amount is fair value less sales costs; **(iii)** introduction of the requirement for the disclosure of the discount rates used in the current period and in previous measurements of the recoverable amounts of impaired assets that may have been based on fair value less sales costs using the present value technique; **(iv)** removal of the term "material", as this specific reference is considered unnecessary when the standard refers to the disclosure requirements for assets (including goodwill) or cash-generating units, for which a loss or "material" reversal of impairment may have been incurred during the period.

Amendments to IAS 39 Financial instruments: Recognition and measurement - Novation of derivatives and continued hedge accounting (Regulation No. 1375/2013 of 19 December): The aim of the amendments is to address situations in which a derivative designated as a hedging instrument is subject to novation between a counterparty and a central counterparty, for legal or regulatory reasons. The envisaged solution will allow the continuation of hedge accounting regardless of the novation, which would not be permitted if these amendments had not been made.

The changes and improvements to the above-referred standards will not have an impact on the financial position, the company's profits and the company's cash flow.

New standards not yet endorsed by the European Union and to be applied after 1 January 2014

IFRS 9 Financial instruments (introduces new requirements for classifying and measuring financial assets and liabilities)

The first phase of IFRS 9 Financial instruments addresses the classification and measurement of financial assets and liabilities. The IASB continues to work and discuss impairment and hedge accounting topics, aiming to revise and completely substitute IAS 39. IFRS 9 applies to all financial instruments that are within the scope of application of IAS 39.

The main changes are as follows:

Financial assets: all financial assets are measured at fair value in the initial recognition. Debt instruments can be subsequently measured at amortized cost if:

- the option for fair value is not exercised;
- the purpose of holding the asset, according to the business model, is to receive the contracted cash flows;

- pursuant to the contracted terms the financial assets will generate cash flows on certain dates that are solely embodied in the repayment of the principal and interest relative to the outstanding capital.

The remaining debt instruments are subsequently measured at fair value.

All equity investments are measured at fair value through the Statement of comprehensive income or through income and losses. Each equity instrument must be measured at fair value through **(i)** the Statement of comprehensive income or **(ii)** Income and losses (the equity instruments held must be measured at fair value and the respective variations always recognised through profit and loss).

Financial liabilities: differences in the fair value of financial liabilities at fair value through profit or loss resulting from changes in the entity's credit risk must be presented in the statement of comprehensive income. All other changes must be recorded in profit or loss unless the presentation of the differences in fair value resulting from the credit risk of financial liabilities are likely to create or increase a significant imbalance in the income statement of the period. All other classification and measurement rules for existing financial liabilities in IAS 39 remain unchanged in IFRS 9 including the rules of separation of embedded derivatives and the criteria for recognition at fair value through revenue and loss. This standard is effective for financial years beginning on or after 1 January 2015. Early application is permitted provided it is adequately disclosed. The application of the provisions relating to financial liabilities can also be anticipated provided it is simultaneously done with the provisions relating to financial assets.

IAS 19 R – Employee Benefits (Amendment): Employee contributions

This amendment applies to contributions from employees or third parties for defined benefit plans. It simplifies the accounting of contributions that are independent of the number of years of service of the employee, e.g. contributions made by the employee which are calculated based on a fixed percentage of salary, which are a fixed amount throughout the period of service or an amount that depends on the employee's age. Such contributions are able to be recognised as a reduction of the cost of service during the period in which the service is provided.

The amendments are effective for financial years beginning on or after 1 July 2014. Application can be anticipated provided it is disclosed. Application is retrospective.

Annual improvements relative to the 2010-2012 cycle

The IASB introduced eight improvements in seven standards, relative to annual improvements relating to the 2010-2012 cycle. These improvements are presented below:

IFRS 2 Share-based payments

Updates definitions, clarifies what is meant by acquisition requirements and also clarifies situations related to concerns raised about service, market and performance conditions.

IFRS 3 Business Combinations

Introduces amendments in the recognition of changes in fair value of contingent payments that are not equity instruments. Such changes shall be exclusively recognised in the income statement.

IFRS 8 Operating Segments

Requires additional disclosures (description and economic indicators) that determined the aggregation of segments. The disclosure of the reconciliation of the total assets of the reportable segments with the total assets of the entity is only required if it is also reported to the responsible manager, in the same terms of disclosure required for liabilities of the segment.

IFRS 13 Fair Value Measurement

Clarifies that receivables and payables with no stated interest rate may be measured at nominal value where the discounting impact is immaterial. Hence, the reason why paragraphs of IAS 9 and IAS 39 have been eliminated had nothing to do with changes in measurement but rather the fact that the specific situation is immaterial and, therefore, its processing as already provided for in IAS 8 is not mandatory.

IAS 16 Tangible fixed assets

In the event of revaluation, the standard now envisages that the entity may choose to adjust the gross value based on observable market data or it may proportionally assign the variation to the change that occurred in the book value. In either case, the elimination of amortisation accumulated by offsetting the gross value of the asset is mandatory. These amendments only apply to the revaluation done in the year in which the amendment is first applied and to the immediately preceding period. The figures can be restated for all prior periods but there is no requirement to do such. If this is not done, the criteria used in these periods should be disclosed.

IAS 24 Related party disclosures

Clarifies the definition of key management personnel and amends associated disclosure requirements.

IAS 38 Intangible assets

In the event of revaluations, the standard now envisages that the entity may choose to adjust the gross value based on observable market data or it may proportionally assign the variation to the change that occurred in the book value. In either case, the elimination of amortisation accumulated by offsetting the gross value of the asset is mandatory. These amendments only apply to revaluations done in the year in which the amendment is first applied and to the immediately preceding period. The figures can be restated for all prior periods but there is no requirement to do such. If this is not done, the criteria used in these periods should be disclosed. The 2010-2012 improvements are effective for financial years beginning on or after 1 July 2014. Application can be anticipated provided it is disclosed. Application is generally retrospective.

Annual improvements relative to the 2011-2013 cycle

The IASB introduced four improvements in four standards, relative to annual improvements relating to the 2011-2013 cycle. These improvements are presented below:

IFRS 1 First-time adoption of International Financial Reporting Standards

Clarifies what is meant by standards in force.

IFRS 3 Business combinations

Updates the exception of applying the standard to "Joint Arrangements", clarifying that the only exclusion refers to the accounting of the creation of a joint agreement in the financial statements of the joint agreement proper.

IFRS 13 Fair value measurement

Updates paragraph 52 so that the exception to the portfolio also include other contracts that are under or are accounted for in accordance with IAS 39 or IFRS 9 regardless of meeting the definitions of financial assets or financial liabilities pursuant to IAS 32.

IAS 40 Investment properties

Clarifies the inter-relations existing between IFRS 3 and IAS 40 to determine whether a property should be classified as an investment property or as an owner-occupied property.

The 2011-2013 improvements are effective for financial years beginning on or after 1 July 2014. Application can be anticipated provided it is disclosed. Application is generally retrospective.

IFRIC 21 – Government duties (Issue)

This interpretation applies to payments imposed by government entities, which are not covered by other standards (e.g. IAS 12), including fines and other penalties for non-compliance with legislation. The interpretation clarifies that: **(i)** a liability should be recognised when the activity triggers the payment as identified in relevant legislation; **(ii)** a progressive increase of the liability over time is to be made if the activity that triggers the payment also occurs over time in accordance with the relevant legislation; and **(iii)** if payment is only triggered when a certain threshold is reached, no liability should be recognised until that minimum value is reached. This interpretation does not establish what the consideration of the liability should be. The provisions of the other standards should be taken into account to determine whether an asset or an expense must be recognised. The amendments are effective for financial years beginning on or after 1 January 2014. Application can be anticipated provided it is disclosed. Application is retrospective.

The above-stated standards are not applicable or they are not expected to have any impact on the financial statements of AdP SGPS.

2.2 Shareholdings in subsidiaries and associates

Shareholdings are recognised on the AdP balance sheet on the date on which control or significant influence was obtained or negotiation or contracting were held, which is the date on which AdP undertakes to acquire or dispose of the asset. In the transition, the shareholdings were recognised in accordance with the presumed cost or deemed cost (paragraph 31, IFRS 1), that is, at the value that was transposed from the financial statements prepared according to the previous standard on that date, instead of at acquisition cost. Shareholdings are initially recognised at acquisition cost plus directly attributable transactions costs. These assets are derecognised when: **(i)** the contractual rights of AdP expire on receipt of its cash flows; **(ii)** AdP has substantially transferred all the risks and benefits associated with holding them; or **(iii)** AdP has transferred control over the assets although it may retain part, but not substantially all, the risks and benefits associated with holding them. Recognition of dividends is recorded in the income statement on the date on which they were reported.

The subsidiaries are:

Business Unit/Company	Head office	% Share capital held	Share capital
Water and Sewerage			
Águas do Algarve, S.A.	Faro	54.0%	29,230,875
Águas do Centro Alentejo, S.A.	Évora	51.0%	5,000,000
Águas do Centro, S.A.	Castelo Branco	70.0%	24,000,000
Águas do Douro e Paiva, S.A.	Porto	51.0%	20,902,500
Águas do Mondego, S.A.	Coimbra	51.0%	18,262,743
Águas do Norte Alentejano, S.A.	Portalegre	51.0%	7,500,000
Águas do Noroeste, S.A.	Barcelos	57.0%	63,479,158
Águas do Oeste, S.A.	Óbidos	51.0%	30,000,000
Águas de Santo André, S.A.	Vila Nova de Santo André	100.0%	1,000,000
Águas de Trás-os-Montes e Alto Douro, S.A.	Vila Real	71.0%	26,966,250
Águas do Zêzere e Côa, S.A.	Guarda	87.0%	26,607,560
AgdA - Águas Públicas Alentejo, S.A.	Beja	51.0%	500,000
Sanest, S.A.	Cascais	51.0%	11,000,000
Simarsul, S.A.	Setúbal	51.0%	25,000,000
Simdouro, S.A.	Vila Nova de Gaia	51.0%	13,062,228
Simlis, S.A.	Leiria	70.0%	5,000,000
Simria, S.A.	Aveiro	68.0%	16,712,225
Simtejo, S.A.	Lisbon	51.0%	38,700,000
AdRA - Águas da Região de Aveiro, S.A.	Aveiro	51.0%	15,000,000
EPAL			
EPAL, S.A.	Lisbon	100.0%	150,000,000
Waste			
Algar, S.A.	Faro	56.0%	7,500,000
Amarsul, S.A.	Moita	51.0%	7,750,000
Empresa Geral do Fomento, S.A.	Lisbon	100.0%	56,000,000
Ersuc, S.A.	Coimbra	51.0%	8,500,000
Resiestrela, S.A.	Fundão	63.0%	3,750,875
Resinorte, S.A.	Coimbra	51.0%	8,000,000
Resulima, S.A.	Viana do Castelo	51.0%	2,500,000
Suldouro, S.A.	Sermonde	60.0%	3,400,000
Valnor, S.A.	Alter-do-Chão	53.0%	10,000,000
Valorlis, S.A.	Leiria	51.0%	2,000,000
Valorminho, S.A.	Valença	51.0%	900,000
Valorsul, S.A.	S. João da Talha	56.0%	25,200,000
International			
AdP Internacional, S.A.	Lisbon	100.0%	175,000
Águas do Brasil, S.A.	Rio de Janeiro - Brazil	100.0%	2,050,100
Aquatec, Lda	Maputo - Mozambique	100.0%	2,476,580
Corporate Services			
AdP Serviços, S.A.	Lisbon	100.0%	50,000
Aquasis, S.A.	Lisbon	55.0%	50,000
AdP Energias, S.A.	Lisbon	100.0%	250,000
Associates			
Trevo Oeste, S.A.	Alcobaça	43.2%	1,336,085

2.3 Currency conversion

2.3.1 Operational and presentation currency

The items included in the financial statements of AdP are measured in the currency of the primary economic environment in which the entity operates (the operational currency). The financial statements of AdP and notes thereto are presented in euros, unless stated otherwise.

2.3.2 Transactions and balances

Transactions in currencies other than the euro are converted into the operational currency using the exchange rates at the transaction dates. Foreign exchange gains or losses resulting from the settlement of transactions and from conversion of monetary assets and liabilities denominated in foreign currencies at the rate of the balance sheet date are recognised in the income statement, except when they relate to an extension of investment in a foreign operation, in which case they are deferred in equity in accordance with IAS 21. Non-

monetary items measured at fair value are adjusted at the exchange rate at the date of their calculation. The exchange rate effect is recorded together with the change observed in the fair value of those items. Exchange rate differences are recognised in the profit/loss or in "Other reserves", according to the appropriate registration for the recognition of gains or losses on the non-monetary item in question. The conversion of non-monetary items measured at historical cost into the operational currency of AdP is obtained by calculation using the exchange rate at the transaction date.

2.3.3 Exchange rates used

The foreign currency rates used for converting transactions denominated in currencies other than the euro or to update balances denominated in foreign currencies were as follows:

Country	Currency	31.12.2013		31.12.2012	
		closing	average	closing	average
Brazil	Real	2.89	3.23	2.53	2.7
Cape Verde	Escudo C.V.	110.27	110.27	110.27	110.27
Mozambique	Metical	39.67	41.24	36.49	39.24
Japan	Yen	130.18	144.85	103.5	113.6
USA	USD	1.33	1.38	1.29	1.32

Source: Bank of Portugal

2.4 Tangible fixed assets

Tangible fixed assets are measured at cost, less any impairment losses, and are depreciated according to their estimated useful life. Expenditure directly attributable to the acquisition of assets and their preparation and commissioning is taken at its balance sheet value.

The subsequent costs are included in the book value of the asset or recognised as separate assets, as appropriate, only when it is probable that economic benefits will flow to the company and the cost can be reliably measured. The depreciation of these assets is done during their remaining useful life or until the next repair, whichever happens first. The replaced component of the asset is identified and recognised in the income statement.

The financial charges related to loans obtained for financing investments in progress are totally capitalised until the time they are available for use.

All other expenditure on repairs and maintenance is recognised as an expense in the period in which it is incurred.

Tangible fixed assets assigned to operations are depreciated based on the estimated useful life measured from when they are ready for commissioning. The depreciable value is calculated by deducting the expected residual value at the end of the estimated useful life.

The estimated useful lives for tangible fixed assets are expressed as the following percentages:

Type	Maximum annual rate
Buildings and other constructions	2.00%
Basic equipment	12.50%
Transport equipment	25.00%
Tools and utensils	14.28%
Office equipment	14.28%

Land is not subject to depreciation.

The depreciation of assets intended for sale is suspended and these are classified as assets held for sale.

Whenever there are signs of the loss of value of tangible fixed assets, impairment tests are carried out to estimate the recoverable value of the asset and register an impairment loss if necessary. The recoverable value is determined as the higher of the net selling price and the value in use of the asset. Value in use is calculated based on the current value of estimated future cash flows, arising from the continued use and disposal of the asset at the end of its useful life.

At the end of each financial year the Board of Directors reviews the depreciation methods and the estimated useful life of each asset to ensure the consumption trend of the benefits of the assets in the years used by AdP is faithfully reflected. Any changes to these assumptions will be handled as a change in an accounting estimate and earmarked for prospective application.

Gains or losses arising from write-downs or disposals are calculated as the difference between receipts from disposals and the accounting amount of the asset and are recognised in the income statement as income or expenses.

2.4.1 Leasing

The leasing of assets for which AdP substantially holds all the risks and benefits inherent to ownership of the asset are classified as finance leases. Also classified as finance leases are arrangements in which the analysis of one or more specific points of the contract indicate such a nature. This classification is made according to the substance and not the form of the contract. Finance leases are capitalised at the start of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The liability is recognised in other long-term liabilities, net of financial charges. The assets acquired through finance lease agreements are depreciated for the lesser of the asset's useful life and the term of the lease agreement. All other leases are classified as operating leases. The payments of lease arrangements are recognised as an expense on a linear basis over the lease term.

2.5 Intangible assets

2.5.1 Other intangible assets

The intangible assets (software development expenditure, costs of intellectual property and other rights) are included in the accounts at cost net of accumulated amortisation. These headings are amortised using the straight-line method, usually for three to ten years. Investments that improve the performance of software programmes beyond their original specifications are added at the original cost of the software. The costs of implementing software recognised as assets are amortised using the straight-line method over their useful lives, i.e. from three to six years.

2.6 Financial assets and liabilities

2.6.1 Classification of financial assets

The financial assets of AdP are classified in the categories indicated below. The classification depends on the purpose for acquiring the investment and it is determined at the time of initial recognition (trade date) of investments and revalued each subsequent reporting date. The Board of Directors decides the classification of its investments on the acquisition date and revalues this classification on a regular basis. AdP classifies its financial assets in the following categories: **i)** loans and receivables; **ii)** investments held to maturity; **iii)** investments measured at fair value through profit or loss (held for trading); **iv)** financial assets available for sale.

2.6.1.1 Loans and receivables

These are financial assets other than derivatives, with fixed or determinable income for which there is no active listed market. These assets may be: **(i)** assets originating from normal operating activities and other associated services, and for which there is no intention to trade them; and **(ii)** investments in companies holding multi-municipal concessions which, according to the special terms and conditions of the underlying concession agreements, qualify as a loan granted, remunerated at an agreed rate.

Loans and receivables are initially recorded at fair value and afterwards at amortised cost based on the effective interest rate, less any impairment losses. Impairment losses are recorded based on the estimate and evaluation of losses associated with bad debts, at the balance sheet date, so that they may reflect their net realisable value.

Impairment losses are recorded when there are impartial indicators that AdP will not collect all the amounts owed according to the original terms of the contract established. The indicators used to identify impairment situations are: analysis of breach; non-compliance for more than 6 months; debtor's financial difficulties; and probability of bankruptcy of the debtor.

When the sums receivable from trade receivables or other debtors are due and their terms are under renegotiation, they are no longer regarded as overdue and are treated as new credits.

2.6.1.2 Investments held to maturity

Investments held to maturity are classified as non-current investments, unless they mature less than 12 months from the balance sheet date. The investments recorded under this heading are those with fixed maturity that AdP intends to and has the ability to keep until such date. Investments held to maturity are recorded at amortised cost, less any impairment losses.

2.6.1.3 Financial assets measured at fair value through profit or loss

This category encompasses: **(i)** financial assets for trading which are acquired principally for the purpose of being traded in the short term; **(ii)** financial assets designated at the time of their initial recognition at fair value with changes recognised in profit or loss. This category includes the derivatives that do not qualify for hedge accounting purposes.

The changes in fair value are recognised directly in the income statement for the year. These assets are classified as current assets if they are held for sale or if their realisation is expected within 12 months of the balance sheet date.

2.6.1.4 Financial assets available for sale

The assets available for sale are non-derivative financial assets which: **(i)** the company intends to keep for an indefinite period; **(ii)** are defined as available for sale on initial recognition; or **(iii)** do not fit in the above categories. They are presented as non-current assets unless their disposal is intended within 12 months of the balance sheet date.

The assets available for sale are recorded, after individual recognition, at fair value by reference to their market value at the balance sheet date without any deduction for transaction costs that may be incurred up to the sale. The respective changes in fair value are directly recognised in equity under the item "fair value reserve" until the asset is derecognised or an impairment loss is identified, at which time the accrued value of potential gains and losses recognised in reserves is transferred to the income statement profit or loss. In relation to equity instruments, a significant or prolonged decline in the fair value to below cost is essential for declaring the existence of impairment.

Equity instruments that are not shares in subsidiaries, joint ventures or associates, are classified as financial assets available for sale, in accordance with IAS 39. If there is no market value, these assets are held at cost, subject to impairment tests.

2.6.2 Financial liabilities

Financial liabilities are classified according to the contractual terms, regardless of their legal form. IAS 39 - Financial Instruments: recognition and measurement envisages the classification of financial liabilities into two categories: **(i)** financial liabilities at fair value through profit or loss; **(ii)** other financial liabilities. Other financial liabilities include loans obtained, and Trade payables and other accounts payable.

2.6.2.1 Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss include non-derivative liabilities for selling in the short term and derivative financial instruments that do not qualify for hedge accounting purposes, and are classified in this manner on initial recognition. Gains and losses arising from changes to the fair value of liabilities measured at fair value through profit or loss are recognised in the income statement.

2.6.2.2 Bank loans

Borrowings are initially recognised at fair value net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the issue amount (net of transaction costs incurred) and the nominal value is recognised in profit or loss over the term of the loans in accordance with the effective interest method. Borrowings are classified as non-current liabilities, except if it is expected that AdP will settle the liability within 12 months of the balance sheet date, in which case they are classified as current liabilities.

2.6.2.3 Trade payables and other accounts payable

The balances of trade payables and other account payables are initially recorded at their nominal value, which is taken to be fair value, and are afterwards recorded at amortised cost in accordance with the effective interest method. Financial liabilities are derecognised when the underlying obligations are eliminated by payment, are cancelled or expire.

2.7 Fair value hierarchy

The assets and liabilities of AdP measured at fair value are classified according to the following levels of fair value hierarchy, as established in IFRS 7: **Level 1**, the fair value of financial instruments is based on active liquid market prices on the reference date of the balance sheet. This level essentially includes equity, debt (e.g. NYSE Euronext) and futures instruments listed on active markets; **Level 2**, the fair value of financial instruments is not based on active market prices but on the use of valuation models. The main inputs of the models used are observable in the market. This level includes, for example, over-the-counter derivatives; **Level 3**, the fair value of financial instruments is not determined based on prices in active markets, but with the use of valuation models with the main inputs not observable in the market. The table with the assets and financial liabilities at fair value classified by level is presented in Note 6.

2.8 Derivative financial instruments and hedge accounting

AdP, SGPS, S.A. uses derivatives solely to manage the financial risks to which it is exposed. AdP does not use derivatives for speculation, in accordance with its financial policies. Even though the derivatives contracted by AdP are effective instruments in the hedging of risks not all of them qualify as hedge accounting instruments under the rules and requirements of IAS 39. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them are recognised in profit or loss. The fair value of derivatives is estimated based on listed instruments, whenever available. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash flow method and option pricing models, in accordance with generally accepted market assumptions. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is adjusted on a regular basis and any gains or losses resulting from this revaluation are recorded directly in the income statement for the period, except those referring to hedge derivatives. The recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

2.8.1 Hedge accounting

Hedge accounting is used whenever there is a relationship between the hedged item and the hedging instrument, meeting the following conditions:

- i) the hedge relationship is identified and formally documented on the date it starts;
- ii) the hedge relationship is expected to be highly effective at the transaction date (prospectively) and throughout the operation (retrospectively);
- iii) with respect to cash flow hedges, there should be a high probability that they will occur;
- iv) the hedge is evaluated on an ongoing basis and effectively determined as having been highly effective for the entire financial reporting period for which the hedge was designated.

The necessary criteria established by IAS 39 for two of the derivatives that the company holds to be considered as hedges, were met as at 1 January 2012.

Changes in the fair value of the derivatives that do not qualify as hedges are recognised directly in equity.

2.9 Trade receivables and other accounts receivable

The balances of trade receivables and other account receivables are amounts received for the sale of goods or services provided to the Group in the normal course of its business activities. They are initially recorded at fair value and afterwards measured at amortised cost by the effective interest method, less impairment losses.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits, other short term highly liquid investments with original maturities of six months or less. Bank overdrafts are reported on the balance sheet as current liabilities, under "Loans", which are also considered in the preparation of the consolidated cash flow statement.

2.11 Impairment

2.11.1 Impairment of financial assets

AdP SGPS analyses for objective evidence of either a financial asset or group of financial assets being impaired, at the balance sheet date.

Financial assets available for sale

For financial assets classified as available for sale, a prolonged or significant decline in the fair value of the instrument below its cost is regarded as indicating that the instruments are impaired. If there is any similar evidence for financial assets classified as available for sale, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset that has already been recognised in the income statement - is removed from equity and recognised on the income statement. Impairment losses of equity instruments recognised in profit or loss are not reversed through the income statement.

Trade receivables, debtors and other financial assets

Adjustments for impairment losses are recorded when there are impartial indicators that AdP SGPS will not collect all the amounts owed according to the original terms of the contracts established. The various indicators used to identify impairment situations include: (i) analysis of breach; (ii) debtor's financial difficulties; and (iii) probability of bankruptcy of the debtor.

Impairment losses are determined by the difference between the recoverable amount and the carrying amount of the financial asset and they are recognised against the profit or loss of the financial year. The carrying amount of these assets is reduced to the recoverable value through the use of an adjustments account. When an amount receivable from customers and debtors is considered irrecoverable it is written off using the adjustments account for accrued impairment losses. Subsequent recoveries of amounts that may have been written off are recognised in profit or loss. When the sums receivable from trade receivables or other debtors are due and their terms are renegotiated, they are no longer regarded as overdue and are treated as new credits.

2.11.2 Impairment of non-financial assets

The assets of AdP SGPS are reviewed at each balance sheet date in order to detect indications of possible impairment losses. If such indication exists, the asset's recoverable amount is evaluated. For other intangible assets with indefinite useful lives, the recoverable amount is estimated annually at the balance sheet date. Whenever there are indications of potential losses due to impairment the recoverable value of the assets of AdP SGPS is ascertained. Whenever the book value of an asset or cash-generating unit to which it belongs exceeds the recoverable amount, it is reduced to the recoverable amount and this impairment loss is recognised in the income statement for the period.

For cash-generating units that started business operations less than a certain period of time previously (2 to 3 years), AdP SGPS performs an analysis of the impairment. However, since the respective businesses will have not yet reached sufficient maturity, impairment losses are recognised when there are unequivocal indicators that recoverability is considered remote.

Determining assets' recoverable amount

The recoverable amount of receivables in the medium and long run corresponds to the present value of expected future receipts, using the effective interest rate of the original operation as a discount factor. The recoverable amount of other types of asset is whichever is the higher of its net sale price and its value in use. In the calculation of the value in use of an asset, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of the money and the specific risks of the asset in question. The recoverable amount of the assets that alone do not generate independent cash flows is determined together with the cash generating unit to which they belong.

Reversal of impairment losses

Impairment losses recognised in medium and long-term receivables are only reversed when the reason for increasing the recoverable amount is based on an event that occurred after the date of recognition of the impairment loss. Impairment losses relative to other assets are reversed whenever there are changes in the estimates used to calculate the respective recoverable amount. Impairment losses are reversed up to the amount, net of amortisations, that the asset would have had if the impairment loss had not been recognised.

2.12 Share capital

Ordinary shares are classified in equity. Costs incurred directly from the issue of new shares or options are presented in equity as a deduction, net of taxes, on the amount issued.

2.13 Dividends payable

Dividends are recognised as a liability when declared.

2.14 Government grants

Grants (related to assets) for investment are recognised when there is reasonable certainty that the grant will be received and that AdP SGPS will meet all the obligations inherent in their receipt. Investment grants for the acquisition and/or construction of tangible and/or intangible assets are included under non-current liabilities and are credited on the income statement based on the same amortisation method as that for the underlying assets.

Other grants are deferred and recognised in the income statement in the same period as the expenses they are intended to offset.

2.15 Provisions, contingent assets and liabilities

Provisions are only recognised when an obligation exists that results from past events, the settlement of which is likely to require the allocation of internal resources in an amount that can be reasonably estimated. Whenever any criterion is not met or the existence of the obligation depends on the (non-)occurrence of a particular future event, AdP will disclose this fact as a contingent liability, unless an evaluation of the requirement to pay funds for its settlement is considered unlikely. When there are a large number of similar obligations, the probability of generating an outflow of internal resources is determined for them as a whole. The provision is recognised even where the likelihood of an outflow of internal resources relating to an item of the same class of obligations may be small. Current obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract exists when the company is an integral party to a contract which has associated costs with respect to its compliance and which cannot be avoided and exceed the future economic benefits derived from the same. The provisions are measured at the present value, on the balance sheet date, of the best estimate of the Board of Directors regarding the expenditure required to discharge the obligation. The discount rate used to calculate the present value reflects the current market expectation for the period of the discount and for the risk of the provision in question.

Provisions for future operating losses are not recognised.

Contingent assets and liabilities

Contingent assets and liabilities are not recognised in the financial statements, but disclosed in the attached notes. When the likelihood of an outflow of resources that incorporate economic benefits is remote, or if it is unlikely that there will be an inflow of economic benefits, the relevant contingent liabilities or contingent assets are not disclosed.

2.16 Tax

Income tax for the period includes current tax and deferred tax. Income tax is recognised in the income statement, except where it is related to items that are recognised directly in equity. The amount of current tax payable is calculated based on the pre-tax profit, adjusted according to tax rules.

Deferred tax is recognised using the balance sheet liability method, considering the temporary differences between the tax base of assets and liabilities and their carrying amount on the financial statements. Deferred tax that arises from the initial recognition of an asset or liability in a transaction that is not a merger, and which on the transaction date has not affected either the accounting outcome or the tax outcome, is not recorded. Deferred tax assets are recognised when it is probable that future taxable profit will be available against which temporary differences can be utilised or when the reversal of a deferred tax asset is expected for the same time and with the same authority.

Deferred taxes are calculated based on the current rate or the rate officially announced at the balance sheet date and which is expected to apply on the date on which deferred tax assets are realised or deferred tax liabilities are paid. Differences that may arise from expected changes in the rates that will reverse temporary tax differences are considered in the income statement.

Deferred taxes are recognised on temporary differences arising from investment in subsidiaries and associates except when AdP is able to control the timing of the reversal of the temporary difference and it is likely that the temporary difference will not be reversed in the foreseeable future.

Deferred taxes are recorded in the net profit or in "Other reserves", depending on how the transaction or event giving rise to them is recorded.

2.17 Revenue

Revenue comprises the fair value of the provision of services, net of taxes and discounts.

2.17.1 Provision of services

Revenue is recognised based on the service provided in the period in which this occurs.

2.17.2 Interest

Interest income is recognised based on the effective interest rate and is recorded in the period in which it is earned, according to the accruals principle.

When a receivable is adjusted for impairment, AdP SGPS reduces its book value to its recoverable value, though estimated future cash flows are still discounted at the initial effective interest rate (before impairment) and the correction of the discount is considered to be interest income.

2.17.3 Dividends receivable

Dividends are recognised when the shareholder's right has been established, which is usually by decision of the General Meeting of the subsidiary or associate.

2.18 Own work capitalised

The costs of resources directly allocated to tangible and intangible assets during their development/construction stage are recognised in this item when it is concluded that they are recoverable through the realisation of those assets. Capitalised financial expenses as well as some personnel expenditure are particularly important. They are measured at cost based on internal information specially prepared for the purpose (internal costs) or on the respective purchase costs plus other expenses inherent therein, meaning therefore they are recognised without any profit margin. Capitalised expenses are carried directly on the balance sheet without impact on the income statement, and they are disclosed in the notes whenever such is applicable.

2.19 Expenses and losses

Expenses and losses are recorded in the period to which they relate, regardless of when they are paid or received, according to an accruals basis.

2.20 Subsequent events

Events occurring after the balance sheet date that convey additional information on conditions prevailing at the balance sheet date are reflected in the financial statements. Post-balance sheet date events that convey information on conditions that occur after the balance sheet date are, if material, disclosed in the notes to the financial statements.

3. Financial risk management policies

3.1 Risk factors

The business operations of AdP, SGPS are exposed to a number of financial risk factors: credit risk, liquidity risk and market risk (interest rate risk, cash flows risk associated with the interest rate). The AdP Group has developed and implemented a risk management programme

which, together with the permanent monitoring of the financial markets, seeks to minimise potential adverse effects on the financial performance of AdP and its subsidiaries. Risk management is the responsibility of the central treasury department, according to the policies approved by the Board of Directors. The treasury department identifies, assesses and undertakes operations designed to minimise the financial risk, in close cooperation with the AdP Group's operational units. The Board of Directors drafts the principles for risk management as a whole and policies that cover specific areas such as currency conversion risk, interest rate risk, credit risk, the use of derivatives, other non-structured instruments and the investment of surplus liquidity. The Board of Directors is responsible for establishing the general risk management principles and also the exposure limits. All transactions undertaken using derivative instruments require the prior approval of the Board of Directors, which sets the parameters for each transaction and approves the formal documents describing the specific objectives.

3.2 Credit risk

Credit risk is essentially related to the risk of a counterparty defaulting on their contractual obligations, resulting in a financial loss for AdP. AdP is exposed to credit risk in the course of its operational, investment and cash management activities.

Credit risk in operations is basically related to receivables for services rendered to customers and from loans granted. This risk is theoretically low, given the nature of the service rendered (to the group companies). However, given the specific economic and financial situation of the country in the previous year, with direct consequences on local government, non-payment to the Group companies can have a direct impact on the credit risk. The AdP Group has been warning the Central Government of the unsustainability of the current arrears situation of some municipalities, with the aim being to try to find alternative ways of collecting the overdue amounts from the Group companies.

Impairment losses for receivables are calculated considering: **i)** the customer's risk profile, depending on whether a corporate or business customer; **ii)** the average collection period, which varies from business to business; and **iii)** the customer's financial health.

The following table shows the maximum exposure of AdP to credit risk (not including customers' and other debtors' balances) as at 31 December 2013, not taking into consideration any collateral held or other credit enhancements. The defined exposure for assets on the balance sheet is based on their carrying amount as reported on the main balance sheet.

Banking financial assets	31.12.2013
Current accounts	1,014,929
Term deposits	191,148,345
	192,163,274

Rating	31.12.2013
Ba3	149,629,275
Baa3	18,785,224
Ba1	22,623,764
BB-	5,195
A2	13,748
B1	9,719
Caa1	1,096,350
	192,163,274

Note: Moody's rating obtained from sites of the financial institutions in January 2014.

3.3 Exchange rate risk

Exposure to currency risk derives primarily from financing in foreign currency and future business transactions. This risk basically encompasses financing obtained in foreign currencies and future commercial transactions, recognised assets and liabilities, as well as net investments in foreign operations not incurred or expressed in AdP's operating currency. The AdP Group's central treasury manages the net exposure of the Group in each currency, contracting swaps centrally so as to minimise commercial risks, recognised assets and liabilities. AdP has investments denominated in foreign currency with net assets exposed to exchange rate risk through conversion, and funding in foreign currency exposed to exchange rate risk. The exchange rate risk inherent to the net assets in foreign currency is managed by taking out loans in the same currency, and loans with hedging exchange rate swaps.

3.4 Liquidity risk

The management of liquidity risk requires keeping a reasonable level of cash and cash equivalents and implies the consolidation of floating debt through an adequate amount of credit facilities and the ability to liquidate market positions. AdP's treasury department, given the

dynamics of the underlying businesses, intends to secure floating debt flexibility, keeping the credit lines available for that purpose. AdP manages liquidity risk by taking out and maintaining credit lines and financing facilities with a firm underwriting commitment, with domestic and international financial institutions holding a high credit rating that provide immediate access to funds. This practice has been greatly restricted in the last financial year by Portugal's well-known difficulties in gaining access to the credit markets, and by the growing increase of customer debt.

The table below shows AdP's liabilities by intervals of contracted residual maturity. The amounts shown in the table are the non-discounted contractual cash flows, for future payment (without the interest which these liabilities incur).

31.12.2013	< 1 year	1 to 5 years	> 5 years
Loans	6,502,946	103,716,230	500,000,000
Trade payables and other liabilities	5,968,936	-	-

31.12.2012	< 1 year	1 to 5 years	> 5 years
Loans	-	105,055,721	500,000,000
Trade payables and other liabilities	6,185,392	-	-

3.5 Cash flow risk and fair value risk linked to interest rates

The interest rate risk of AdP basically stems from taking out long-term loans. Such loans with interest at floating rates expose AdP to cash flow risk whereas loans with fixed interest rates expose AdP to fair value risk linked to the interest rate. AdP manages interest rate-linked cash flow risk by taking out swaps that enable loans with floating interest rates to be converted to fixed interest rate loans.

Sensitivity analysis to interest rate changes

		31.12.2013	31.12.2012
Interest incurred	Actual	12,068,149	15,188,672
Interest incurred	average rate +1%	16,171,288	18,160,262
Interest incurred	average rate -1%	10,680,253	14,959,138

3.6 Capital risk

AdP's goal with respect to managing capital, which is a broader concept than the capital disclosed on the balance sheet, is to maintain an optimal capital structure through the prudent use of debt to enable it to reduce the cost of capital. The goal of managing the capital risk is to safeguard the Group as a going concern, with a reasonable return for shareholders and the generation of benefits for all stakeholders.

The policy of the Group is to have the parent company, AdP, SGPS, S.A. contract loans with financial corporations (except for investment loans), which in turn gives loans to its subsidiaries. This policy aims to optimise the capital structure for greater tax efficiency and to reduce the average cost of capital.

	31.12.2013	31.12.2012
Non-current borrowings	603,716,230	605,055,721
Current borrowings	6,502,946	-
Cash assets	(192,817,176)	(158,034,093)
Debt	417,402,000	447,021,628
Total equity	588,403,893	539,502,366
Share	1,005,805,893	986,523,994
Debt/ total capital	0.41	0.45

4. Estimates and judgments

The estimates and judgments that have an impact on AdP's financial statements are assessed continuously and they represent, at the date of each report, the best estimate of the Board of Directors, bearing in mind the historic performance, accumulated experience and expectations with respect to future events which, in the circumstances in question, are believed to be reasonable. The intrinsic nature of the estimates can mean that the real reflection of situations that have been the target of an estimate may, for the purposes of financial reporting, differ from the estimated amounts. The estimates and judgments that generate a significant risk of leading to a material adjustment in the book value of assets and liabilities over the next financial year are:

4.1 Provisions and adjustments

AdP regularly analyses any obligations arising from past events and which must be recognised or disclosed. AdP is party to several ongoing legal proceedings in relation to which it has made a judgment, based on the opinion of its lawyers, to decide if a provision should be set up for these contingencies (note 17).

The subjectivity inherent in determining the likelihood and amount of outflows of the internal resources needed to discharge obligations may lead to significant adjustments, either due to the change of those assumptions or through the future recognition of provisions previously disclosed as contingent liabilities.

4.2 Tangible fixed assets and intangible assets

The determination of assets' useful lives and the depreciation method are essential to calculate the amount of depreciation and amortisation to be recognised in the consolidated income statement.

4.3 Impairment

The calculation of an impairment loss can be triggered by a number of events, many of which are outside the influence of AdP, such as the future availability of funding, the cost of capital and the maintenance of the present market regulation structure, not to mention any other internal or external changes to AdP. The identification of impairment indicators, the estimate of future cash flows and the determination of the fair value of assets (or a group of assets) requires a high degree of judgment by the Board of Directors, in terms of identifying and assessing the different impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Adjustments to receivable accounts are mainly calculated based on the age of the receivables, the risk profile of customers and their financial situation. The estimates related to the adjustments in receivables differ from business to business.

The impairment of any of the reported assets at the issue date of the financial statements of AdP is not considered likely. If, for the purpose of any assessment currently underway, any sign of impairment is found, the relevant book amount of the asset on the balance sheet will be adjusted against the profit or loss for the year. In addition to the above-mentioned uncertainties, there are some areas of judgment with an impact reflected in the financial statements. Although it is thought unlikely that they will lead to a material change in the next financial year they may nonetheless bring about a change in the assumptions or assessment by the Board of Directors of AdP.

4.4 Fair value of derivatives

The fair value of financial instruments that do not have an active market is calculated based on evaluations that reflect the mark-to-market of such instruments. AdP uses its judgment to choose the evaluation techniques and assumptions to use to assess the derivatives contracted at the financial reporting date.

5. Relevant facts that have an impact on the profit or loss for the year

Derivatives

In April 2013, AdP SGPS cancelled two derivatives, contracted with BNP, as part of the general negotiations led by the Portuguese State. This operation generated a capital gain of approximately EUR 10 million. The remaining hedging instruments have a positive variation in profit of approximately EUR 3.6 million. The two effects described above have a positive impact on profit of EUR 13.6 million. Hedging instruments had a negative impact on profit in 2012 of approximately EUR 14.7 million.

Personnel costs

In 2012, by order of the state budget law, Christmas allowance was not paid, nor was the accruals of holiday pay to be paid in 2013 recorded. In 2013, by order of the decision of the Constitutional Court, in addition to the accrual of the month of holiday pay to be paid in 2014, the Christmas allowance was also paid as well as the holiday allowance paid in 2013 that was not accrued in the previous year. Thus, 15 months are recorded in personnel expenses in 2013 against 12 in 2012. The values are therefore not directly comparable.

6. Financial instruments by category of IAS 39

	Loans and receivables (assets)	Liabilities at amortised cost	liabilities at fair value through profit/loss	liabilities at fair value through equity	Total	Not classified as financial instruments	Balance sheet total as at 31.12.2013
Intangible assets	-	-	-	-	-	-	-
Tangible fixed assets	-	-	-	-	-	1,309	1,309
Financial investments	-	-	-	-	-	747,914,587	747,914,587
Loans to Group companies	192,352,517	-	-	-	192,352,517	-	192,352,517
Other receivables	5,093,569	-	-	-	5,093,569	-	5,093,569
Trade receivables	18,723,078	-	-	-	18,723,078	-	18,723,078
Group companies	83,088,856	-	-	-	83,088,856	-	83,088,856
Cash and cash equivalents	192,817,176	-	-	-	192,817,176	-	192,817,176
Total assets	492,075,196	-	-	-	492,075,196	747,915,896	1,239,991,092
Provisions	-	-	-	-	-	13,007,984	13,007,984
Bank loans	-	610,219,176	-	-	610,219,176	-	610,219,176
Derivatives	-	-	10,863,485	1,167,063	12,030,548	-	12,030,548
Trade payables	-	777,239	-	-	777,239	-	777,239
Other creditors	-	5,191,697	-	-	5,191,697	-	5,191,697
Income tax for the year	-	10,360,555	-	-	10,360,555	-	10,360,555
Total liabilities	-	626,548,667	10,863,485	1,167,063	638,579,215	13,007,984	651,587,199

	Loans and receivables (assets)	Liabilities at amortised cost	liabilities at fair value through profit/loss	liabilities at fair value through equity	Total	Not classified as financial instruments	Balance sheet total as at 31.12.2012
Intangible assets	-	-	-	-	-	596,713	596,713
Tangible fixed assets	-	-	-	-	-	1,569	1,569
Financial investments	-	-	-	-	-	745,155,155	745,155,155
Loans to Group companies	201,680,575	-	-	-	201,680,575	-	201,680,575
Other receivables	4,260,561	-	-	-	4,260,561	-	4,260,561
Trade receivables	28,758,610	-	-	-	28,758,610	-	28,758,610
Group Companies	82,180,856	-	-	-	82,180,856	-	82,180,856
Derivatives	-	-	-	-	-	-	-
Income tax for the year	-	-	-	-	-	-	-
Cash and cash equivalents	158,034,093	-	-	-	158,034,093	-	158,034,093
Total assets	474,914,695	-	-	-	474,914,695	745,753,437	1,220,668,132
Provisions	-	-	-	-	-	11,946,887	11,946,887
Bank loans	-	605,055,721	-	-	605,055,721	-	605,055,721
Derivatives	-	0	39,425,443	15,198,650	54,624,093	-	54,624,093
Trade payables	-	356,331	-	-	356,331	-	356,331
Other creditors	-	5,829,061	-	-	5,829,061	-	5,829,061
Income tax for the year	-	3,353,673	-	-	3,353,673	-	3,353,673
Total liabilities	-	614,594,786	39,425,443	15,198,650	669,218,879	11,946,887	681,165,766

Fair value hierarchy

	31 december 2013			31 december 2012		
	level 1	level 2	level 3	level 1	level 2	level 3
Financial assets at fair value through profit or loss						
Derivatives	-	-	-	-	-	-
Financial assets at fair value through comprehensive						
Derivatives	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss						
Derivatives	-	(31,001,077)	-	-	(40,550,332)	-
Financial liabilities at fair value through comprehensive income						
Derivatives	-	(3,156,548)	-	-	(15,198,650)	-

7. Intangible assets

	31.12.2013	31.12.2012
Intangible assets in progress	-	596,713
	-	596,713

As there are some uncertainties as to when the studies capitalised to 2012 will be invoiced (sector restructuring; aggregations; vertical integrations), it was decided to recognise these studies on the income statement.

8. Tangible fixed assets

	31.12.2013	31.12.2012
Office equipment	1,309	1,569
Other tangible fixed assets	-	-
	1,309	1,569

8.1 Movements in the period

Gross assets	31.12.2012	Additions	31.12.2013
Office equipment	107,475	605	108,080
Other tangible fixed assets	1,058	-	1,058
	108,533	605	109,138

Amortisation and adjustments	31.12.2012	Appropriations	31.12.2013
Office equipment	(105,906)	(865)	(106,771)
Other tangible fixed assets	(1,058)	-	(1,058)
	(106,964)	(865)	(107,829)

9. Financial investments

	31.12.2013	31.12.2012
Investments in subsidiaries and associates	747,707,109	744,740,200
Other financial investments	207,478	414,955
	747,914,587	745,155,155

9.1 Movements in the period

	31.12.2013	31.12.2012
Opening balance	744,740,200	741,151,549
Capital increase	2,052,750	2,817,750
Loss apportionment	914,159	770,901
Closing balance	747,707,109	744,740,200

In the current year AdP SGPS accompanied the capital increase of Simdouro in the amount of EUR 2,052,750 and covered losses in AdP Internacional (loss apportionment).

9.2 Individual value of shareholdings

	31.12.2013	31.12.2012
EPAL	366,116,761	366,116,761
EGF	60,651,531	60,651,531
Águas do Noroeste	56,301,275	56,301,275
Águas do Zêzere e Côa	29,451,416	29,451,416
Águas de Trás-os-Montes e Alto Douro	28,284,126	28,284,126
Águas do Centro	26,360,773	26,360,773
Águas do Algarve	25,834,640	25,834,640
Simtejo	24,636,148	24,636,148
Simria	19,406,641	19,406,641
Águas do Oeste	18,772,261	18,772,261
Simarsul	16,792,440	16,792,440
Águas do Douro e Paiva	11,656,901	11,656,901
Águas do Mondego	11,170,388	11,170,388
Simdouro	9,677,250	7,624,500
AdRA - Águas da Região de Aveiro	7,650,000	7,650,000
Águas do Norte Alentejano	6,062,066	6,062,066
AdP Internacional	6,034,440	5,120,282
Sanest	5,915,483	5,915,483
Simlis	5,877,947	5,877,947
AdP Energias	4,733,226	4,733,226
Águas do Centro Alentejo	3,180,419	3,180,419
Águas de Santo André	2,298,412	2,298,412
AdP Serviços	587,465	587,465
AgdA - Águas Públicas do Alentejo	255,000	255,000
Aquasis	100	100
Subsidiaries	747,707,109	744,740,200
Trevo Oeste	572,991	572,991
Impairment of financial investments	(572,991)	(572,991)
Associates	-	-
Total	747,707,109	744,740,200

10. Loans to Group companies

	31.12.2013	31.12.2012
Águas do Algarve	45,000,000	45,000,000
Águas do Noroeste	43,942,667	43,000,000
Águas de Trás-os-Montes e Alto Douro	40,000,000	40,000,000
Simria	25,000,000	25,000,000
Simdouro	20,600,000	17,600,000
Águas do Zêzere e Côa	13,000,000	13,000,000
Águas do Norte Alentejano	2,715,050	1,028,775
Simarsul	2,000,000	-
Águas do Brasil	71,800	51,800
Trevo Oeste	23,000	-
Simtejo	-	17,000,000
	192,352,517	201,680,575

The amounts presented in the table above correspond to medium and long term loans.

10.1 Movements in the period

	31.12.2013	31.12.2012
Opening balance	201,680,575	239,214,100
Loan (Simdouro)	3,000,000	-
Loan (Simarsul)	2,000,000	-
Loan (Águas do Norte Alentejano)	1,686,275	-
Loan (Águas do Noroeste)	942,667	-
Loan (Trevo Oeste)	23,000	-
Loan (Águas do Brasil)	20,000	-
Repayment (Simtejo)	(17,000,000)	(13,000,000)
Loan (Águas do Zêzere e Côa)	-	2,500,000
Repayment (Águas do Zêzere e Côa)	-	(7,000,000)
Repayment (Águas do Algarve)	-	(10,000,000)
Loan (Águas do Norte Alentejano)	-	4,943,825
Repayment (Águas do Norte Alentejano)	-	(6,030,100)
Repayment (Águas do Noroeste)	-	(2,000,000)
Repayment (Simdouro)	-	(447,250)
Repayment (EGF)	-	(6,500,000)
Closing balance	192,352,517	201,680,575

11. Trade receivables

	31.12.2013	31.12.2012
Águas do Algarve	5,681,680	12,371,392
Águas de Trás-os-Montes e Alto Douro	5,181,419	3,887,537
Águas do Noroeste	2,314,456	1,850,675
AgdA - Águas Públicas do Alentejo	1,414,856	1,134,637
Águas do Mondego	1,298,740	770,301
Simarsul	1,131,166	3,040,404
Águas do Norte Alentejano	614,296	145,502
AdRA - Águas da Região de Aveiro	211,660	215,623
EGF	210,949	191,894
Simtejo	133,337	2,948,945
Águas do Zêzere e Côa	89,463	304,190
Águas do Centro	59,002	40,425
AdP Serviços	58,630	81,422
Águas do Douro e Paiva	57,300	-
Águas de Santo André	49,631	-
Águas do Oeste	39,088	184,298
Simdouro	35,665	1,064,198
Águas do Centro Alentejo	30,854	40,236
Sanest	29,484	57,154
Simria	27,129	159,350
AdP Energias	21,543	-
Simlis	13,689	-
AdP Internacional	11,185	-
Aquasis	7,742	-
Other trade payables balances	114	248,416
EPAL	-	22,012
	18,723,078	28,758,610

Some group companies recovered debts from their customers in 2013. This had a direct impact on reducing debt to AdP, SGPS.

12. Group Companies

	31.12.2013	31.12.2012
Águas do Noroeste	21,350,000	11,750,000
Águas de Trás-os-Montes e Alto Douro	13,944,684	13,944,684
AgdA - Águas Públicas do Alentejo	10,000,000	10,000,000
Valorsul	10,000,000	10,000,000
Águas do Mondego	8,417,000	7,217,000
Águas do Oeste	8,000,000	8,000,000
Águas do Zêzere e Côa	4,000,000	7,000,000
Águas do Norte Alentejano	2,350,000	1,508,050
AdP Energias	1,200,000	1,200,000
Águas de Santo André	1,010,497	1,010,497
Aquasis	436,050	436,050
AdP Internacional	300,000	-
EGF	-	3,700,000
Fiscal consolidated	2,077,698	6,414,575
Other	2,927	-
	83,088,856	82,180,856

The amounts presented in the table above correspond to short term loans (cash support).

12.1 Tax - fiscal consolidated

	31.12.2013	31.12.2012
AdP Serviços	-	273,407
Águas de Santo André	497,037	657,367
EPAL	1,559,396	5,465,174
AdP Energias	21,265	18,627
	2,077,698	6,414,575

13. Other receivables - current

	31.12.2013	31.12.2012
Revenue to be billed	2,108,743	2,376,637
Term deposits interest	580,949	646,951
Bank charges	685,654	879,342
Insurance	81,434	27,433
Board of Directors fees	792,452	300,017
Other balances from other debtors	844,337	30,181
	5,093,569	4,260,561

14. Income tax for the year

	31.12.2013	31.12.2012
Profit before tax	77,578,649	42,537,437
Dividends earned	(45,814,917)	(38,229,371)
Other adjustments	10,761,222	(1,926,410)
Assessment base (tax loss)/ tax profit	42,524,954	2,381,656
Deduction of losses	(9,014,125)	(1,786,242)
Taxable amount	33,510,829	595,414
25% Corporate Income Tax	8,377,707	148,854
1.5% Municipal surtax	637,874	35,725
State surtax	1,931,248	26,450
Corporate income tax and surtax assessment (recoverable)/ payable	10,946,829	211,028
Amounts separately taxed	41,834	55,206
Current tax	10,988,663	266,234
Advance tax payment	44,169	72,477
Tax withheld at source	1,757,641	2,032,107
Current tax of fiscal perimeter	(1,173,702)	(5,192,023)
	(10,360,555)	(3,353,673)

	31.12.2013	31.12.2012
25% Corporate income tax	8,377,707	148,854
Municipal surtax	637,874	35,725
State surtax	1,931,248	26,450
Amounts separately taxed	41,834	55,206
Income tax in year	10,988,663	266,234

	31.12.2013	31.12.2012
Profit before tax	77,578,649	42,537,437
Tax rate (effective)	29.116%	26.780%
	22,587,947	11,391,526
Fair value of derivatives	1,730,372	(1,730,372)
Transition adjustments	(491,832)	(491,832)
Tax benefits code	1,224,570	1,406,342
Other accruals	290,258	519,225
Dividends	(12,140,953)	(10,130,783)
Other deductions	-	(306,518)
Deduction of tax losses	(2,253,532)	(446,561)
Amounts separately taxed	41,834	55,206
Current tax	10,988,663	266,234

15. Cash and cash equivalents

	31.12.2013	31.12.2012
Current accounts	1,014,929	1,252,133
Term deposits	191,148,345	155,945,000
Cash	653,902	836,960
	192,817,176	158,034,093
Bank overdrafts and similar	(1,502,946)	-
	191,314,230	158,034,093

The amount shown as cash in hand comes from cheques received at the end of the year and deposited at the start of January.

16. Equity

Shareholders as at 31.12.2013	% Share	Amount subscribed	N.º of shares	Type of shares
Parpública, SGPS, S.A.	81%	351,945,000	70,389,000	Registered
Parcaixa, SGPS, S.A.	19%	82,555,000	16,511,000	Registered
	100%	434,500,000	86,900,000	

16.1 Net income and comprehensive income per share

	31.12.2013	31.12.2012
Net income for financial year	66,589,986	42,271,203
Number of shares	86,900,000	86,900,000
Earnings per share	0.77	0.49

	31.12.2013	31.12.2012
Comprehensive income	72,401,527	35,741,499
Number of shares	86,900,000	86,900,000
Earnings per share	0.83	0.41

17. Provisions

	31.12.2013	31.12.2012
Liabilities with subsidiaries and associates	8,007,984	6,946,887
Other liabilities	5,000,000	5,000,000
	13,007,984	11,946,887

The provision related to subsidiaries and associates arises from liabilities in the international area. The provision recognised in other liabilities is related to potential contractual liabilities.

17.1 Movements in the period

	Subsidiaries and associates	Other liabilities	Total
Balance as at 31 December 2011	5,688,110	5,528,775	11,216,885
Establishment of provisions	1,258,779	629,244	1,888,023
Reductions of provisions	-	(1,158,019)	(1,158,019)
Balance as at 31 December 2012	6,946,889	5,000,000	11,946,889
Establishment of provisions	1,061,095	-	1,061,095
Reductions of provisions	-	-	-
Balance as at 31 December 2013	8,007,984	5,000,000	13,007,984

18. Borrowings

	31.12.2013	31.12.2012
Loans in foreign currency - JPY	100,000,000	100,000,000
Bond loans	500,000,000	500,000,000
Exchange rate adjustment of JPY	(18,410,847)	3,930,822
Currency exchange hedging swap	22,127,077	1,124,899
Non-current borrowings	603,716,230	605,055,721
Short-term borrowings	5,000,000	-
Bank overdrafts	1,502,946	-
Current borrowings	6,502,946	-
Total borrowings	610,219,176	605,055,721

18.1 Loans by maturity

	31.12.2013	31.12.2012
Less than 1 year	6,502,946	-
1 to 2 years	100,000,000	-
2 to 3 years	-	100,000,000
3 to 4 years	-	-
4 to 5 years	-	-
Over 5 years	500,000,000	500,000,000
	606,502,946	600,000,000

18.2 Loans by interest rate type

Floating interest rate	31.12.2013	31.12.2012
Less than 1 year	6,502,946	-
1 to 2 years	100,000,000	-
2 to 3 years	-	100,000,000
Over 3 years	500,000,000	500,000,000
	606,502,946	600,000,000

19. Derivatives

Swap	Risk hedged	Notional	Maturity	J.V.31.12.2013	J.V.31.12.2012	In profit or loss 2013	In comprehensive income 2013	In profit/loss 2012	In comprehensive income 2012
Mitsubishi – exchange rate	EUR/Yen exchange rate	100,000,000	2015	(22,127,077)	(1,124,899)	(21,002,178)	-	(17,373,087)	-
Currency exchange update	EUR/Yen exchange rate	100,000,000	2015	18,410,857	(3,930,822)	22,341,680	-	13,909,305	-
Sub-total⁽¹⁾				(3,716,220)	(5,055,721)	1,339,502	-	(3,463,782)	-
Citibank - interest rate	Interest rate	50,000,000	2022	(8,874,000)	(11,150,000)	2,276,000	-	(1,425,000)	-
BNP – interest rate (i)	Interest rate	75,000,000	2022	-	(28,275,433)	-	-	(9,804,955)	-
BNP – interest rate (i)	Interest rate	50,000,000	2023	-	(10,875,039)	-	-	-	(4,644,479)
BBVA - interest rate	Interest rate	20,000,000	2023	(3,156,548)	(4,323,611)	-	1,167,063	-	(1,885,225)
Sub-total⁽²⁾				(12,030,548)	(54,624,083)	2,276,000	1,167,063	(11,229,955)	(6,529,704)
Total				(15,746,768)	(59,679,804)	3,615,502	1,167,063	(14,693,737)	(6,529,704)
Cancellation of derivatives (a)					10,065,993	4,644,478	-	-	-
Effect on income statement and comprehensive income for year						13,681,495	5,811,541	(14,693,737)	(6,529,704)

(1) Reported under the Loans item together with the currency exchange impact of JPY's.

(2) Reported under the derivative financial instruments item on the face of the balance sheet (liabilities)

AdP uses derivatives solely to manage the financial risks to which it is exposed. AdP does not use derivatives for speculation, in accordance with its financial policies. Even though the derivatives contracted by AdP are effective instruments in the hedging of risks they do not all qualify as hedge accounting instruments under the rules and requirements of IAS 39. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them are recognised in profit or loss. The fair value of derivatives is estimated based on listed instruments, whenever available. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash flow method determined by external entities, based on generally accepted market valuation techniques. Derivatives are recognised on their trade date, at their fair value.

Afterwards, the fair value of derivatives is adjusted on a regular basis and any gains or losses resulting from this revaluation are recorded directly in the income statement for the period, except those referring to hedge derivatives. The recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

Financial instruments associated with the loans from Depfa (notional of EUR 50 million and EUR 20 million) are considered as cash flow hedging instruments, and so the respective changes in such fair value is recorded directly in equity from 2012. Evaluations of the effectiveness of the instruments were carried out and the results were within the 80% to 125% range.

(i) Cancellation of derivatives contracts

In April 2013, AdP SGPS cancelled two derivatives, contracted with BNP, with a balance sheet value as at 31 December 2012 of EUR 39,150,472 (negative). This cancellation was conducted in the framework of a global negotiation led by the Portuguese State, with AdP SGPS benefitting from the results of the broader negotiations. The cancellation in these more favourable conditions allowed the payment made to be lower than the amount recorded on the balance sheet by EUR 15,811,963. However, the capital gain recorded in the income

statement was only EUR 10,065,993 by virtue of one of the hedging instruments registering at the end of last year, in comprehensive income, EUR 4,644,479 (expense).

	31.12.2013
Notional 75,000,000 (balance sheet value as at 31/12/2012)	28,275,433
Notional 75,000,000 (balance sheet value as at 31/12/2012)	10,875,039
	39,150,472
Amount already recognised in comprehensive income	(4,644,478)
	34,505,994
Termination value	24,440,000
Accounting capital gain	10,065,994

20. Trade payables

	31.12.2013	31.12.2012
Trade payables current account - national	263,408	266,007
Trade payables current account - Group companies	449,256	90,324
Fixed asset suppliers payables current account	64,575	-
	777,239	356,332

21. Other current liabilities

	31.12.2013	31.12.2012
Interest payable	1,858,462	2,311,897
State and other public entities (note 21.1)	530,161	894,608
Holidays and holiday allowance (a)	450,863	217,355
Sundry accrued expenses (b)	155,786	866,186
Group companies - share capital restoration fund (IGCP)	455,823	414,955
Group companies - other liabilities	778,194	362,592
Group companies - fiscal consolidated (note 21.2)	758,761	579,342
Other creditors	203,646	182,126
	5,191,697	5,829,061

(a) As provided for in the State Budget for 2013 expenses on holiday allowances in 2012 were not accrued. The expenditure was subsequently registered in the current year by virtue of the decision of the Constitutional Court.

(b) The accrual of non-recurring expenses related to technical studies for the restructuring of the water sector in Portugal had been undertaken the previous year, in the approximate amount of EUR 600,000, which was not the case this year.

21.1 State and other public entities

	31.12.2013	31.12.2012
Tax withheld at source (employees and other revenue)	77,727	114,206
VAT	371,002	692,453
Social Security	72,363	78,199
Other tax	9,069	9,750
	530,161	894,608

21.2 Fiscal consolidated

	31.12.2013	31.12.2012
EGF	366,361	402,063
AdP Serviços	124,788	-
AdP Internacional	267,612	177,279
	758,761	579,342

22. Provision of services

	31.12.2013	31.12.2012
EPAL	2,489,071	2,523,592
EGF	867,107	741,062
AdRA - Águas da Região de Aveiro	839,750	806,133
Águas do Noroeste	833,093	634,241
Águas do Algarve	809,350	799,852
Simtejo	740,216	704,267
Águas do Douro e Paiva	566,716	543,942
Águas de Santo André	496,644	502,679
Águas de Trás-os-Montes e Alto Douro	465,826	495,992
Águas do Oeste	461,949	460,095
Águas do Zêzere e Côa	320,809	289,966
Águas do Mondego	313,326	282,285
Sanest	287,650	262,612
Simria	265,629	258,056
Águas do Centro	238,845	211,816
Simarsul	238,218	222,794
AdP Serviços	232,212	195,623
AgdA - Águas Públicas do Alentejo	212,840	188,757
Simdouro	173,547	157,001
Águas do Centro Alentejo	145,666	137,633
Águas do Norte Alentejano	140,078	126,140
Simlis	124,767	119,041
	11,263,309	10,663,579

The services correspond to the management fee charged to the Group.

23. External supplies and services

	31.12.2013	31.12.2012
Specialised work - Audits	115,972	129,819
Specialised work - Studies and consultants	199,076	382,094
Specialised work - Financial advice	826,197	830,557
Specialised work - Legal advice	579,995	499,071
Specialised work - IT advice	420,686	432,994
Specialised work - Concession of space	1,255,323	1,582,336
Specialised work - Studies and projects (aggregations and vertical integration)	994,431	-
Specialised work - Other	407,611	520,573
Marketing and advertising	571,666	449,846
Rents and rentals	234,700	237,788
Travel and accommodation	63,883	78,021
Other external supplies and services	211,310	305,530
	5,880,850	5,448,629

Expenses on financial, legal, and IT advice, concession of space and Studies and projects for aggregations and vertical integration, are almost entirely debited to Group companies, in particular AdP Serviços, which ensures the provision of shared services of the Águas de Portugal group.

24. Personnel costs

	31.12.2013	31.12.2012
Remuneration of the governing bodies	438,775	401,741
Payroll	2,930,056	2,476,724
Indemnities	23,449	50,000
Payroll expenses	763,275	592,754
Other personnel costs	184,814	256,755
Prior-year corrections	665	22,126
	4,341,034	3,755,847

Law No. 12-A/2012 of 30 June continued to be enforced in 2013, aimed at reducing the salaries of corporate bodies by 5% as well as the 2013 State Budget Law that aims to reduce Managers' salaries by 10% from January 2011. From 2012, the 5 Directors appointed for the 2011-2014 term began to receive the remuneration provided for in the new Statute of Public Manager Law. In 2013, the wage reductions provided for in the State Budget continued to be enforced, aiming to reduce the salaries of employees between 3.5% and 10% from January 2011.

As provided for in the State Budget for 2013 expenses on holiday allowances in 2012 were not accrued. In 2012 only 12 months of personnel expenses were recorded, also due to the suspension of the payment of the Christmas allowance. In 2013, by decision of the Constitutional Court, expenses on holiday allowance for the previous year was incurred, with the restoration of the allowances for Christmas plus expenses related to holiday allowances and the holiday allowance for next year, as stipulated in law. Thus, 15 months of personnel expenses are recorded in 2013 compared to 12 months the previous year, which would explain the apparent increase in personnel expenses.

24.1 Remuneration of the governing bodies

	31.12.2013	31.12.2012
Board of Directors	375,146	335,805
Supervisory Board	43,564	47,441
Statutory Auditor	18,495	18,495
General Meeting	1,570	-
	438,775	401,741

24.2 Number of people employed by the company

Type	Average number		End of year	
	2013	2012	2013	2012
Board of Directors	5	5	5	5
Supervisory Board	4	4	4	4
Permanent/temporary employees	54	55	54	56
	63	64	63	65

25. Amortisations, depreciations and reversals in financial year

	31.12.2013	31.12.2012
Depreciation of tangible fixed assets	865	12,398
Amortisation of intangible assets	-	-
	865	12,398

26. Other operating expenses

	31.12.2013	31.12.2012
Taxes and duties	99,877	126,916
Fines and penalties	1,355	1,225
Donations and membership fees	16,930	67,285
Prior-year corrections	(1,250)	11,027
Other operating expenses and losses	-	77,867
	116,912	284,320

27. Other operating income and gains

	31.12.2013	31.12.2012
Additional income	529,307	805,740
Other operating income and gains	71,206	88,837
	600,513	894,577

Additional income relates to remuneration of duties carried out by AdP SGPS staff on the governing bodies of companies in which the Company has shareholdings.

28. Financial expenses

	31.12.2013	31.12.2012
Interest incurred - bond loans	9,311,309	12,100,638
Interest incurred - M/L term loan (Japan)	2,756,840	2,853,135
Interest incurred - other interest	3,187	234,899
Fair value of financial instruments (a)	-	14,693,778
Other costs and financial losses	417,724	729,131
Bank commissions	3,076,093	2,885,637
	15,565,153	33,497,218

(a) See note 19 - financial instruments

29. Rendimentos financeiros

	31.12.2013	31.12.2012
Interest on treasury cash flow and loans to the Group	18,104,250	21,905,061
Term deposits interest	2,955,361	3,793,559
Bank commissions	12,124,713	10,779,706
Derivatives - capital gains (a)	10,045,993	-
Derivatives - fair value (a)	3,635,502	-
	46,865,819	36,478,326

(a) See note 19 - financial instruments

30. Income from investments

	31.12.2013	31.12.2012
EPAL	35,081,798	34,044,440
Simtejo	2,154,483	2,701,230
EGF	2,000,000	-
Águas do Douro e Paiva	1,927,394	-
Águas do Algarve	1,816,005	-
AdRA - Águas da Região de Aveiro	1,814,487	-
Simria	780,282	-
Águas de Santo André	133,007	168,357
Sanest	80,822	282,008
AgdA - Águas Públicas do Alentejo	26,639	33,285
Aquasis	-	50
AdP Serviços	-	1,000,000
	45,814,917	38,229,370

The amounts are the dividends declared and paid to AdP, SGPS.

31. Related parties' transactions

2013	Subsidiaries	Shareholders	Governing bodies
Income			
Revenue	40,360,317	-	-
Dividends received/paid	45,814,917	-	-
Expenses			
Personnel expenses	-	-	378,842
Other expenses	3,065,012	-	-
Assets			
Trade receivables	18,722,966	-	-
Borrowings	192,257,718	-	-
Other debtors	81,008,231	-	-
Liabilities			
Trade payables	438,300	-	-
Other Creditors	778,194	-	-
Cash flows			
Dividends paid out	-	23,500,000	-

2012	Subsidiaries	Shareholders	Governing bodies
Income			
Revenue	44,259,285	-	-
Dividends received/paid	38,229,371	-	-
Expenses			
Personnel expenses	-	-	383,246
Other expenses	3,277,195	-	-
Assets			
Trade receivables	28,758,610	-	-
Borrowings	201,680,575	-	-
Other debtors	84,278,952	-	-
Liabilities			
Trade payables	90,324	-	-
Other Creditors	1,565,143	-	-
Cash flows			
Dividends paid out/to be paid	-	15,000,000	-

32. Contingent assets and liabilities

Any financial commitments and liabilities of the Company that are not entered in the balance sheet are presented as follows:

	Financial institutions 2013	Financial institutions 2012
Guarantees	1,628,313,766	1,658,491,562
Comfort letters	10,526,908	10,546,333
Surety	183,143,552	166,743,989
Security	5,600,000	5,600,000
	1,827,584,226	1,841,381,884

33. Information required by law

Of the information legally required under other laws, specifically in Articles 66, 324, 397, 447 and 448 of the CSC - Código das Sociedades Comerciais (Companies Code), the provisions arising from Decree-Law 328/95 of 9 December and those in Decree-Law 41 I/91 of 17 October, it should be noted that:

- a) In compliance with the provision of Article 324(2) of the CSC, the Company does not hold any treasury shares, nor has it undertaken to date any deals involving such shares.
- b) In compliance with Article 397(4) of the CSC, no business was conducted between the Company and any members of its governing bodies in 2013.
- c) In compliance with Article 21 of Decree-Law 41 I/91 of 17 September, the Company does not have payments outstanding to any health insurance/ welfare agency. The amounts of the balances reported at 31 December 2013 resulting from withholding at source the income tax discounts and contributions relating to December, which were paid in January 2014, within the legal time limit.

34. Litigation and contingencies

Following an audit by the Court of Auditors on the degree of compliance of the Treasury Unit of the State by State Enterprises, envisaged in the State Budget Law of 2010 and reiterated in the following State Budget Law, some AdP Group companies were notified by this Court that they are considered to not be complying with that law. Accordingly, the AdP Group exercised its right of reply on the notification of the Court of Auditors, defending its understanding that there was no non-compliance since, pursuant to that law, it had requested a partial waiver of compliance with that legislation, and it had presented the relevant grounds for that purpose. Moreover, it should be mentioned that in this respect and in relation to the same process, the Secretary of State of the Treasury stated the following [included in the Court of Auditors report]: "The reasons given by State-owned companies to waive compliance with the principle of the Treasury Unit are wholly justifiable in the current economic climate." The definitive findings of the case are not yet known, and the Board of Directors of AdP, SGPS, SA does not expect that any punitive action will be taken against the Group companies. The Group companies were excluded from application of the above-referred legislative provision for 2013.

35. Subsequent events

On 30 January 2014, the Council of Ministers approved the Decree-Law that establishes the start of the process of privatisation of EGF, the company owned by AdP, S.G.P.S., S.A.

The Board of Directors



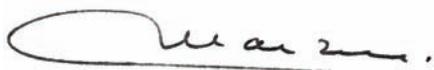
Afonso José Marçal Grilo Lobato de Faria
(Chairman)



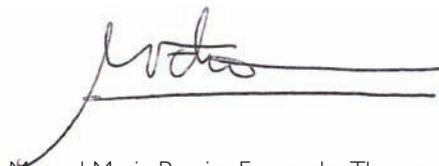
Álvaro António Magalhães Ferrão de Castelo-Branco
(Member)



Gonçalo Ayala Martins Barata
(Member)



Manuel Joaquim Barata Frexes
(Member)



Manuel Maria Pereira Fernandes Thomaz
(Member)



José Manuel Barros
(Non-executive member)

The Chartered Accountant



Carla Isabel Costa Pinto Ribeiro

Report and opinion on the Audit Committee

ÁGUAS DE PORTUGAL

REPORT AND OPINION OF THE AUDIT COMMITTEE ON THE INDIVIDUAL FINANCIAL STATEMENTS

REPORT

- 1 - In compliance with applicable legal and statutory provisions, the Audit Committee issues this report and opinion on the Management Report and other individual financial statements of the company AdP - Águas de Portugal, SGPS, SA for the 2013 financial year, presented by the Board of Directors.
- 2 - The Audit Committee monitored the management of AdP - Águas de Portugal, SGPS, SA and the evolution of its business, through contacts with those primarily responsible for management and also reading the minutes of the meetings of the Board of Directors and Executive Board. It regularly held meetings, which were attended, as a rule, by the director responsible for financial matters and the statutory auditor. The Audit Committee obtained all the clarifications requested and was provided with all the documentation deemed necessary to carry out its supervisory role.
- 3 - The Audit Committee also checked compliance with the applicable legal and statutory standards, and exercised its powers in accordance with the provisions of Article 420 of the Portuguese Companies' Code. It did not find any materially significant cases of non-compliance.
- 4 - Under the powers conferred by sub-paragraph (e) of Article 13(1) of Decree-Law no. 558/99 of 17 December, amended by Decree-Law no. 300/2007 of 23 August, and also by Order no. 14.277/2008 of the Minister of State and Finance, published in the Official Portuguese Gazette Series II, no. 99, of 23 May, and Article 33 of Decree-Law no. 133/2013 of 3 October, the Audit Committee checked the company's compliance with the obligations established therein, issuing the Quarterly Reports that were submitted to the competent authorities.
- 5 - The 2013 Management Report and Accounts provides information on compliance with sustainability goals, despite the complete analysis of the Group in the economic, environmental, social, innovation and equality fields being presented in the 2013 Sustainability Report. The company reported material compliance with those principles.
- 6 - The disclosure obligations set forth in Article 44 of Decree-Law No 133/2013 of 3 October are found to be complied with, in the portion concerning the annual reporting of accounts analysed herein.

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(illegible signed
initials)

- 7- The remuneration reductions defined in Law no. 12-A/2010 of 30 June and Law no. 66-B/2012 of 31 December, and which were the object of guidance as regards their application to the Group, were complied with.
- 8 - It should be highlighted that the limits set for shareholders at the General Meeting of 14 May 2013, as regards the ceilings of communications by members of the board of directors were exceeded, resulting from professional use.
- 9 - The Corporate Governance Report includes current, complete and relevant information on the matters covered in Section II (Good Governance Practices) of Chapter II of Decree-Law No. 133/2013 of 3 October.
- 10 - The Audit Committee notes, however, that with regard to the principles of good corporate governance, the shareholders have still not defined the management objectives for the 2013-2014 period.
- 11 - The Audit Committee has analysed the report issued by the External Auditors on the individual accounts, finding no point of disagreement in relation to its content.
- 12 - The Audit Committee analysed the Statutory Audit Certificate issued pursuant to legislation by the Statutory Auditor, which includes an emphasis that is deemed reproduced herein. The Audit Committee was in agreement with such Audit Certificate and it took note of the annual report of the Statutory Auditor on the review carried out.
- 13 - The Audit Committee considers, as a result of the work carried out, that the Report of the Board of Directors and the individual financial statements (which comprise the Statement of Financial Position as at 31 December 2013, the statement of income by nature and statement of comprehensive income, the statement of changes in equity, statement of cash flows for the year ended on that date and the notes to the financial statements), are adequate for providing an understanding of the financial situation of AdP - Águas de Portugal, SGPS, SA as at 31 December 2013, and the manner in which the results were achieved and how the business activity developed.
- 14 - The Audit Committee highlights all the assistance it received from the Board of Directors, through the director responsible for financial matters, the Statutory Auditor and the departments of AdP - Águas de Portugal, SGPS, SA.

OPINION

As a result of the above-stated, it is the Audit Committee's opinion that the General Meeting of AdP - Águas de Portugal, SGPS, SA approve:

- a. The individual management report and accounts for the 2013 financial year;
- a. The appropriation of profit proposed by the Board of Directors in its report.

Lisbon, 28 April 2014

THE AUDIT COMMITTEE

(illegible signature)

Paulo Alexandre dos Santos Ferreira (Chairman)

(illegible signature)

Mário José Alveirinho Carrega (Member)

(illegible signature)

Ana Luísa Videira Gomes (Member)

ALVES DA CUNHA, A. DIAS & ASSOCIADOS
STATUTORY AUDIT FIRM

LEGAL CERTIFICATION OF (INDIVIDUAL) ACCOUNTS

Introduction

1. We have examined the individual financial statements of AdP - Águas de Portugal, SGPS, SA, comprising the Statement of Financial Position as at 31 December 2013 (which reports a total of EUR 1,239,991,000 and total equity of EUR 588,404,000, including a net profit of EUR 66,590,000), the Statement of income and comprehensive income, the Statement of changes in equity, and the Statement of cash flows for the year ended on that date and the notes to the financial statements.

Responsibilities

2. The Board of Directors is responsible for preparing the financial statements in a manner that presents a true and appropriate view of the financial position of the Company, the results of its business activities and the cash flows. That responsibility also extends to the adoption of adequate accounting criteria and policies and ensuring an appropriate system of internal control.
3. Our responsibility is to express a professional and independent opinion, based on our examination of those financial statements.

Scope

4. The examination we performed was conducted in accordance with the Technical Standards and Audit Directives of the Portuguese Association of Statutory Auditors, which require that the audit be planned and performed in such a manner as to obtain a reasonable level of assurance that the financial statements do not contain materially relevant distortions. To that end, the audit included:
 - a) The verification, by sampling, of the elements underlying the amounts and information disclosed in the financial statements and the evaluation of the estimates used in their preparation, based on the judgements and criteria defined by the Board of Directors;
 - b) The appraisal of the suitability of the accounting policies adopted and their disclosure, bearing in mind the circumstances;

- c) Checking the applicability of the going concern principle; and
 - d) Assessing the adequacy of the overall manner in which the financial statements have been presented.
5. Our examination also checked whether the financial information contained in the management report matched that of the financial statements.
6. We believe that the examination carried out provides an acceptable basis for expressing our opinion.

Opinion

7. In our opinion, the aforementioned financial statements present in all materially relevant aspects a true and appropriate view, as at 31 December 2013, of the financial position of AdP - Águas de Portugal, SGPS, SA, the profits of its business operations and the cash flows for the year ended on that date, in accordance with the international accounting standards as adopted in the European Union.

Report on other legal requirements

8. It is also our opinion that the information contained in the management report matches that of the financial statements for the financial year.

Emphases

9. We highlight the following situation, without impacting on the opinion expressed in paragraph nos. 7 and 8, that as referred to in section 3.2 of the Notes to the financial statements, the collection of the debts of local government to the companies of the Group can directly impact on the credit risk of AdP - Águas de Portugal, SGPS, SA and, at the same time, on the evaluation of its shareholdings.

Lisbon, 24 April 2014

(illegible signature)

ALVES DA CUNHA, A. DIAS & ASSOCIADOS
Statutory Audit Firm
represented by José Duarte Assunção Dias

ERNST & YOUNG

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Auditor's Report on the Individual Financial Statements

Introduction

1. We have examined the attached financial statements of AdP - Águas de Portugal, S.G.P.S., S.A. comprising the Statement of Financial Position as at 31 December 2013 (which reports a total of EUR 1,239,991,092 and total equity of EUR 588,403,893, including a net profit of EUR 66,589,986), the Statement of comprehensive income, the Statement of changes in equity, and the Statement of cash flows for the year ended on that date and the notes thereto.

Responsibilities

2. The Board of Directors is responsible for preparing the financial statements in a manner that presents a true and appropriate view of the financial position of the Company, the profit and comprehensive income of its business activities, the changes in equity and the cash flows. That responsibility also extends to the adoption of adequate accounting criteria and policies and ensuring an appropriate system of internal control.
3. Our responsibility is to express a professional and independent opinion, based on our examination of those financial statements.

Scope

4. The examination we performed was conducted in accordance with the Technical Standards and Audit Directives of the Portuguese Association of Statutory Auditors, which require that the audit be planned and performed in such a manner as to obtain a reasonable level of assurance that the financial statements do not contain materially relevant distortions. To that end, the audit included:
 - The verification, by sampling, of the elements underlying the amounts and information disclosed in the financial statements and the evaluation of the estimates used in their preparation, based on the judgements and criteria defined by the Board of Directors;
 - The appraisal of the suitability of the accounting policies adopted and their disclosure, bearing in mind the circumstances;

Public limited company – Share capital EUR 1,105,000 – Registered in the Portuguese Association of Statutory Auditors as number 178 – Registered in the Portuguese Securities Market Commission as number 9011, Legal person number 505 988 283 – Registered in the Lisbon Company Registry Office under the same number
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- Checking the applicability of the going concern principle; and
 - Assessing the adequacy of the overall manner in which the financial statements have been presented.
5. Our examination also included checking that the financial information in the management report agrees with the financial statements.
6. We believe that the examination carried out provides an acceptable basis for expressing our opinion.

Opinion

7. In our opinion, the referred financial statements present in all materially relevant aspects a true and appropriate view, as at 31 December 2013, of the financial position of AdP - Águas de Portugal, SGPS, SA, the profit and comprehensive income from its business operations, the changes in equity and the cash flows for the year ended on that date, in accordance with the international financial reporting standards as adopted in the European Union.

Emphases

8. We highlight the following, which has no impact on our opinion. The financial statements of a significant part of the group companies include balances receivable from municipalities that are significantly overdue. In the current climate of restricted access to credit, this may affect the financial equilibrium of the AdP Group. The Board of Directors believes that the solutions will be found in the ongoing processes of renegotiation, which may ensure the economic and financial equilibrium of the concessions, thereby ensuring the reimbursement of the loans granted by AdP - Águas de Portugal, SGPS, S.A.

Lisbon, 24 April 2014

Ernst & Young Audit & Associados - SROC, S.A.
Statutory Audit Firm (no. 178)
Represented by:

(illegible signature)
Rui Abel Serra Martins (ROC no. 1119)

Consolidated financial statements

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Consolidated statement of financial position

(amounts in euros)

	Notes	31.12.2013	31.12.2012 Restated ⁽¹⁾	01.01.2012 Restated ⁽¹⁾
Non-current assets				
Intangible assets	8	4,688,624,825	4,722,944,524	4,795,074,634
Tangible fixed assets	9	771,152,867	791,135,430	808,566,586
Investment properties	10	973,390	1,069,272	1,165,151
Financial investments	11	126,611,839	118,000,928	110,414,665
Financial investment in associates	12	236,784	213,784	191,784
Deferred tax assets	13	262,342,817	266,605,346	251,437,813
Tariff deviation asset	15	564,124,345	508,207,171	430,171,545
Trade receivables and other non-current assets	16	192,687,897	185,572,072	142,661,600
Total non-current assets		6,606,754,764	6,593,748,527	6,539,683,778
Current assets				
Inventories	17	7,206,366	7,576,991	7,714,534
Trade receivables	18	447,477,536	474,811,470	408,813,873
State and other public entities	19	9,234,782	9,961,992	14,205,353
Other current assets	20	155,483,093	175,351,544	235,736,978
Cash and cash equivalents	21	369,391,115	335,280,411	286,273,575
Total current assets		988,792,892	1,002,982,408	952,744,313
Total assets		7,595,547,656	7,596,730,935	7,492,428,091
Shareholders' equity				
Share capital	22	434,500,000	434,500,000	434,500,000
Reserves and other adjustments	23	15,557,518	9,009,253	12,779,413
Retained earnings	24	362,253,443	294,044,696	220,702,587
Net income for financial year		104,678,511	93,566,283	89,602,511
		916,989,472	831,120,232	757,584,511
Non-controlling interests	25	325,286,843	307,047,919	278,136,832
Total equity		1,242,276,315	1,138,168,151	1,035,721,343
Non-current liabilities				
Provisions	26	12,412,060	12,904,974	15,699,696
Pension liabilities	27	4,260,079	6,041,079	10,313,946
Borrowings	28	2,423,505,635	2,476,130,548	2,365,063,667
Trade payables and other non-current liabilities	29	129,279,953	143,374,537	183,618,271
Deferred tax liabilities	13	305,054,337	319,475,539	308,535,750
Accrued contractual investment expenses	30	497,244,254	465,449,041	546,009,446
Investment grants	31	1,943,203,034	1,925,337,858	1,950,784,151
Tariff deviation liability	15	132,377,898	120,156,451	112,488,776
Derivatives	14	15,746,778	59,679,814	38,456,333
Total non-current liabilities		5,463,084,028	5,528,549,841	5,530,970,036
Current liabilities				
Borrowings	28	616,695,220	619,910,904	612,837,601
Trade payables	32	79,094,478	108,865,984	125,188,965
Other current liabilities	33	151,331,559	161,035,133	137,660,057
Income tax	34	12,692,551	11,622,421	20,849,772
State and other public entities	19	30,373,505	28,578,501	29,200,317
Total current liabilities		890,187,313	930,012,943	925,736,712
Total liabilities		6,353,271,341	6,458,562,784	6,456,706,748
Total liabilities and equity		7,595,547,656	7,596,730,935	7,492,428,091

⁽¹⁾Adoption of revised IAS 19.

The Board of Directors

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 Manuel Joaquim Barata Frexes (Member)
 Manuel Maria Pereira Fernandes Thomaz (Member)
 José Manuel Barros (Non-executive member)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Consolidated income statement

(amounts in euros)

	Notes	31.12.2013	31.12.2012 Restated ⁽¹⁾
Sales	35	435,423,833	412,821,090
Provision of services	35	337,069,287	313,348,435
Cost recovery tariff deficit/surplus	35	43,695,727	65,232,452
Turnover		816,188,847	791,401,977
Sales expenditure/variation of inventories	36	(31,647,252)	(33,094,976)
Gross margin		784,541,595	758,307,001
External supplies and services	37	(226,902,326)	(222,350,231)
Personnel costs	38	(144,249,946)	(121,152,161)
Amortisations, depreciations and reversals in financial year	39	(246,229,603)	(235,611,661)
Provisions and reversals in financial year	40	348,766	1,881,781
Impairment losses and reversals in financial year	41	(341,850)	(7,594,457)
Investment grants	31	74,091,884	67,640,533
Other operating expenses and losses	42	(13,516,246)	(15,326,499)
Other operating income and gains	43	11,139,887	22,586,143
Operating profit		238,882,161	248,380,449
Financial expenses	44	(107,456,887)	(121,899,318)
Financial income	45	57,176,623	45,599,795
Gains/(losses) on investments	46	(2,348)	6,745
Financial income		(50,282,612)	(76,292,778)
Profit before tax		188,599,549	172,087,671
Income tax	47	(69,153,065)	(58,026,467)
Deferred tax	47	10,449,973	10,033,821
Net income of financial year as a going concern		129,896,457	124,095,025
Net profit attributable to shareholders of AdP SGPS		104,678,511	93,566,283
Net profit attributable to non-controlling interests		25,217,946	30,528,742
		129,896,457	124,095,025
Earnings per share	22.2	1.20	1.08

⁽¹⁾Adoption of revised IAS 19.

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Carla Isabel Costa Pinto Ribeiro

Consolidated statement of comprehensive income

(amounts in euros)

	31.12.2013	31.12.2012 Restated ⁽¹⁾
Net income of financial year	129,896,457	124,095,025
Currency conversion gains/ losses	119,855	142,995
Fair value of hedging instruments	5,811,541	(6,529,704)
Gains/losses to be reclassified through profit or loss	5,931,396	(6,386,709)
Other gains and losses - IAS 19 pensions	(1,720,962)	1,773,054
Associated deferred tax	499,079	(514,186)
Gains/losses unless reclassified through profit or loss	(1,221,883)	1,258,868
Comprehensive income	134,605,970	118,967,184
Net profit attributable to shareholders of AdP SGPS	109,388,024	88,438,442
Net profit attributable to non-controlling interests	25,217,946	30,528,742
	134,605,970	118,967,184
Earnings per share	1.26	1.02

⁽¹⁾Adoption of revised IAS 19.

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Consolidated statement of changes in equity

(amounts in euros)

	Share capital	Currency conversion reserve	Legal reserve	Fair value reserve hedging instruments	Other reserves	Retained earnings	Profit for the year	Total	Non-controlling interests	Total equity
Balance as at 31/12/2011	434,500,000	(33,308)	11,530,460	-	-	220,702,587	89,602,511	756,302,250	278,136,832	1,034,439,082
IAS 19 Pensions	-	-	-	-	1,282,260	-	-	1,282,260	-	1,282,260
Balance as at 31/12/2011 (restated)⁽¹⁾	434,500,000	(33,308)	11,530,460	-	1,282,260	220,702,587	89,602,511	757,584,510	278,136,832	1,035,721,342
Allocation of 2011 profit	-	-	1,357,682	-	-	88,244,829	(89,602,511)	-	-	-
Currency conversion	-	-	-	-	-	-	-	-	-	-
Dividends payout	-	-	-	-	-	(15,000,000)	-	(15,000,000)	(6,029,178)	(21,029,178)
Paid-in capital	-	-	-	-	-	-	-	-	4,508,803	4,508,803
Other adjustments	-	-	-	-	-	97,280	-	97,280	(97,280)	-
Comprehensive income	-	142,995	-	(6,529,704)	1,258,868	-	-	(5,127,841)	-	(5,127,841)
Net profit of 2012 (restated) ⁽¹⁾	-	-	-	-	-	-	93,566,283	93,566,283	30,528,742	124,095,025
Balance at 31/12/2012 (restated)⁽¹⁾	434,500,000	109,687	12,888,142	(6,529,704)	2,541,128	294,044,696	93,566,283	831,120,232	307,047,919	1,138,168,151
Allocation of 2012 profit	-	-	2,113,560	-	(274,808)	91,727,531	(93,566,283)	-	-	-
Currency conversion	-	-	-	-	-	-	-	-	-	-
Dividends payout	-	-	-	-	-	(23,500,000)	-	(23,500,000)	(11,403,214)	(34,903,214)
Paid-in capital	-	-	-	-	-	-	-	-	4,405,409	4,405,409
Other adjustments	-	-	-	-	-	(18,784)	-	(18,784)	18,783	(1)
Comprehensive income	-	119,855	-	5,811,541	(1,221,883)	-	-	4,709,513	-	4,709,513
Net profit of 2013	-	-	-	-	-	-	104,678,511	104,678,511	25,217,946	129,896,457
Balance at 31/12/2013	434,500,000	229,542	15,001,702	(718,163)	1,044,437	362,253,443	104,678,511	916,989,472	325,286,843	1,242,276,315

⁽¹⁾Adoption of revised IAS 19.

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Carla Isabel Costa Pinto Ribeiro

Consolidated statement of cash flow

(valores em euros)

	31.12.2013	31.12.2012
Operating activities		
Cash flow generated by operations		
Trade receivables	911,624,765	742,038,779
Trade payables	(340,201,877)	(319,010,089)
Payments to personnel	(101,555,679)	(93,936,104)
Cash flow generated by operations	469,867,209	329,092,586
Other operating flows		
Corporate income tax (payable)/ receivable	(65,241,327)	(58,996,050)
Other receipts/ (payments) related to operating activity	(110,779,382)	(93,153,470)
Other operating flows	(176,020,709)	(152,149,520)
Total operating activities (1)	293,846,500	176,943,066
Investments		
Receipts from:		
Financial investments	2,715,605	3,549,173
Tangible fixed assets	318,724	58,924
Intangible assets	9,617	163,273
Investment grants	130,776,170	113,986,906
Interest and similar income	13,806,472	14,291,790
Sub-total	147,626,588	132,050,066
Payments relating to:		
Financial investments	(33,175,132)	(9,893,023)
Tangible fixed assets	(8,089,742)	(22,618,149)
Intangible assets	(175,457,726)	(206,914,640)
Sub-total	(216,722,600)	(239,425,812)
Total Investments (2)	(69,096,012)	(107,375,746)
Funding activities		
Receipts from:		
Borrowings	369,633,325	714,846,669
Paid-in capital, additional capital contributions	4,405,408	4,508,803
Sub-total	374,038,733	719,355,472
Payments relating to:		
Borrowings	(423,701,254)	(544,958,064)
Interest and similar expenditure	(104,271,527)	(112,081,896)
Dividends	(34,558,058)	(19,064,722)
Sub-total	(562,530,839)	(676,104,682)
Total funding activities (3)	(188,492,106)	43,250,790
Change in cash and cash equivalents (1+2+3)	36,258,382	112,818,110
Impact of currency conversion differences	(10,132)	30,542
Cash and cash equivalents at start of period	172,015,815	59,167,163
Cash and cash equivalents at end of period	208,264,065	172,015,815

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Carla Isabel Costa Pinto Ribeiro

Notes to the consolidated financial statements

1. General information

1.1. Introduction

AdP - Águas de Portugal, SGPS, S.A. (AdP, SGPS, S.A. hereinafter also called AdP Group when intending to refer to AdP, SGPS, S.A. and its subsidiaries and associates) was incorporated on 29 September 1993, with its head office at Rua Visconde Seabra no. 3, in Lisbon.

The shareholders of AdP SGPS, S.A. are:

Shareholders on 31 December 2013	% Share Capital	Amount subscribed	N.º of shares	Type of shares
Parpública, SGPS, S.A.	81%	351,945,000	70,389,000	Registered
Parcaixa, SGPS, S.A.	19%	82,555,000	16,511,000	Registered
	100%	434,500,000	86,900,000	

AdP SGPS was entrusted with the responsibility of developing multi-municipal systems in Portugal for the abstraction, treatment and distribution of water for public consumption and the collection, treatment and disposal of urban wastewater, as well as the treatment and recycling of urban solid waste. The Company's mission was extended in 1998, beginning a process of diversification in terms of business segments and geography. It expanded into water distribution systems and the collection of effluents directly from the communities served, in Portugal and abroad.

1.2. Business activity

1.2.1 Regulated and licensed business activity and partnerships

The standard concession agreement created for multi-municipal systems (MMS) has the following features: **(i)** the infrastructure and equipment of the concession are constructed or acquired by the concession holding company; **(ii)** these acquisitions/ constructions are partially funded by non-repayable grants from the European Union (EU) and long-term loans from the European Investment Bank; **(iii)** the concession holder is obliged to establish a fund to reconstitute capital (to cover the return on invested capital on termination of the concession); **(iv)** the sale prices (tariffs) charged are set by the concession grantor, endorsed by the Regulatory Authority (ERSAR) and include a return on invested capital component, corresponding to a base rate of Treasury Bills issues (TBA), the six-month Euribor rate or the Treasury Bonds rate, plus three percentage points as a risk premium. The AdP Group has ensured its remuneration through the rebalancing clauses of concession contracts. These concessions generally have a duration of 25 to 50 years.

UNA-PD (Water Business Unit - Production and Purification) and Partnerships

The companies of this segment have an exclusive concession granted by the State for the provision of water supply and wastewater treatment and disposal services, or they form part of a State-Local Government partnership to deliver the same type of service. The concession agreements are characterised by high levels of investment to be made by the concession holder. Funding is obtained through EU funds, bank loans, equity and the resources generated by business operations. The municipalities to which the company provides services are also its shareholders. The service provided is paid through the tariff established by the concession grantor, endorsed by the regulator (ERSAR) and billed to the municipalities served by each of the concessions. One of the features of the concession agreement is the guaranteed return on invested capital. The partnership agreements signed by the State and local government to which the services are delivered are characterised by high levels of investment to be made by the concession holder. Funding is obtained through EU funds, bank loans, equity and the resources generated by business operations. The municipalities to which the company provides services are also its shareholders. The service is paid by means of the tariff established by the partnership committee.

UNA-DR (Water Business Unit - Distribution and Collection)

The companies of this segment result from a partnership contract between the State and the municipalities territorially covered by the agreement. The municipalities delegate in the State, through this agreement, responsibility for managing the integrated system. The integrated system results from the aggregation of the individual systems, including infrastructures and resources, in accordance with the adopted technical solution. Thus, the Partnership has exclusivity in public water distribution and, when applicable, the abstraction and treatment of water for this purpose, as well as exclusivity in collecting urban wastewater and, when applicable, its treatment and disposal, in the areas territorially covered by the system. It also includes the construction, renewal, repair, maintenance and improvement of the infrastructure, equipment and facilities that make up the Partnership, primarily funded by loans, grants and equity. The Partnership is obliged to pay a rent to the municipalities, pegged to turnover. The service provided is paid through the tariff established and billed to the customers (those residing in the municipality) of each of the partnerships. One of the features of the partnership agreement is to guarantee the return on the invested capital and its infrastructures. This is a business unit managed within the UNA-PD.

UNR (Waste Business Unit)

In 2000, in the context of strategic guidelines leading to the consolidation of the main business group in the environmental area, AdP SGPS, S.A. became sole owner of Empresa Geral do Fomento, S.A., and therefore controlling its subsidiaries, which have been made responsible for developing the multi-municipal systems for treating and recycling urban solid waste. The companies of this segment have an exclusive concession granted by the State for the management and recycling of solid waste. The concession agreements include requirements for extensive investments to be made by the concession holder, funded by EU funds, bank loans, equity and the resources generated by business operations. The municipalities to which the company provides services are also its shareholders. The service provided is paid through the tariff established by the concession grantor, endorsed by the regulator (ERSAR) and billed to the municipalities served by each of the concessions. One of the features of the concession agreement is guaranteed return on the invested capital.

1.2.2 Unregulated business activity

EPAL

EPAL is responsible for the abstraction, transport, treatment and distribution of drinking water, aiming to provide a quality service, respecting essential social and environmental criteria. It covers distribution to the city of Lisbon (residential distribution) and upstream supply to 23 municipalities of the Greater Lisbon region. EPAL has a delegated management mandate, embodied in Decree-Law 230/91 of 21 June, which approves its articles of association. The attributed mandate does not have any time limitation, investment obligation or return on investment clause. The tariffs are administratively regulated.

International

This segment aims to develop international business and comprises operations undertaken abroad. The most significant area is currently the technical assistance contract in Angola.

Corporate services

This area comprises the shared services provided by the holding, AdP Serviços, Aquasis and AdP Energias, with the aim of optimising resources and obtaining synergies in the Group.

1.3 Strategy

Pursuant to the legal scheme for the State-owned Business Sector and the Public Manager Statute, the State, as the shareholder, defines the specific strategic guidelines addressed to the Board of Directors of AdP SGPS, S.A.

The strategic guidelines for the 2012-2014 term of office are based on the following principles:

- the implementation of a philosophy of professionalised management based on appropriate powers and growth of productive capacity according to the highest quality standards, with the aim of achievement of its mission;
- the adoption of the best management practices according to the principles of good corporate governance in the companies of the State-owned business sector;
- the development of an organisational culture focused on performance excellence through the use of a set of reference business practices that lay the foundations for the company's success on the path towards business sustainability, fundamentally based on a management philosophy that encompasses the economic, environmental, social and ethical fields.

AdP SGPS, in the framework of its mission, should pursue the following strategic guidelines:

- ensure pursuit of the sector policies that govern its activity and the creation of shareholder value, with special focus on prudential risk management and the mobilisation of financial resources;
- promote the streamlining of the investments required to deliver the services, focusing on the suitable sizing of new infrastructure and maintenance of that already existing;
- reorganise the water supply and wastewater treatment segments, with priority on the economic and financial sustainability of the operations in these areas and the improvement of efficiency in the delivery of the services;
- continue to foster efficiency, strengthening the grouping of systems and promoting integrated solutions for management of the urban cycle of water;
- foster conditions for the participation of private entities in the management of the systems;

- continue to identify solutions that help to solve the tariff deficit problem, in terms of its sustainability;
- make the waste business unit of the AdP Group autonomous and implement the necessary measures to open it up to private sector investment;
- contribute to sustainable development by developing solutions to harness endogenous assets and resources, rationalise energy consumption and reduce or offset emissions;
- capitalise on the skills and capabilities available in the Group, contributing to the implementation of projects in international markets;
- promote the development of an integrated R&D strategy, in harmony with national goals in this field;
- ensure the continuity of other projects deemed to be important, in accordance with the guidelines provided by the area of government responsible for the field.

1.4 Mission and future guidelines

The AdP Group is responsible for providing essential public services in the fields of water supply, wastewater disposal and the management of solid waste. The positive impacts in the areas of national cohesion, public health and the environment are universally recognised.

Since it is the State's business tool for the implementation of public policy and national objectives in these areas of the environment, it aims to promote **(a)** universality, continuity and quality of service, **(b)** the sustainability of the sector and **(c)** the protection of environmental values.

AdP - Águas de Portugal, SGPS, S.A. (AdP) is a holding company that has the mission, through its subsidiaries, to design, construct, operate and manage water supply and wastewater treatment systems, and the treatment and recovery of urban and industrial solid waste, in a framework of economic, financial, technical, social and environmental sustainability. It also aims to develop a strong Portuguese business group that is highly competent, capable of effectively and efficiently responding to the major challenges that the environment sector currently faces.

1.5 Organisation

The business and organisational model adopted at core level by the AdP Group is based on three fundamental axes: **(i)** the structuring of the business in five business units, generally enjoying management autonomy and adequate finances for the specific nature of each activity, supported by resources available at the corporate level and through shared services; **(ii)** legally defined relationship; **(iii)** integrated and scalable information system platform for the entire Group.

1.6 Approval of the financial statements

These consolidated financial statements were approved and authorised for publication by the Executive Committee on 22 April 2014.

2. Accounting policies

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) which preceded it, adopted by the European Union (EU), and in force for the financial years starting 1 January 2013.

The most important accounting policies used in the preparation of these financial statements are set forth below. These policies have been applied consistently in comparable periods, unless otherwise specified.

2.1 Basis of presentation

2.1.1 Introduction

The amounts presented are expressed in euros (EUR), unless otherwise specified. AdP's financial statements have been prepared according to the going concern and historical cost principle, except with respect to derivatives and financial investments held for trading which are recorded at their fair value (market value). The preparation of financial statements in accordance with IAS/IFRS requires the use of estimates and assumptions that influence the reported amounts of assets and liabilities, and the reported amounts of income and expenses in the reporting period. Although these estimates are based on the management's best knowledge in relation to current events and actions, actual results may ultimately differ from those estimates. The management nonetheless believes that the adopted estimates and assumptions do not incorporate any significant risks that might require material adjustments to the value of assets and liabilities in the next financial year.

2.1.2 New standards and policy changes

No voluntary policy changes to accounting policies were made in the financial year ended 31 December 2013, with respect to those considered in the preparation of the financial information relating to the prior year and presented in the comparisons, and which may have arisen from the application of new standards issued after 31 December 2012.

New standards, interpretations and amendments, with entry into force from 1 January 2013

Amendments to IAS 1 Presentation of financial statements (Regulation No 475/2012 of 5 June) - Presentation of items of other comprehensive income: **(i)** The amendments introduce new terminology for the title of "Statement of comprehensive income", which is renamed in the standard as "Statement of income and other comprehensive income." However, the application and use of the renamed title is not mandatory, and entities may continue to use titles in their financial statements that are not used in the standard. **(ii)** The amendments to IAS 1 retain the ability to present profit or loss and other comprehensive income either in a single statement or in two separate statements, provided they are consecutive. The amendments to IAS 1 require however that the items of other comprehensive income are grouped into two categories: **a)** items that will not be subsequently reclassified in profit or loss, and **b)** items that may be subsequently reclassified in profit or loss as soon as certain conditions are met. The amendments to IAS 1 must be applied retrospectively, therefore the presentation (separate groups) of items of other comprehensive income must also be modified to reflect these changes in the comparative period.

Amendments to IAS 19 Employee Benefits (Regulation No. 475/2012 of 5 June): The most significant changes in this new version of IAS 19 relate to the accounting for changes in the established benefit obligations and assets of the plan. The changes in the new version of IAS 19 require that the amendments in established benefit obligations and changes in the fair value of assets of the plan are recognised when they occur, thus eliminating the "corridor" approach allowed by the previous version of IAS 19. This change speeds up the recognition of past service costs. This new version of IAS 19 ensures that all actuarial gains and losses should be immediately recognised in other comprehensive income. Moreover, interest costs and the expected return on plan assets, used in the previous version of IAS 19 are replaced in this new version for an amount of "net interest on the net liability (asset) of defined benefits", which is calculated using the discount rate on the liability (asset) net of established benefits. This new version of IAS 19 also introduces certain changes in the presentation of established benefit costs, including more extensive disclosures. The new version of IAS 19 should be retrospectively applied, as presented in these financial statements and the notes hereto.

Adoption of IFRS 13 Fair value measurement (Regulation No. 1255/2012 of 11 December): IFRS 13 establishes a single framework to calculate fair value in accordance with IFRS (except for share-based payments under IFRS 2, leasing transactions under IAS 17 and measurements that have some similarities to fair value but are not fair value, such as net realizable value in the measurement of inventories, or the value in use for assessing impairment) and provides comprehensive guidance on how to calculate the fair value of both financial and non-financial assets and liabilities. IFRS 13 defines fair value as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value in IFRS 13 consists of an "exit price" regardless of whether that price is directly observable or estimated using another valuation technique. IFRS 13 includes extensive requirements for additional disclosures. IFRS 13 only requires prospective application, from 1 January 2013, therefore disclosure requirements are not required for comparative information of prior periods before the initial application of the standard.

Amendments to IAS 12 Income Taxes (Regulation No. 1255/2012 of 11 December) - Deferred Tax: recovery of underlying assets: The aim of these amendments is to introduce an exception to the measurement principle contained in IAS 12, in the form of a rebuttable presumption that the carrying amount of an investment measured at fair value will be recovered through the sale and that an entity will be required to use the tax rate applying to the sale of the underlying asset. These amendments to IAS 12 phase out SIC 21 Income Taxes - Recovery of Revalued Non-Depreciable Assets, the content of which is now included in this standard and also now includes more illustrative examples.

Amendments to IFRS 1 First-time adoption **(i)** Severe hyperinflation and removal of fixed dates for first-time adopters: (Regulation No. 1255/2012 of 11 December): the purpose of these amendments to IFRS 1 is to introduce a new exemption, namely entities that were subject to severe hyperinflation are allowed to use fair value as the cost considered for their assets and liabilities in the opening financial statement in accordance with IFRS. The amendments also replace the references to fixed dates in IFRS 1, by reference to the transition date. **(ii)** Government loans (Regulation No. 183/2013 of 4 March): Amendments to IFRS 1 process loans received from Governments at an interest rate lower than the market rate and aim to provide first-time adopters of IFRS with exemption from full and retrospective application in the transition to IFRS.

IFRIC 20 Stripping costs in the production phase of a surface mine (Regulation No. 1255/2012 of 11 December): The aim of IFRIC 20 is to provide guidance on the recognition of production costs associated with stripping as an asset and the initial and subsequent measurement of assets corresponding to the stripping activities in order to reduce the diversity found in how entities account for stripping costs incurred during the production phase of a surface mine.

Amendments to IFRS 7 Financial Instruments: Disclosures and to IAS 32 Financial Instruments: Presentation (Regulation No. 1256/2012 of 13 December): The aim of the amendment to IFRS 7 is to require the presentation of additional quantitative information on offsetting financial assets and financial liabilities, so that users can better compare and reconcile the disclosures in accordance with IFRS and disclosures in accordance with the accounting principles generally accepted in the USA (GAAP). The IASB amended IAS 32 in order to provide additional guidance to reduce inconsistencies in the practical application of the standard > Regulation No. 1256/2012 of 13 December.

Annual improvements: 2009-2011 cycle (Regulation No. 301/2013 of 27 March)

The improvements include amendments to five IFRS's, which are summarised below:

IFRS 1 First-time Adoption - Repeated application of IFRS 1: The amendments clarify that an entity may apply IFRS 1 if the most recent financial statements did not contain an explicit and unreserved statement of compliance with IFRS, even if it had applied IFRS 1 in the past.

IFRS 1 First-time adoption - Borrowing costs: the amendments clarify that borrowing costs capitalised in accordance with previous GAAP before the date of transition to IFRS may be used without adjustment in the amount previously capitalised at the date of transition.

IAS 1 Presentation of financial statements - Clarification of requirements for comparative information: the amendments specify that a third statement of financial position is required when: **a)** an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements, and **b)** the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that the related notes accompanying the third statement of financial position are not required to be presented.

IAS 16 Tangible fixed assets - Classification of service equipment (spare parts, reserve and maintenance equipment): the amendments clarify that spare parts, spare and maintenance equipment must be classified as tangible assets when they meet the definition of tangible fixed assets established in IAS 16 and classified as inventories in other situations.

IAS 32 Financial Instruments: presentation - Tax effect of distributions to holders of equity instruments: The amendments clarify that the income tax on distributions to holders of equity instruments must be accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim financial reporting: the amendments clarify that the total assets and total liabilities of a specific reporting segment should be separately disclosed if these amounts are regularly presented to the officer responsible for making operating decisions and if there has been a substantial change in the value disclosed in the last annual financial statements for that reporting segment.

New standards, interpretations and amendments, entering into force for financial years beginning on or after 1 January 2014

Adoption of IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and IFRS 12 Disclosure of interests in other entities and the amended versions of IAS 27 Separate financial statements and IAS 28 Investments in associates and joint ventures (Regulation No. 1254/2012, of 11 December) > The aim of IFRS 10 is to provide a single consolidation model that identifies the control relationship as the basis for consolidation of all types of entities. IFRS 10 replaces IAS 27 Consolidated and separate financial statements and SIC 12 Consolidation - Special purpose entities. IFRS 11 establishes principles for financial reporting by the parties to joint arrangements and replaces IAS 31 Interests in joint ventures and SIC 13 Jointly controlled entities - Non-monetary contributions by entrepreneurs. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and non-consolidated structured entities. As a result of these new IFRS's, the IASB also issued an amended version of IAS 27 and IAS 28.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in other Entities (Regulation No. 313/2013 of 4 April) > The aim of the amendments is to clarify the intention of the IASB when it first issued the transition guidance relative to IFRS 10. The amendments also provide additional transition flexibility for IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information only to the preceding comparative period. Moreover, the amendments of disclosures relating to non-consolidated structured entities eliminate the obligation to present comparative information for periods prior to the first time application of IFRS 12.

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in other Entities and IAS 27 Separate Financial Statements (Regulation No. 1174/2013 of 20 November): IFRS 10 is amended to better reflect the business model of investment entities. It requires these entities to measure their subsidiaries at fair value through profit or loss, rather than undertaking the respective consolidation. IFRS 12 is amended to require a specific disclosure be made about these subsidiaries of the investment entities. The amendments to IAS 27 have also eliminated the option that was given to investment entities to measure their investments in certain subsidiaries at cost or at fair value in the separate financial statements. The amendments to IFRS 10, IFRS 12 and IAS 27 imply, therefore, amendments to IFRS 1, IFRS 3, IFRS 7, IAS 7, IAS 12, IAS 24, IAS 32, IAS 34 and IAS 39 in order to ensure coherence between international accounting standards.

Amendments to IAS 36 Impairment of assets (Regulation No I 374/2013 of 19 December): The main changes involve: **(i)** removal of the requirement to disclose the recoverable amount of cash-generating units for which no impairment was reported; **(ii)** introduction of the requirement to disclose information about the key assumptions, valuation techniques and applicable level of fair value hierarchy for any individual asset (including goodwill) or for any cash-generating unit for which impairment losses were recognised or reversed during the period, and for which the recoverable amount is fair value less sales costs; **(iii)** introduction of the requirement for the disclosure of the discount rates used in the current period and in previous measurements of the recoverable amounts of impaired assets that may have been based on fair value less sales costs using the present value technique; **(iv)** removal of the term "material", as this specific reference is considered unnecessary when the standard refers to the disclosure requirements for assets (including goodwill) or cash-generating units, for which a loss or "material" reversal of impairment may have been incurred during the period.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continued Hedge Accounting (Regulation No. I 375/2013 of 19 December): The aim of the amendments is to address situations in which a derivative designated as a hedging instrument is subject to novation between a counterparty and a central counterparty, for legal or regulatory reasons. The envisaged solution will allow the continuation of hedge accounting regardless of the novation, which would not be permitted if these amendments had not been made.

New standards not yet endorsed by the European Union and to be applied after 1 January 2014

IFRS 9 Financial instruments (introduces new requirements for classifying and measuring financial assets and liabilities)

The first phase of IFRS 9 Financial instruments addresses the classification and measurement of financial assets and liabilities. The IASB continues to work and discuss impairment and hedge accounting topics, aiming to revise and completely substitute IAS 39. IFRS 9 applies to all financial instruments that are within the scope of application of IAS 39.

The main changes are as follows:

Financial assets: all financial assets are measured at fair value in the initial recognition. Debt instruments can be subsequently measured at amortised cost if:

- the option for fair value is not exercised;
- the purpose of holding the asset, according to the business model, is to receive the contracted cash flows;
- pursuant to the contracted terms the financial assets will generate cash flows on certain dates that are solely embodied in the repayment of the principal and interest relative to the outstanding capital.

The remaining debt instruments are subsequently measured at fair value.

All equity investments are measured at fair value through the Statement of Comprehensive Income or through income and losses. Each equity instrument must be measured at fair value through **(i)** the Statement of comprehensive income or **(ii)** Income and losses (the equity instruments held must be measured at fair value and the respective variations always recognised through profit and loss).

Financial Liabilities: differences in the fair value of financial liabilities at fair value through profit or loss resulting from changes in the entity's credit risk must be presented in the statement of comprehensive income. All other changes must be recorded in profit or loss unless the presentation of the differences in fair value resulting from the credit risk of financial liabilities are likely to create or increase a significant imbalance in the income statement of the period. All other classification and measurement rules for existing financial liabilities in IAS 39 remain unchanged in IFRS 9 including the rules of separation of embedded derivatives and the criteria for recognition at fair value through revenue and loss. This standard is effective for financial years beginning on or after 1 January 2015. Early application is permitted provided it is adequately disclosed. The application of the provisions relating to financial liabilities can also be anticipated provided it is simultaneously done with the provisions relating to financial assets.

IAS 19 - Employee Benefits (Amendment): Employee contributions

This amendment applies to contributions from employees or third parties for defined benefit plans. It simplifies the accounting of contributions that are independent of the number of years of service of the employee, e.g. contributions made by the employee which are calculated based on a fixed percentage of salary, which are a fixed amount throughout the period of service or an amount that depends on the employee's age. Such contributions are able to be recognised as a reduction of the cost of service during the period in which the service is provided. The amendments are effective for financial years beginning on or after 1 July 2014. Application can be anticipated provided it is disclosed. Application is retrospective.

Annual improvements relative to the 2010-2012 cycle

The IASB introduced eight improvements in seven standards, relative to annual improvements relating to the 2010-2012 cycle. These improvements are presented below:

IFRS 2 Share-based payments

Updates definitions, clarifies what is meant by acquisition requirements and also clarifies situations related to concerns raised about service, market and performance conditions.

IFRS 3 Business Combinations

Introduces amendments in the recognition of changes in fair value of contingent payments that are not equity instruments. Such changes shall be exclusively recognised in the income statement.

IFRS 8 Operating Segments

Requires additional disclosures (description and economic indicators) that determined the aggregation of segments. The disclosure of the reconciliation of the total of the assets of the reportable segment with the total assets of the entity is only required if it is also reported to the responsible manager, in the same terms of disclosure required for liabilities of the segment.

IFRS 13 Fair Value Measurement

Clarifies that receivables and payables with no stated interest rate may be measured at nominal value where the discounting impact is immaterial. Hence, the reason why paragraphs of IAS 9 and IAS 39 have been eliminated had nothing to do with changes in measurement but rather the fact that the specific situation is immaterial and, therefore, its processing as already provided for in IAS 8 is not mandatory.

IAS 16 Tangible fixed assets

In the event of revaluation, the standard now envisages that the entity may choose to adjust the gross value based on observable market data or it may proportionally assign the variation to the change that occurred in the book value. In either case, the elimination of amortisation accumulated by offsetting the gross value of the asset is mandatory. These amendments only apply to the revaluation done in the year in which the amendment is first applied and to the immediately preceding period. All prior periods may be restated, but this is not compulsory. If this is not done, the criteria used in these periods should be disclosed.

IAS 24 Related Party Disclosures

Clarifies the definition of key management personnel and amends associated disclosure requirements.

IAS 38 Intangible assets

In the event of revaluations, the standard now envisages that the entity may choose to adjust the gross value based on observable market data or it may proportionally assign the variation to the change that occurred in the book value. In either case, the elimination of amortisation accumulated by offsetting the gross value of the asset is mandatory. These amendments only apply to revaluations done in the year in which the amendment is first applied and to the immediately preceding period. All prior periods may be restated, but this is not compulsory. If this is not done, the criteria used in these periods should be disclosed. The 2010-2012 improvements are effective for financial years beginning on or after 1 July 2014. Application can be anticipated provided it is disclosed. Application is generally retrospective.

Annual improvements relative to the 2011-2013 cycle

The IASB introduced four improvements in four standards, relative to annual improvements relating to the 2011-2013 cycle. These improvements are presented below:

IFRS 1 First-time adoption of International Financial Reporting Standards

Clarifies what is meant by standards in force.

IFRS 3 Business Combinations

Updates the exception of applying the standard to "Joint Arrangements", clarifying that the only exclusion refers to the accounting of the creation of a joint agreement in the financial statements of the joint agreement proper.

IFRS 13 Fair Value Measurement

Updates paragraph 52 so that the exception to the portfolio also include other contracts that are under or are accounted for in accordance with IAS 39 or IFRS 9 regardless of meeting the definitions of financial assets or financial liabilities pursuant to IAS 32.

IAS 40 Investment Properties

Clarifies the inter-relations existing between IFRS 3 and IAS 40 to determine whether a property should be classified as an investment property or as an owner-occupied property.

The 2011-2013 improvements are effective for financial years beginning on or after 1 July 2014. Application can be anticipated provided it is disclosed. Application is generally retrospective.

IFRIC 21 - Government duties (Issue)

This interpretation applies to payments imposed by government entities, which are not covered by other standards (e.g. IAS 12), including fines and other penalties for non-compliance with legislation. The interpretation clarifies that: **(i)** a liability should be recognised when the activity triggers the payment as identified in relevant legislation; **(ii)** a progressive increase of the liability over time is to be made if the activity that triggers the payment also occurs over time in accordance with the relevant legislation; and **(iii)** if payment is only triggered when a certain threshold is reached, no liability should be recognised until that minimum value is reached. This interpretation does not establish what the consideration of the liability should be. The provisions of the other standards should be taken into account to determine whether an asset or an expense must be recognised. The amendments are effective for financial years beginning on or after 1 January 2014. Application can be anticipated provided it is disclosed. Application is retrospective.

Except for the reference above to the new IAS 19 (revised), the above-stated standards are not applicable or they are not expected to have any significant impact on the consolidated financial statements of AdP SGPS.

2.2 Consolidation

2.2.1 Dates

The consolidated financial statements reflect the assets, liabilities, results and cash flows of AdP, SGPS, S.A. and subsidiaries as well as the profits proportional to the shareholding in associate companies, for the financial year ended on 31 December 2013 (and comparisons with 31 December 2012).

2.2.2 Shareholdings in subsidiaries

Shareholdings in subsidiaries and companies in which the Group directly or indirectly holds more than 50% of the voting rights of the General Meeting of Shareholders or has the power to control financial and operating policies, are included in the consolidated financial statements by the full consolidation method. Subsidiaries are included in the consolidation from the date that control is acquired until the date it effectively ends. The purchase method is used to account for the acquisition of subsidiaries.

Acquisitions subsequent to 2010:

In the acquisition method the difference between: **(i)** the consideration transferred together with the non-controlling interests and the fair value of the equity interests previously held and **(ii)** the net amount of identifiable assets acquired and liabilities taken on, is recognised at the date of acquisition as goodwill, if positive, or as a gain if it is negative. The transferred consideration is measured at fair value calculated as the aggregate of the fair values, at the date of acquisition of the transferred assets, liabilities incurred and equity instruments issued by the Group. For the purpose of calculating the goodwill/gain from the combination, the transferred consideration is purged of any part of the consideration relating to any other transaction (e.g. payment for the provision of future services or the settlement of pre-existing relations) and the margin is separately recognised in profit or loss. The transferred consideration includes the fair value of any contingent consideration at the acquisition date. Subsequent changes in this value are recognised: **(i)** as equity if the contingent consideration is classified as equity; **(ii)** as expense or income in profit or loss or as other comprehensive income if the contingent consideration is classified as an asset or liability under IAS 39; and **(iii)** as an expense in accordance with IAS 37 or other applicable standards, in all other cases. The expenses related to the acquisition are not part of the consideration transferred and so do not impact on the calculation of the goodwill/ gain from the acquisition. They are recognised as expenses in the year they occur. At the date of acquisition, the classification and designation of all assets acquired and liabilities transferred are reassessed in accordance with IFRS, except for leases and insurance contracts, which are classified and designated based on the contractual terms and conditions on the contract start date. Assets arising from contractual indemnities from the seller regarding the outcome of contingencies wholly or partly related to a specific liability of the combined entity, now have to be recognised and measured using the same principles and assumptions as related liabilities. Calculating the fair value of the assets and liabilities acquired takes into account the fair value of contingent liabilities that result from a present obligation caused by a past event (if the fair value can be reliably measured), regardless of a probable outflow being expected. The Group can choose to measure the "non-controlling interests" for each acquisition, at its fair value or the respective proportional share of the transferred assets and liabilities of the acquired company. The choice of one method or the other influences the calculation of the amount of goodwill to be recognised. When the business combination is undertaken in stages, the fair value at the preceding date of acquisition of the interests held is remeasured to the fair value on the date control is obtained, against profit/loss in the period in which control is achieved, which impacts on the calculation of goodwill. Goodwill is considered to have an indefinite useful life and is therefore not amortised. It undergoes annual impairment tests regardless of whether or not there are signs of it being impaired.

Whenever a combination is not completed at the reporting date the provisional amounts recognised at the acquisition date and/or additional assets and liabilities recognised if new information is obtained about facts and circumstances that existed at the acquisition date and, had they been known would have resulted in the recognition of these assets and liabilities at that date, will be adjusted retrospectively during a maximum period of one year from the date of acquisition.

Acquisitions prior to 2010:

Main differences:

- The cost of an acquisition includes the costs directly attributable to the acquisition, thus impacting on the calculation of goodwill;

Non-controlling interests in the acquired company (formerly known as "minority interests") were measured only according to their share of the identifiable net assets of the acquired company but not included in the calculation of goodwill/gain of the combination;

- When the business combination is undertaken in stages, the fair value on the acquisition date preceding the interests held is not remeasured on the date control is obtained, so the previously recognised goodwill remained unchanged;

- Any contingent acquisition value was only recognised if the Group had a present obligation, the outflow was considered probable and the estimate was reliably determinable; subsequent changes in this value were recognised against goodwill;

Intragroup balances and transactions, and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction shows proof of impairment of a transferred asset. Accounting policies of subsidiaries are changed whenever necessary to ensure consistency with the policies adopted by the Group. In situations where the Group holds, in substance, control of entities created for a specific purpose, even if it has no direct shareholding in these entities, they are consolidated by the full consolidation method.

The companies included in the consolidation perimeter (full consolidation method) are detailed below:

Business Unit / Company	Head office	% Share capital held		Share capital	Equity	Net Profit (loss) in financial year
UNA-PD						
Águas do Algarve, S.A.	Faro	54%	EUR	29,230,875	38,385,202	3,098,569
Águas do Centro Alentejo, S.A.	Évora	51%	EUR	5,000,000	2,509,233	(110,625)
Águas do Centro, S.A.	Castelo Branco	70%	EUR	24,000,000	7,985,050	(2,973,827)
Águas do Douro e Paiva, S.A.	Porto	51%	EUR	20,902,500	29,314,828	2,280,683
Águas do Mondego, S.A.	Coimbra	51%	EUR	18,262,743	22,273,180	1,503,212
Águas do Norte Alentejano, S.A.	Portalegre	51%	EUR	7,500,000	(6,477,494)	(1,271,146)
Águas do Noroeste, S.A.	Barcelos	57%	EUR	65,615,601	55,410,141	96,824
Águas do Oeste, S.A.	Óbidos	51%	EUR	30,000,000	17,604,425	(3,049,879)
Águas de Santo André, S.A.	Vila Nova de Santo André	100%	EUR	1,000,000	16,451,042	5,135,909
Águas de Trás-os-Montes e Alto Douro, S.A.	Vila Real	70%	EUR	27,812,177	10,087,398	5,158,114
Águas do Zêzere e Côa, S.A.	Guarda	87%	EUR	26,607,560	12,191,713	921,797
AgdA - Águas Públicas Alentejo, S.A.	Beja	51%	EUR	500,000	558,164	50,601
Sanest, S.A.	Cascais	51%	EUR	11,000,000	27,905,452	390,263
Simarsul, S.A.	Setúbal	51%	EUR	25,000,000	22,779,285	(1,035,737)
Simdouro, S.A.	Vila Nova de Gaia	51%	EUR	16,538,016	17,471,075	689,029
Simlis, S.A.	Leiria	70%	EUR	5,000,000	(849,391)	1,253,958
Simria, S.A.	Aveiro	68%	EUR	16,712,225	17,994,973	914,977
Simtejo, S.A.	Lisbon	51%	EUR	38,700,000	67,824,419	5,236,957
AdRA - Águas da Região de Aveiro, S.A.	Aveiro	51%	EUR	15,000,000	16,773,427	1,517,766
EPAL						
EPAL, S.A.	Lisbon	100%	EUR	150,000,000	536,266,003	39,961,784
UNR						
Algar, S.A.	Faro	56%	EUR	7,500,000	11,817,524	573,932
Amarsul, S.A.	Moita	51%	EUR	7,750,000	14,698,280	958,176
Empresa Geral do Fomento, S.A.	Lisbon	100%	EUR	56,000,000	98,037,867	5,767,109
Ersuc, S.A.	Coimbra	51%	EUR	8,500,000	17,981,005	1,201,309
Resiestrela, S.A.	Fundão	63%	EUR	3,750,875	7,480,025	1,461,608
Resinorte, S.A.	Coimbra	51%	EUR	8,000,000	11,194,026	1,568,975
Resulima, S.A.	Viana do Castelo	51%	EUR	2,500,000	4,863,404	243,179
Suldouro, S.A.	Sermonde	60%	EUR	3,400,000	10,790,136	1,726,521
Valnor, S.A.	Alter-do-Chão	53%	EUR	10,000,000	13,936,740	675,023
Valorlis, S.A.	Leiria	51%	EUR	2,000,000	4,183,096	131,677
Valorminho, S.A.	Valença	51%	EUR	900,000	2,304,160	280,765
Valorsul, S.A.	S. João da Talha	56%	EUR	25,200,000	61,558,911	6,410,561
International						
AdP Internacional, S.A.	Lisbon	100%	EUR	175,000	(789,934)	(877,435)
Águas do Brasil, S.A.	Rio de Janeiro - Brazil	100%	BRL	2,050,100	(1,331,794)	-
Aquatec, Lda	Maputo - Mozambique	100%	MZN	2,476,580	(29,872,727)	(3,234,950)
Corporate services						
AdP Serviços, S.A.	Lisbon	100%	EUR	50,000	5,941,791	1,012,700
Aquasis, S.A.	Lisbon	55%	EUR	50,000	374,284	79,054
AdP Energias, S.A.	Lisbon	100%	EUR	250,000	3,025,477	194,532

2.2.3 Investments in associates

Investments in associates are presented at the value resulting from the equity method. The consolidated financial statements, under this method, include the Group's share of the total recognised gains and losses from the date that significant influence commences until the date it effectively ends. Associates are entities in which the Group holds between 20% and 50% of the voting rights, or over which the Group has significant influence but cannot exert control. Unrealised gains or losses in transactions between the Group and its associates are eliminated. The dividends paid out by the company invested in are considered reductions of the investment held.

When the share of the losses of an associate exceeds the investment made in the associate, the Group recognises additional losses in the future relative to liabilities already taken on. Any surplus of the acquisition cost of a financial investment over the Group's shareholding in the fair value of the assets, liabilities and contingent liabilities identified at the date of acquisition of the shareholding in the associate is recognised as goodwill, and it is included in the value of the shareholding and its recovery is annually assessed as an integral part of the investment. If the cost of acquisition is lower than the fair value of the net value of the assets of the acquired associate, the difference is registered directly in the income statement.

The entities qualifying as associates are listed below.

Company	Head office	% Share held	Equity capital	Assets	Liabilities	Equity	Sales	Net profit
Trevo Oeste, S.A.	Alcobaça	43%	1,336,085	3,201,206	787,045	2,414,161	-	(39,880)
Clube de Golf das Amoreiras, S.A. (ii)	Lisbon	100%	350,000	1,365,565	1,398,680	(33,115)	-	(27,839)
Miese	Vila Real	40%	200,000	10,906	13,367	(2,461)	-	(21,498)
Águas de Timor, S.A. (ii)	Timor	100%	5,000	-	-	-	-	-

(i) Amounts reporting to 30 November 2012. | (ii) Company not operating

2.2.4 Investments in subsidiaries resident abroad

In the consolidated financial statements, the value of the assets and liabilities of subsidiaries residing abroad are recorded at their exchange value in euros at the official exchange rates in force on the balance sheet date. The profit or loss of these subsidiaries is included at the equivalent in euros, at the average monthly exchange rate of the period. Exchange differences resulting from the conversion into euros of the financial situation at the beginning of the year and the profit or loss for the period, at the official exchange rate on the balance sheet date are recorded in the consolidated statement of comprehensive income.

2.2.5 Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the identifiable assets and liabilities attributable to the Group at the date of acquisition or the first consolidation. If the cost of acquisition is lower than the fair value of the net value of the assets of the acquired subsidiary, the difference is recognised directly in profit or loss. Goodwill is not amortised and it is assessed annually or whenever there is evidence, testing for recoverability (impairment). An impairment loss is recognised whenever the carrying amount of goodwill exceeds its recoverable value. For the purposes of testing for impairment, goodwill is allocated to the most elementary cash flow generating units (CGU) to which it belongs and compared with the present value of future cash flows generated by the same. The gain or loss on disposal of an entity includes the carrying amount of goodwill relating to that entity, unless the business to which this goodwill is associated keeps on generating benefits for the Group.

2.2.6 Balances and transactions

Intragroup balances and transactions, dividends distributed between Group companies, balances and unrealised gains on transactions between Group companies are eliminated.

2.3 Information by business area

A business area is a Group of assets and operations engaged in supplying products or services that are subject to risks and benefits that are different from other business areas. A business area is engaged in supplying products or services in a specific economic environment with different risks and benefits to those influencing the business areas that operate in other economic environments. The AdP Group presents the current report by business area because the transactions by the international companies of the Group are presented as an isolated business area.

The identified business areas are:

I – Regulated activities

- a. UNA-PD (and UNA-DR)
- b. UNR

II – Unregulated activities

- a. EPAL - production and distribution of water;
- b. International - includes activities engaged in outside of Portugal.
- c. Corporate Services – includes the business activity of AdP SGPS, EGF, AdP Serviços, Aquasis and AdP Energias.

2.4 Currency conversion

2.4.1 Operational and presentation currency

The items included in the financial statements of the AdP Group are measured in the currency of the primary economic environment in which the entity operates (the operational currency). The financial statements of the AdP Group and notes thereto are presented in euros, unless stated otherwise.

2.4.2 Transactions and balances in foreign currency

Transactions in currencies other than the euro are converted into the operational currency using the exchange rates at the transaction dates. Foreign exchange gains or losses resulting from the settlement of transactions and from conversion of monetary assets and liabilities denominated in foreign currencies at the rate of the balance sheet date are recognised in the income statement, except when they relate to an extension of investment in a foreign operation, in which case they are deferred in equity in accordance with IAS 21. Non-monetary items measured at fair value are adjusted at the exchange rate at the date of their calculation. The exchange rate effect is recorded together with the change observed in the fair value of those items. Exchange rate differences are recognised in the profit or loss or in "Other reserves", according to the appropriate registration for the recognition of gains or losses on the non-monetary item in question. The conversion of non-monetary items measured at historical cost into the operational currency of the AdP Group is obtained by calculation using the exchange rate at the transaction date.

2.4.3 Group Companies

The results and financial position of all the entities of the AdP Group that have an operational currency different from the presentation currency and that is not the currency of a hyperinflated economy are translated into the presentation currency as follows: **(i)** the assets and liabilities of each balance sheet are converted at the exchange rate in force on the date of the consolidated balance sheet; **(ii)** income and expenses of each income statement are converted at average exchange rates (unless the average rate is not a reasonable approximation of the cumulative impact of the rates in force on the transaction dates, in which case the income and expenses are converted at the exchange rates prevailing on the transaction dates); and **(iii)** the resulting exchange differences are recognised as a separate component of the consolidated statement of comprehensive income.

On consolidation, exchange differences arising from the conversion of a monetary item that forms part of the net investment in foreign entities are reclassified to equity. When a foreign operation is sold, the exchange differences are recognised on the consolidated income statement as part of the gain or loss on the sale. Goodwill and fair value adjustments resulting from the acquisition of a foreign entity are handled as assets or liabilities of the subsidiary and converted at the exchange rate on the consolidated balance sheet date.

2.4.4 Exchange rates used

The foreign currency rates used for converting transactions denominated in currencies other than the euro or to update balances denominated in foreign currencies were as follows:

Source: Bank of Portugal

Country	Currency	31.12.2013		31.12.2012	
		closing	average	closing	average
Brazil	Real	2.89	3.23	2.53	2.7
Cape Verde	Escudo C.V.	110.27	110.27	110.27	110.27
Mozambique	Metical	39.67	41.09	36.49	34.96
Japan	Yen	130.18	144.85	103.5	113.6
USA	USD	1.33	1.38	1.29	1.32

2.5 Regulated activity - recognition of regulatory assets and liabilities

2.5.1 Introduction

The SMM (multi-municipal systems) management companies operate under the umbrella of regulated activities. The greatest effect of regulation on the company's activity is the scrutiny by the regulator (ERSAR - DL 362/98 of 18 November, amended by Decree-Law 151/2002 of 23 May, and Decree-Law 277/2009 of 2 October) of the tariff levied on the services provided to users as well as the respective annual budget. According to this scrutiny, the tariffs charged by the companies require the approval of the grantor, following the opinion issued by the regulator on the suitability.

Considering the hierarchy defined in IAS 8 and the specific circumstances of the concession contracts in force, the Group companies with regulated activities adopted rules internationally applied to companies that operate in markets with these characteristics (namely FAS 71 issued by the FASB and the new IFRS issued by the IASB on regulated activities). Hence, a set of criteria for the recognition of assets and liabilities related to regulatory rules are defined. These rules establish that a company must recognise the effects of its operations in its financial statements, providing it supplies services with a price subject to regulation. Regulatory assets and liabilities are only likely to be recognised if, and only if: **(i)** an accredited body (the regulator, for example) defines the price that an entity should charge its customers for the goods or services it provides, and this price binds the customer to accept it, and **(ii)** the price established by regulation (tariff) is defined so as to recover specific costs incurred with providing the goods or services and to obtain a specific remuneration.

The activity of the multi-municipal enterprises of the Águas de Portugal Group is regulated, meaning that the prices are set by a third party (Ministry of Agriculture, Sea, Environment and Spatial Planning) on the advice of the regulator - ERSAR, I.P., regulator of water and waste services, I.P., ensuring in this way it is covered by legislation.

In summary, a company is required to recognise regulatory assets or regulatory liabilities if the regulator allows the recovery of costs previously incurred or the reimbursement of amounts previously charged, and to be repaid on its regulated activities through adjustments to the price charged to customers. In other words, when there is entitlement to increase or the obligation to decrease tariffs in future periods as a result of current or expected action by the regulator: **(i)** an entity must recognise a regulatory asset in order to recover a cost previously incurred and obtain a certain remuneration, or **(ii)** an entity must recognise a regulatory liability in order to repay amounts previously charged and pay an appropriate remuneration. The effect of applying the requirements referred to in the previous paragraph corresponds to the initial recognition of an asset (or liability) that would otherwise be recognised in the income statement as an expense (or income).

The Board of Directors believes that not only tariff deviations but also the accrued expenses for contractual investment fall within this category. Thus, according to the rule of recognition of regulatory assets and liabilities, these assets (and/or liabilities) should be recognised

on the balance sheet since the recovery of the cost (and/or repayment of liabilities) is necessarily eligible for the regulator to set the tariff in subsequent periods, ensuring the correct equilibrium between revenue and expenses.

2.5.2 Tariff deviation assets and liabilities

In legal terms, the shareholders of subsidiaries are entitled to a guaranteed return on invested capital under law and as defined in the concession contracts, which establish the criteria for setting the tariffs or guaranteed values on an annual basis, ensuring full recovery of investment, operational, financial and tax costs and also the adequate remuneration of the equity of the concession holders. This remuneration may also potentially be supplemented by the remuneration of productivity gains. The extraordinary distribution of such gains requires the approval of the Ministry.

Thus, the calculation of the difference between the earnings generated from operations and guaranteed remuneration on invested shareholder capital is performed annually. The gross value is recorded in an income account - tariff deviations - and the tax generated by this in a deferred tax account, offset against balance, in light of the recognition of regulatory assets and liabilities.

The value of the tariff deviation corresponds to the correction (credit or debit) to make to the revenue from regulated activities, so that the income of such activity is that required to comply with contractual provisions relating to full recovery of costs, including income taxes (IRC) and guaranteed annual remuneration.

If the tariff is greater than the required tariff a tariff surplus is generated (negative tariff deviation) that should be debited on income. This register gives rise to the recognition of a deferred tax asset relating to the correction of the output tax associated with the debit on income. The net effect corresponds to the correction of the net income for the full cost recovery and the shareholder remuneration annually guaranteed.

If the tariff is lower than the required tariff a tariff deficit is generated (positive tariff deviation) that should be credited on income. This register gives rise to the recognition of a deferred tax liability relating to the correction of the output tax associated with the credit on income. The net effect corresponds to the correction of the net income for full cost recovery and the shareholder remuneration annually guaranteed.

2.5.3 Accrued expenses for contractual investment and amortisation policy

In compliance with the provisions of the concession and partnership management contracts, and according to regulatory rules, and where applicable, the tariffs aim to recover the costs incurred with the investment and the costs to be incurred on investments not yet made (regulated) or on expansion and modernisation investments (regulated) of the concession or partnership. This revenue is balanced by the accrued expenses related to the annual share of the estimate of compliance with these contractual obligations being annually recognised. These accruals are calculated on the basis of the standard of economic benefits associated with the contractual investment defined in the supporting economic model of the concession contract. In relation to the concessionary companies of the AdP Group, the economic benefits obtained are determined by economic regulation.

In relation to investments (which will be embodied in entitlement to use infrastructure - IFRIC 12) with useful lives longer than the concession period, the amortisation of upfront investments or those that may subsequently be approved or imposed by the Grantor and which embody the expansion or modernisation of the initial obligations, should normally be done throughout the concession period. However, additional expansion or modernisation investment, with a useful life extending beyond the concession period will give rise to an indemnity equal to the difference between the depreciable amount and the amount depreciated to that date. Amortisation is calculated taking into account the upfront investments and those still to be made, which are stated in the economic and financial feasibility study used, based on the billed effluents flow of that year and the effluent to be billed to the end of the concession period, as forecast in the feasibility study.

It should be noted that the accrued costs for contractual investments aim to guarantee the principle of accounting on an accruals basis and balancing of income (tariffs) and expenses (incurred and to be incurred) that form the basis of calculation, during the term in which the concession agreements signed with the State are in force. These accruals correspond, in practice, to an accountability for reimbursement at future tariffs, allowing their stabilisation as well as the balancing of the above-referred income (tariffs) and expenses (incurred and to be incurred), during the term the concession agreements signed with the State are in force.

The accruals are recognised in expenditure in the amortisations item for the financial year and under liabilities (non-current). The liabilities are then transferred to accumulated amortisations on completion of the underlying investment.

2.6 Concession activity

2.6.1 Introduction

The concession holding companies of the AdP Group develop business activities that comprise services of general economic interest, essential to the well-being of populations, the development of economic activities and the protection of the environment (30 multi-municipal concessions and partnerships - 11 in the waste area and 19 in the water and sewerage area). These activities are developed

in a framework of continuous improvement in the delivery of the public services of water supply, wastewater treatment and the processing and recovery of waste with growing gains in productive and environmental efficiency. The regulated activities performed by the Group are those developed under concession by the management companies of multi-municipal water supply, wastewater treatment and waste processing and recovery systems (upstream services). These activities are developed in a context defined by current laws and regulations, the provisions of the public service concession agreements signed with the State and the provisions and recommendations issued by the Water and Waste Services Regulator (ERSAR). The AdP Group concession holding companies, as suppliers of a public service, operate in a highly regulated environment. The Regulator - ERSAR - pursuant to legislation in force, regulates the tariff to be charged for the services rendered, among other aspects. The Regulator can, in balancing the public interest with the economic and financial equilibrium of the companies, pursuant to the concession contract, implement measures with a negative impact on cash flow, with all the adverse consequences arising therefrom. The concessions managed by the AdP Group are the BOT type (Built-Operate-Transfer), generally including the taking over of infrastructure already built by the municipalities (whether through payment of a consideration or not), the construction of new infrastructure, their maintenance and operation. At the end of the concession term these infrastructures are transferred back to the Grantor (and/or municipalities) in full working order. As the full usufruct of the infrastructure is not held (e.g. there are restrictions on their sale, provisions as collateral, etc.), they are classified as a right of use (intangible asset) in light of that defined by IFRIC 12, as expressed in the following paragraphs.

Concessions, terms and benchmarks

Water and sewerage	Concession/ Partnership	Term	Period	Addenda under analysis by the Grantor		Shareholder remuneration rate	Applying to ⁽ⁱ⁾
Águas do Algarve	Concession	35 years	2001-2037	37 years	10-year Government Bond + 3%	Share capital+Legal reserve	
Águas do Centro	Concession	30 years	2001-2031	50 years	10-year Government Bond + 3%	Share capital+Legal reserve	
Águas do Centro Alentejo	Concession	30 years	2003-2032	50 years	10-year Government Bond + 3%	Share capital+Legal reserve	
Águas do Douro e Paiva	Concession	30 years	1996-2026	-	10-year Government Bond + 3%	Share capital+Legal reserve	
Águas do Mondego	Concession	35 years	2004-2039	-	10-year Government Bond + 3%	Share capital+Legal reserve	
Águas do Norte Alentejano	Concession	30 years	2001-2030	50 years	10-year Government Bond + 3%	Share capital+Legal reserve	
Águas do Noroeste	Concession	50 years	2010-2060	-	10-year Government Bond + 3%	Share capital+Legal reserve	
Águas do Oeste	Concession	35 years	2001-2035	-	10-year Government Bond + 3%	Share capital+Legal reserve	
AdRA - Águas da Região de Aveiro	Partnership	50 years	2009-2059	-	10-year Government Bond + 3%	Share capital+Legal reserve	
Águas de Santo André	Concession	30 years	2001-2030	-	10-year Government Bond + 3%	Share capital+Legal reserve	
Águas de Trás-os-Montes e Alto Douro	Concession	30 years	2001-2031	50 years	10-year Government Bond + 3%	Share capital+Legal reserve	
Águas do Zêzere e Côa	Concession	30 years	2000-2030	50 years	10-year Government Bond + 3%	Share capital+Legal reserve	
AgdA - Águas Públicas do Alentejo	Partnership	50 years	2009-2059	-	10-year Government Bond + 3%	Share capital+Legal reserve	
Sanest	Concession	25 years	1995-2020	-	TBA + 3%	Share capital+Legal reserve	
Simarsul	Concession	30 years	2004-2034	-	10-year Government Bond + 3%	Share capital+Legal reserve	
Simdouro	Concession	50 years	2009-2059	-	10-year Government Bond + 3%	Share capital+Legal reserve	
Simlis	Concession	30 years	2000-2029	50 years	Euribor 6-month rate + 3%	Share capital+Legal reserve	
Simria	Concession	50 years	2000-2049	-	10-year Government Bond + 3%	Share capital+Legal reserve	
Simtejo	Concession	43 years	2001-2044	-	10-year Government Bond + 3%	Share capital+Legal reserve	

Waste	Concession/ Partnership	Term	Period	Shareholder remuneration Rate		Applying to ⁽ⁱ⁾
Algar	Concession	25 years	1996-2021	TBA + 3%	Share capital+Legal reserve	
Amarsul	Concession	25 years	1997-2022	TBA + 3%	Share capital+Legal reserve	
Ersuc	Concession	33 years	1997-2030	TBA + 3%	Share capital+Legal reserve	
Resiestrela	Concession	25 years	2003-2027	TBA + 3%	Share capital+Legal reserve	
Resinorte	Concession	30 years	2009-2039	10-year Government Bond + 3%	Share capital+Legal reserve	
Resulima	Concession	25 years	1996-2021	TBA + 3%	Share capital+Legal reserve	
Suldouro	Concession	25 years	1996-2021	TBA + 3%	Share capital+Legal reserve	
Valorlis	Concession	25 years	1996-2021	TBA + 3%	Share capital+Legal reserve	
Valorminho	Concession	25 years	1996-2021	TBA + 3%	Share capital+Legal reserve	
Valorsul	Concession	25 years	2011-2034	10-year Government Bond + 3%	Share capital+Legal reserve	
Valnor	Concession	35 years	2001-2036	10-year Government Bond + 3%	Share capital+Legal reserve	

(i) Shareholder remuneration includes, besides share capital and the legal reserve, where applicable, remuneration and debt (dividends not paid out) in its calculation.

2.6.2 Accounting framework

IFRIC 12 defines the rules to be followed in the accounting of concession contracts, given the services provided and the power of control over the concession assets. Pursuant to this standard, the concession holding companies of the AdP Group provide two kinds of services: construction, modernisation and renewal of the infrastructure of the system and the operation and management (operate and maintain) of the system composed of the infrastructure, necessary for the delivery of services to users. Accordingly, the company must recognise and measure revenue (profit) from the services provided in accordance with the provisions of IAS 11 - Construction contracts and IAS 18 - Revenue.

If the company provides more than one service under one single concession contract (i.e. construction or modernisation of the services and operation), the value (prices or tariffs) receivable should be distributed according to the fair values, when these are individually (separately) identifiable. The nature of the price and the tariff determines how they are handled in the accounting. The company must recognise **(i)** the revenue and expenses related to the construction or modernisation of infrastructure in accordance with IAS 11 and **(ii)** the revenue and expenses related to operations in accordance with IAS 18. Moreover, it establishes that infrastructure under IFRIC 12 must not be recognised as tangible assets of the operator (or concession holder) because the concession contract does not give them control rights. The operator has access to and operates the infrastructure to deliver a public service on behalf of the grantor in accordance with the terms of the contract. Pursuant to the concession contract, the operator (or concession holder) acts as a service provider for the purposes of interpretation under this standard. The operator (or concession holder) builds or modernises the infrastructure (construction or modernisation of services) used to provide the public services and it operates and maintains the same (operation) over a specific period of time. If the operator (or concession holder) builds or modernises the infrastructure, the value (tariff) received or receivable by the operator must be recognised at fair value, and this corresponds to a value embodied in a right corresponding to: **(a)** a financial asset, or **(b)** an intangible asset. The operator (or concession holder) must recognise a financial asset to the extent that it has a contractual right to receive cash or another financial asset from the Concession Grantor for the construction services. The Concession Grantor has no way of avoiding payment since the contract is enforceable in law. The operator (or concession holder) has unconditional entitlement to receive cash if the Concession Grantor contractually guarantee this payment to the operator, corresponding to **(a)** a specific sum, or **(b)** to the difference, if such exists, between the sums received from the users of the public service and another specific amount, even if the payment is contingent to the operator (or concession holder) ensuring the infrastructure is in agreement with quality and efficiency requirements. The operator (or concession holder) must recognise an intangible asset since it receives a right (permission) to charge users for a public service. The right to charge users for a public service is not an unconditional right to collection because the amounts are dependent on the users actually using the service.

2.6.3 Infrastructure classification

The Group companies are contractually based on models classifying the infrastructure as a financial asset, since they do not present risk. They are entitled to (minimum) annual remuneration that is contractually guaranteed. The receipt of this remuneration may be deferred in time, but it is guaranteed.

However, the definition of a financial asset established by IAS 32 is not associated with the risk but with the present and unconditional entitlement to receive cash or another financial asset. Of the various mechanisms for re-equilibrium of the concession contracts of the companies of the AdP Group: the increase of tariffs, direct indemnity payable to the Concession Grantor and/or extension of the concession period, the extension of the period does not comply with the requirements established in that standard (IAS 32) since it constitutes a future right to charge the users, making the option for recognition of the financial asset unfeasible. Accordingly, the SMM concession holding companies or partnership managers of the AdP Group classify the infrastructures of the systems they operate as intangible assets - Right of use of infrastructures.

The intangible assets are registered at acquisition or production cost, including the (net) expenses and income directly and indirectly related with the investment projects, which are capitalised under fixed assets in progress. The expenses that can be capitalised are those related with undertaking investments. The operating costs are assigned to the intangible asset in progress in accordance with the allocation of staff to the respective projects. The financial charges related to loans obtained for financing investments in progress are totally capitalised until they are available for use.

Investments deemed to be for expansion or modernisation, through economic regulation of the concessions, are specifically remunerated since they are a component in the calculation of the tariff (i.e. they have a recovery that is implicit to the approval of the amortisation by the Regulator). Therefore, they are reported in accounts as intangible assets. Current upkeep and maintenance costs are recognised as expenses in the financial year in which they occur.

2.6.4 Amortisation

The intangible asset, rights of use of infrastructures, is amortised on a systematic basis according to the standard for obtaining economic benefits associated thereto, determined by economic regulation and by the approval of amortisation expenses in the annual calculation of the tariffs by the regulator.

Amortisation in the companies of UNA-PD and partnerships is calculated by the sum of the units method, i.e. by amortisation of the contracted investments established in the economic and financial feasibility study that is used. It is based on the flow of effluent billed in that year and the effluent to be billed until the end of the concession period, as envisaged in the economic and financial feasibility study attached to the concession contract. The amortisation in the companies of the UNR is calculated based on the concession term envisaged in the concession contract.

2.6.5 Residual value

Additional expansion or modernisation investment approved or imposed by the Concession Grantor, with a useful life extending beyond the concession period will give rise to an indemnity equal to the value not amortised at that date. Investments in such a situation are classified as non-current financial assets (receivables, measured at amortised cost, according to the effective interest rate method).

2.6.6 Revenue - construction services

In accordance with IFRIC 12 - Concession arrangements, the revenue from construction services must be recognised in accordance with IAS 11 - Construction contracts. It should also be noted that during the infrastructure construction phase the AdP Group acts as an "agent"/ intermediary, transferring the risks and returns to a third party (that performs the construction) in the course of its operating activity, without appropriating any profit. The revenue and cost of the acquisition of infrastructure therefore register the same amount. Hence, taking into account the regulated activity of the companies of the AdP Group, recognised revenue is that which strictly results from the levying of the tariffs approved by the Concession Grantor and assessed by the Regulator, plus or minus the underlying tariff deviation, as provided for in the concession contracts. The revenue from construction services is therefore not recognised.

2.7 Tangible fixed assets

Tangible fixed assets are generally measured at cost, less any impairment losses, and are depreciated according to their estimated useful life. Expenditure directly attributable to the acquisition of assets and their preparation and commissioning is taken at its balance sheet value.

A significant part of the tangible fixed assets of the AdP Group (EPAL) acquired before 31 December 2008 are recorded at acquisition cost or deemed cost, which encompasses the effects of revaluations made according to law and the effect of free revaluations, based on a valuation carried out by an independent specialised entity, with reference to the transition date (1 January 2009).

The subsequent costs are included in the book value of the asset or recognised as separate assets, as appropriate, only when it is probable that economic benefits will flow to the company and the cost can be reliably measured. The depreciation of these assets is done during their remaining useful life or until the next repair, whichever happens first. The replaced component of the asset is identified and recognised in the income statement.

All other expenditure on repairs and maintenance is recognised as an expense in the period in which it is incurred.

Tangible fixed assets assigned to operations are depreciated based on the estimated useful life measured from when they are ready for commissioning. The depreciable value is calculated by deducting the expected residual value at the end of the estimated useful life.

The estimated useful lives for tangible fixed assets are expressed as the following percentages:

Type	Average rate
Buildings and other constructions	2.00%
Basic equipment	12.50%
Transport equipment	25.00%
Tools and utensils	14.28%
Office equipment	14.28%

Land is not subject to depreciation.

The depreciation of assets intended for sale is suspended and these are classified as assets held for sale.

Whenever there are signs of the loss of value of tangible fixed assets, impairment tests are carried out to estimate the recoverable value of the asset and register an impairment loss if necessary. The recoverable value is determined as the higher of the net selling price and the value in use of the asset. Value in use is calculated based on the current value of estimated future cash flows, arising from the continued use and disposal of the asset at the end of its useful life.

At the end of each financial year the Board of Directors reviews the depreciation methods and the estimated useful life of each asset to ensure the consumption trend of the benefits of the assets in the years used by AdP Group is faithfully reflected. Any changes to these assumptions will be handled as a change in an accounting estimate and earmarked for prospective application.

Gains or losses arising from write-downs or disposals are calculated as the difference between receipts from disposals and the accounting amount of the asset and are recognised in the income statement as income or expenses.

2.7.1 Leasing

The leasing of assets for which the AdP Group substantially holds all the risks and benefits inherent to ownership of the asset are classified as finance leases. Also classified as finance leases are arrangements in which the analysis of one or more specific points of the contract indicate such a nature. This classification is made according to the substance and not the form of the contract. Finance leases are capitalised at the start of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The liability is recognised in other long-term liabilities, net of financial charges. The assets acquired through finance lease agreements are depreciated for the lesser of the asset's useful life and the term of the lease agreement. All other leases are classified as operating leases. The payments of lease arrangements are recognised as an expense on a linear basis over the lease term.

2.8 Intangible assets

2.8.1 Rights to use infrastructure

See note 2.6.3.

2.8.2 Other intangible assets

The intangible assets (software development expenditure, costs of intellectual property and other rights) are included in the accounts at cost net of accumulated amortisation. These headings are amortised using the straight-line method, usually for three to ten years. Investments that improve the performance of software programmes beyond their original specifications are added at the original cost of the software. The costs of implementing software recognised as assets are amortised using the straight-line method over their useful lives, i.e. from three to six years.

2.9 Investment properties

The investment properties of the AdP Group are the real estate held with the aim of obtaining income, capital appreciation or both. The investment properties are initially measured at cost, including the transaction expenses directly attributable to them. The investment properties are measured at depreciated cost after initial recognition. Investment properties are derecognised on disposal or when permanently withdrawn from use and no future economic benefits are expected from their disposal. Investment properties (buildings) are amortised for 50 years, since they have equivalent treatment to tangible fixed assets.

2.10 Financial assets and liabilities

2.10.1 Classification of financial assets

The financial assets of the AdP Group are classified in the categories indicated below. The classification depends on the purpose for acquiring the investment and it is determined at the time of initial recognition (trade date) of investments and revalued each subsequent reporting date. The Board of Directors decides the classification of its investments on the acquisition date and revalues this classification on a regular basis. The AdP Group classifies its financial assets in the following categories: **i)** loans and receivables; **ii)** investments held to maturity; **iii)** investments measured at fair value through profit or loss (held for trading); **iv)** financial assets available for sale.

Loans and receivables

These are financial assets other than derivatives, with fixed or determinable income for which there is no active listed market. These assets may be: **(i)** assets originating from normal operating activities and other associated services, and for which there is no intention to trade them; and **(ii)** investments in companies holding multi-municipal concessions which, according to the special terms and conditions of the underlying concession agreements, qualify as a loan granted, remunerated at an agreed rate.

Loans and receivables are initially recorded at fair value and afterwards at amortized cost based on the effective interest rate, less any impairment losses. Impairment losses are recorded based on the estimate and evaluation of losses associated with bad debts, at the balance sheet date, so that they may reflect their net realisable value.

Impairment losses are recorded when there are impartial indicators that the AdP Group will not collect all the amounts owed according to the original terms of the contract established. The indicators used to identify impairment situations are: analysis of breach; non-compliance for more than 6 months; debtor's financial difficulties; and probability of bankruptcy of the debtor.

When the sums receivable from trade receivables or other debtors are due and their terms are under renegotiation, they are no longer regarded as overdue and are treated as new credits.

Investments held to maturity

Investments held to maturity are classified as non-current investments, unless they mature less than 12 months from the balance sheet date. The investments recorded under this heading are those with fixed maturity that the AdP Group intends to and has the ability to keep until such date. Investments held to maturity are recorded at amortised cost, less any impairment losses.

Financial assets measured at fair value through profit or loss

This category encompasses: (i) financial assets for trading which are acquired principally for the purpose of being traded in the short term; (ii) financial assets designated at the time of their initial recognition at fair value with changes recognised in profit or loss.

This category includes the derivatives that do not qualify for hedge accounting purposes.

The changes in fair value are recognised directly in the income statement for the year. These assets are classified as current assets if they are held for sale or if their realisation is expected within 12 months of the balance sheet date.

Financial assets available for sale

The assets available for sale are non-derivative financial assets which: (i) the company intends to keep for an indefinite period; (ii) are defined as available for sale on initial recognition; or (iii) do not fit in the above categories. They are presented as non-current assets unless their disposal is intended within 12 months of the balance sheet date.

The assets available for sale are recorded, after individual recognition, at fair value by reference to their market value at the balance sheet date without any deduction for transaction costs that may be incurred up to the sale. The respective changes in fair value are directly recognised in equity under the item "fair value reserve" until the asset is derecognised or an impairment loss is identified, at which time the accrued value of potential gains and losses recognised in reserves is transferred to the income statement. In relation to equity instruments, a significant or prolonged decline in the fair value to below cost is essential for declaring the existence of impairment.

Equity instruments that are not shares in subsidiaries, joint ventures or associates, are classified as financial assets available for sale, in accordance with IAS 39. If there is no market value, these assets are held at cost, subject to impairment tests.

2.10.2 Financial liabilities

Financial liabilities are classified according to the contractual terms, regardless of their legal form. IAS 39 - Financial Instruments: recognition and measurement envisages the classification of financial liabilities into two categories: (i) financial liabilities at fair value through profit or loss; (ii) other financial liabilities. Other financial liabilities include loans obtained, trade payables and other accounts payable.

Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss include non-derivative liabilities for selling in the short term and derivative financial instruments that do not qualify for hedge accounting purposes, and are classified in this manner on initial recognition. Gains and losses arising from changes to the fair value of liabilities measured at fair value through profit or loss are recognised in the income statement.

Bank loans

Borrowings are initially recognised at fair value net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the issue amount (net of transaction costs incurred) and the nominal value is recognised in profit or loss over the term of the loans in accordance with the effective interest method. Borrowings are classified as non-current liabilities, except if it is expected that the AdP Group settle the liability within 12 months of the balance sheet date, in which case they are classified as current liabilities.

Trade payables and other accounts payable

The balances of trade payables and other account payables are initially recorded at their nominal value, which is taken to be fair value, and are afterwards recorded at amortised cost in accordance with the effective interest method. Financial liabilities are derecognised when the underlying obligations are eliminated by payment, are cancelled or expire.

2.11 Fair value hierarchy

The assets and liabilities of the AdP Group measured at fair value are classified according to the following levels of fair value hierarchy, as established in IFRS 7: **Level 1** the fair value of financial instruments is based on active liquid market prices on the reference date of the balance sheet. This level essentially includes equity, debt (e.g. NYSE Euronext) and futures instruments listed on active markets; **Level 2** the fair value of financial instruments is not based on active market prices but on the use of valuation models. The main inputs of the models used are observable in the market. This level includes, for example, over-the-counter derivatives; **Level 3** the fair value of financial instruments is not determined based on prices in active markets, but with the use of valuation models with the main inputs not observable in the market. The table with the assets and financial liabilities at fair value classified by level is presented in Note 7.2.

2.12 Derivative financial instruments and hedge accounting

The Group uses derivatives solely to manage the financial risks to which it is exposed. The Group does not use derivatives for speculation, in accordance with its financial policies. Even though the derivatives contracted by the AdP Group are effective instruments in the hedging of risks they do not all qualify as hedge accounting instruments under the rules and requirements of IAS 39. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them are recognised

in profit or loss. The fair value of derivatives is estimated based on listed instruments, whenever available. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash flow method and option pricing models, in accordance with generally accepted market assumptions. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is adjusted on a regular basis and any gains or losses resulting from this revaluation are recorded directly in the income statement for the period, except those referring to hedge derivatives. The recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

2.12.1 Hedge accounting

Hedge accounting is used whenever there is a relationship between the hedged item and the hedging instrument, meeting the following conditions:

- i) the hedge relationship is identified and formally documented on the date it starts;
- ii) the hedge relationship is expected to be highly effective at the transaction date (prospectively) and throughout the operation (retrospectively);
- iii) with respect to cash flow hedges, there should be a high probability that they will occur;
- iv) the hedge is evaluated on an ongoing basis and effectively determined as having been highly effective for the entire financial reporting period for which the hedge was designated.

Changes in the fair value of the derivatives classified as hedges are recognised directly in the consolidated statement of comprehensive income.

2.13 Trade receivables and other accounts receivable

The balances of trade receivables and other account receivables are amounts received for the sale of goods or services provided by the Group in the normal course of its business activities. They are initially recorded at fair value and afterwards measured at amortised cost by the effective interest method, less impairment losses.

2.14 Inventories

Inventories are valued at the lower of acquisition cost (which includes all expenses until entry in the warehouse) or net realisable value. The net realisable value results from the estimated sale price during the normal business activity of the Company, less variable selling expenses. The costing method used for the valuation of warehouse outflows is average cost.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits, other short term highly liquid investments with original maturities of six months or less, and overdrafts, at no significant risk of a change in value. Bank overdrafts are reported on the balance sheet as current liabilities, under "Loans", which are also considered in the preparation of the consolidated cash flow statement.

2.16 Impairment

2.16.1 Impairment of financial assets

The AdP Group analyses for objective evidence of either a financial asset or group of financial assets being impaired, at the balance sheet date.

2.16.2 Impairment of financial assets available for sale

For financial assets classified as available for sale, a prolonged or significant decline in the fair value of the instrument below its cost is regarded as indicating that the instruments are impaired. If there is any similar evidence for financial assets classified as available for sale, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset that has already been recognised in the income statement - is removed from equity and recognised on the income statement. Impairment losses of equity instruments recognised in profit or loss are not reversed through the income statement.

2.16.3 Impairment of trade receivables, debtors and other financial assets

Adjustments for impairment losses are recorded when there are impartial indicators that the Group will not collect all the amounts owed according to the original terms of the contracts established. The various indicators used to identify impairment situations include: (i) analysis of breach; (ii) debtor's financial difficulties; and (iii) probability of bankruptcy of the debtor.

The adjustment for impairment losses is determined by the difference between the recoverable amount and the carrying amount of the financial asset and it is recognised against the profit or loss of the financial year. The carrying amount of these assets is reduced to the recoverable value through the use of an adjustments account. When an amount receivable from customers and debtors is considered

irrecoverable it is written off using the adjustments account for accrued impairment losses. Subsequent recoveries of amounts that may have been written off are recognised in profit or loss. When the sums receivable from trade receivables or other debtors are due and their terms are renegotiated, they are no longer regarded as overdue and are treated as new credits.

The Group does not generally recognise impairment losses on public entities, since it deems the current risk of their insolvency to be remote.

2.16.4 Impairment of non-financial assets

The Group's assets are reviewed at each balance sheet date in order to detect indications of possible impairment losses. If such indication exists, the asset's recoverable amount is evaluated. In relation to goodwill and other intangible assets with an indefinite useful life, the recoverable amount is evaluated annually on the balance sheet date. The recoverable value is, bearing in mind the basis of the concession contracts, the value in use and this in turn corresponds to the guaranteed remuneration (share dividends) in each one of the years over the concession term. These sums are an integral part of the EVEF (economic and financial feasibility study) attached to the contracts of concession that are regularly sent to the sector's regulator. Whenever there are indications of potential losses due to impairment the recoverable value of the Group's assets is ascertained. When the book value of an asset or cash-generating unit to which it belongs exceeds the recoverable amount, it is reduced to the recoverable amount and this impairment loss is recognised in the income statement for the period.

The Group performs impairment tests on cash generating units that began business operations within a certain period of time (2 to 3 years). In the event the respective businesses have not yet reached sufficient maturity, impairment losses are recognised when there are unequivocal indicators that recoverability is considered remote.

2.16.5 Determining assets' recoverable amount

The recoverable amount of receivables in the medium and long run corresponds to the present value of expected future receipts, using the effective interest rate of the original operation as a discount factor. The recoverable amount of other types of asset is whichever is the higher of its net sale price and its value in use. In the calculation of the value in use of an asset, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of the money and the specific risks of the asset in question. The recoverable amount of the assets that alone do not generate independent cash flows is determined together with the cash generating unit to which they belong.

2.16.6 Reversal of impairment losses

Impairment losses recognised in medium and long-term receivables are only reversed when the reason for increasing the recoverable amount is based on an event that occurred after the date of recognition of the impairment loss. Impairment losses relative to other assets are reversed whenever there are changes in the estimates used to calculate the respective recoverable amount. Impairment losses are reversed up to the amount, net of amortisations, that the asset would have had if the impairment loss had not been recognised.

2.17 Share capital

Ordinary shares are classified in equity. Costs incurred directly from the issue of new shares or options are presented in equity as a deduction, net of taxes, on the amount issued.

2.18 Dividends payable

Dividends are recognised as a liability when declared.

2.19 Government grants

Grants related to assets (investment) are recognised when there is reasonable certainty that the grant will be received and that the AdP Group will meet all the obligations inherent in its receipt. Investment grants for the acquisition and/or construction of tangible and/or intangible assets are included under non-current liabilities and are credited on the income statement based on the same amortisation method as that for the underlying assets.

Other grants are deferred and recognised in the consolidated income statement in the same period as the expenses they are intended to offset.

2.20 Provisions, contingent assets and liabilities

Provisions are only recognised when an obligation exists that results from past events, the settlement of which is likely to require the allocation of internal resources in an amount that can be reasonably estimated. Whenever any criterion is not met or the existence of the obligation depends on the (non-)occurrence of a particular future event, the AdP Group will disclose this fact as a contingent liability, unless an evaluation of the requirement to pay funds for its settlement is considered unlikely. When there are a large number of similar obligations, the probability of generating an outflow of internal resources is determined for them as a whole. The provision is recognised

even where the likelihood of an outflow of internal resources relating to an item of the same class of obligations may be small. Current obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract exists when the company is an integral party to a contract which has associated costs with respect to its compliance and which cannot be avoided and exceed the future economic benefits derived from the same. The provisions are measured at the present value, on the balance sheet date, of the best estimate of the Board of Directors regarding the expenditure required to discharge the obligation. The discount rate used to calculate the present value reflects the current market expectation for the period of the discount and for the risk of the provision in question.

Provisions for future operating losses are not recognised.

Contingent assets and liabilities

Contingent assets and liabilities are not recognised in the financial statements, but disclosed in the attached notes. When the likelihood of an outflow of resources that incorporate economic benefits is remote, or if it is unlikely that there will be an inflow of economic benefits, the relevant contingent liabilities or contingent assets are not disclosed.

2.21 Employee benefits

EPAL and EGF have a system of social benefits for their workers, which comprises the payment of retirement pension top-ups (for old age or disability), in addition to supporting liabilities arising from pre-retirement situations. The system of pension benefits of the two companies embodies two types of pension plans, with defined contribution and defined benefits.

Defined contribution

It is a pension plan in which the company's only monetary obligation is to make fixed contributions to a separate entity (a fund). These contributions are recognised as an expense in the period they refer to.

Defined benefit

A defined benefits plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, normally dependent on one or more factors such as age, years of service and salary.

The obligation of the defined benefits plan is calculated annually/ half-yearly by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the discount of the future payments of benefits, using the interest rate of top-quality bonds in the same currency in which the benefits are to be paid and with maturities close to those of the liabilities taken on.

The liabilities recognised on the balance sheet relative to defined benefits plans are the present value of the benefit obligation defined at the balance sheet date, less the fair value of the assets of the plan, together with adjustments for past service expenses.

Past service expenses are recognised as income on a straight-line basis over the period until the corresponding benefits are actually acquired. They are immediately recognised since the benefits have already been fully acquired.

EPAL

The EPAL benefits plan is restricted to the payment of a top-up of the retirement pension (for old age or disability) awarded by the Social Security system, and the payment of pre-retirement situations. Liabilities with the retirement top-up are financed through the independent fund that has been set up and the liabilities with pre-retirement are directly borne by EPAL, and independently managed by a financial institution. In other words, EPAL has set up an independent fund to provide a retirement top-up plan for its employees, comprising a defined benefits plan. The Company changed the defined benefits pension plan on 22 March 2008 for a mixed defined benefit and defined contribution plan.

EGF

The EGF benefits plan refers to the payment of a top-up of the retirement pension (for old age or disability) awarded by the Social Security system. Liabilities with the retirement top-up are financed through the independent fund managed by BPI Pensões. EGF changed the pension plan from one of defined benefits to defined contributions, on 31 December 2006. This change had no impact on liabilities, since those were totally hedged.

2.22 Tax

AdP SGPS is covered by the special scheme of taxation for groups of companies that includes all the companies in which AdP SGPS directly or indirectly holds at least 90% of the respective share capital and which are also resident in Portugal and liable for payment of corporate income tax. The other subsidiaries that are not encompassed by the special taxation scheme for the AdP Group are taxed individually, on the basis of the respective taxable income and at the applicable tax rates.

The parent and subsidiaries in which control is directly or indirectly held are taxed at the 25% rate, plus the municipal tax rate to a maximum of 1.5% of the taxable profit. The State surtax is 3% on the taxable profit that exceeds 1.5 million euros to a ceiling of 7.5 million euros, and then at the 5% rate for taxable profit over 7.5 million euros.

Income tax for the period includes current tax and deferred tax. Income tax is recognised in the consolidated income statement, except where it is related to items that are recognised directly in equity. The amount of current tax payable is calculated based on the pre-tax profit, adjusted in accordance with tax rules.

Deferred tax is recognised whenever temporary differences between the tax base of assets and liabilities and their carrying amount on the consolidated financial statements are deemed to exist. Deferred tax that arises from the initial recognition of an asset or liability in a transaction that is not a merger, and which on the transaction date has not affected either the accounting outcome or the tax outcome, is not recorded. Deferred tax assets are recognised when it is probable that future taxable profit will be available against which temporary differences can be utilised or when the reversal of a deferred tax asset is expected for the same time and with the same authority.

Deferred taxes are calculated based on the current rate or the rate officially announced at the balance sheet date (the tax rate in 2014 is 23%) and which is expected to apply on the date on which deferred tax assets are realised or deferred tax liabilities are paid. Differences that may arise from expected changes in the rates that will reverse temporary tax differences are considered in the consolidated income statement.

Deferred taxes are recognised on temporary differences arising from investment in subsidiaries and associates except when the AdP Group is able to control the timing of the reversal of the temporary difference and it is likely that the temporary difference will not be reversed in the foreseeable future.

Deferred taxes are recorded in the net profit or in other reserves, depending on how the transaction or event giving rise to them is recorded.

2.23 Revenue

Revenue comprises the fair value of the sale of goods and provision of services, net of taxes and discounts and after eliminating internal sales. The concession holding and regulated companies, as referred to in note 2.6.6, only recognise revenue that results from the charging of the tariffs approved by the Grantor or partnership commission and examined by the regulator. Revenue is recognised as follows:

2.23.1 Provision of services

Regulated activity - Upstream services - Sewerage and partnerships

Revenue is recognised based on (i) minimum guaranteed amounts, or (ii) consumption, i.e. revenue is recorded as the product of the approved tariff and consumption measured and/or estimated.

Regulated activity - Upstream services - Waste treatment and recovery - unsorted waste

Revenue is recognised based on consumption, i.e. revenue is recorded as the product of the approved tariff and consumption measured and/or estimated.

Unregulated activity

The availability tariff is based on a contract established with the customer, with a defined rental price. The value of the contract is recognised every month in the month to which the delivery of the service refers.

2.23.2 Sale of goods

Regulated activity - Upstream services - Water supply

Revenue is recognised based on (i) minimum guaranteed amounts, or (ii) consumption, i.e. revenue is recorded as the product of the approved tariff and consumption measured and/or estimated.

Regulated activity - Upstream services - Waste treatment and recovery - sale of products

Treatment and recovery of waste - products: the sale of products obtained from the recycling of waste is registered at the time of the transaction.

Regulated activity - Downstream services - Partnerships

Revenue is composed of two components, one fixed and the other variable. Revenue is recorded as the product of the approved tariff for each bracket and the consumption measured and/or estimated of that bracket (variable component). The fixed component corresponds to the availability of the service and it is pegged to the meter's debit capacity. Recognition is done in fractions of twelve.

Unregulated activity

Water supply – end consumer: the sale of water to end consumers is based on m³ consumed. The tariffs of each one of the concessions and non-concessions (EPAL) apply. In some cases consumption estimates are made, which are then corrected when the individual meters of each customer are read.

2.23.3 Tariff deficit and surplus

See note 2.5.2.

2.23.4 Interest

Interest income is recognised based on the effective interest rate and is recorded in the period in which it is earned, according to the accruals principle.

When a receivable is adjusted for impairment, the Group reduces its book value to its recoverable value, though estimated future cash flows are still discounted at the initial effective interest rate (before impairment) and the correction of the discount is considered to be interest income.

2.23.5 Dividends receivable

Dividends are recognised when the shareholder's right has been established, which is usually by decision of the General Meeting of the subsidiary or associate.

2.24 Own work capitalised

The costs of resources directly allocated to tangible and intangible assets during their development/ construction stage are recognised in this item when it is concluded that they are recoverable through the realisation of those assets. Capitalised financial expenses as well as some personnel expenditure are particularly important. They are measured at cost based on internal information specially prepared for the purpose (internal costs) or on the respective purchase costs plus other expenses inherent therein, meaning therefore they are recognised without any profit margin. Capitalised expenses are carried directly on the balance sheet without impact on the income statement, and they are disclosed in the notes whenever such is applicable.

2.25 Expenses and losses

Expenses and losses are recorded in the period to which they relate, regardless of when they are paid or received, according to an accruals basis.

2.26 Subsequent events

Events occurring after the balance sheet date that convey additional information on conditions prevailing at the balance sheet date are reflected in the financial statements. Post-balance sheet date events that convey information on conditions that occur after the balance sheet date are, if material, disclosed in the notes to the financial statements.

3. Financial risk management policies

3.1 Risk factors

The AdP Group business operations are exposed to a number of financial risk factors: credit risk, liquidity risk and cash flows risk associated with the interest rate. It is current practice in the AdP Group to contract derivatives, among other financial instruments, to minimise some of the risks it is exposed to. The AdP Group has developed and implemented a risk management programme which, together with the permanent monitoring of the financial markets, seeks to minimise potential adverse effects on the financial performance of AdP and its subsidiaries. Risk management is the responsibility of the central treasury department, according to the policies approved by the Board of Directors. The treasury department identifies, assesses and undertakes operations designed to minimise the financial risk, in close cooperation with the AdP Group's operational units. The Board of Directors drafts the principles for risk management as a whole and policies that cover specific areas such as currency conversion risk, interest rate risk, credit risk, the use of derivatives, other non-structured instruments and the investment of surplus liquidity. The Board of Directors is responsible for establishing the general risk management principles and also the exposure limits. All transactions undertaken using derivative instruments require the prior approval of the Board of Directors, which sets the parameters for each transaction and approves the formal documents describing the specific objectives.

3.2 Credit risk

Credit risk is essentially related to the risk of a counterparty defaulting on their contractual obligations, resulting in a financial loss for the Group. The Águas de Portugal Group is exposed to credit risk in the course of its operational, investment and cash management activities. Credit risk in operations is basically related to receivables for services rendered to customers (water, wastewater and waste services). This risk is theoretically low, given the nature of the service rendered (to State entities - municipalities). However, given the specific economic and financial situation of the country of recent years, with direct consequences on local government, the amount of customer debts has remained at significant values (see notes 16 and 18 – trade receivables). Impairment losses for receivables are calculated considering: **i)** the customer's risk profile, depending on whether a corporate or business customer; **ii)** the average collection period, which varies from business to business; and **iii)** the customer's financial health. The AdP Group has been warning the Central Government of the unsustainability of the current arrears situation of some municipalities, with the aim being to try to find alternative ways of collecting the overdue amounts.

The Board of Directors of AdP SGPS constantly assesses the adoption of measures that aim to ensure the recovery of the balances receivable from the municipalities, which include the PAEL programme, activating the mechanism associated with preferential claims (which is focused on current debts) and the establishment of payment agreements.

It is still the understanding of the Board of Directors of AdP SGPS that there are no indicators to date that may lead, in relation to such balances, to the recognition of impairment losses, despite the uncertainty that exists regarding the time period taken for the municipality customers to ensure compliance with their obligations.

The following table shows the maximum exposure of the Group to credit risk (not including customers' and other debtors' balances) as at 31 December 2013, not taking into consideration any collateral held or other credit enhancements. The defined exposure for assets on the balance sheet is based on their carrying amount as reported on the main balance sheet.

Banking financial assets	31.12.2013
Current accounts	50,323,459
Term deposits	297,944,658
Other securities	18,200,000
Equipment renewal fund	2,677,885
Capital replenishment fund	123,316,515
Other securities	162,038
	492,624,555

Rating	31.12.2013
A2	821,871
B1	40,295,980
Ba1	63,030,862
Ba3	334,089,644
Baa3	43,567,438
Caa1	3,238,212
No rating	7,580,548
	492,624,555

Note: Rating obtained from sites of the financial institutions in January 2014.

3.3 Exchange rate risk

Exposure to exchange rate risk of the AdP Group is not relevant. This risk basically encompasses future commercial transactions, recognised assets and liabilities, as well as net investments in foreign operations not incurred or expressed in the AdP Group's operating currency. The AdP Group's central treasury manages the net exposure of the Group in each currency, contracting swaps centrally so as to minimise commercial risks, recognised assets and liabilities. The AdP Group has investments denominated in foreign currency with net assets exposed to exchange rate risk through conversion, and funding in foreign currency exposed to exchange rate risk. The exchange rate risk inherent to the net assets in foreign currency is managed by taking out loans in the same currency, and loans with hedging exchange rate swaps.

3.4 Liquidity risk

The management of liquidity risk requires keeping a reasonable level of cash and cash equivalents and implies the consolidation of floating debt through an adequate amount of credit facilities and the ability to liquidate market positions. The AdP Group's treasury department, given the dynamics of the underlying businesses, intends to secure floating debt flexibility, keeping the credit lines available for that purpose. The Group manages liquidity risk by taking out and maintaining credit lines and financing facilities with a firm underwriting commitment, with domestic and international financial institutions providing immediate access to funds. This practice has been greatly influenced in recent financial years by Portugal's well-known difficulties in gaining access to the credit markets, and by the high level of customer debt. The Group, in view of this problem, has analysed its investment commitments and rescheduled the Group's investments, mapping them according to importance, financial, economic, and environmental impact. This ensures the minimisation of all the risks associated with the commitments made to the different entities. The table below shows the AdP Group's liabilities by intervals of contracted residual maturity. The amounts shown in the table are the non-discounted contractual cash flows, for future payment (without the interest which these liabilities incur).

	< 1 year	1 to 5 years	> 5 years
Loans	616,695,220	502,787,172	1,920,718,463
Trade payables and other liabilities	230,426,037	61,817,009	67,462,944

The AdP Group does not foresee difficulties in complying with its short-term liabilities. The AdP Group considers it is in a position to ensure the renewal of its main credit facilities, particularly short-term bank loans. Their immediate repayment is therefore not expected.

3.5 Cash flow risk and fair value risk linked to interest rates

The interest rate risk of the AdP Group basically stems from taking out long-term loans. Such loans with interest at floating rates expose the AdP Group to cash flow risk whereas loans with fixed interest rates expose the Group to fair value risk linked to the interest rate. The Águas de Portugal Group manages interest rate-linked cash flow risk by taking out swaps that enable loans with floating interest rates to be converted to fixed interest rate loans. Likewise, the guaranteed remuneration of concession contracts, and consequently the tariff deviation, is associated with the volatility of interest rates. The table below provides a sensitivity analysis of the financial costs of the AdP Group.

	31.12.2013	Average rate + 1%	Average rate - 1%
Interest incurred	104,164,360	133,098,904	75,229,816
	104,164,360	133,098,904	75,229,816

3.6 Capital risk

The AdP Group's goal with respect to managing capital, which is a broader concept than the capital disclosed on the balance sheet, is to maintain an optimal capital structure through the prudent use of debt to enable it to reduce the cost of capital. The aim of managing capital risk is to safeguard the Group as a going concern, with a reasonable return for shareholders and the generation of benefits for all stakeholders. The policy of the AdP Group is to have the parent company, AdP, SGPS, S.A. contract loans with financial corporations (except for EPAL and investment loans - EIB), which in turn gives loans to its subsidiaries. This policy aims to optimise the capital structure for greater efficiency and to reduce the average cost of capital.

	31.12.2013	31.12.2012 Restated	31.12.2012
Non-current borrowings	2,423,505,635	2,476,130,548	2,476,130,548
Current borrowings	616,695,220	619,910,904	619,910,904
Cash assets	(369,391,115)	(335,280,411)	(335,280,411)
Debt	2,670,809,740	2,760,761,041	2,760,761,041
Investment grants	1,943,203,034	1,925,337,858	1,925,337,858
Total equity	1,242,276,315	1,138,168,151	1,135,901,831
Capital and subsidies	5,856,289,089	5,824,267,050	5,822,000,730
Debt/Total capital	0.46	0.47	0.47

The financing model of the AdP Group is fundamentally based on two major categories that allow the equilibrium of the capital structure, bank loans, in particular loans contracted from EIB, and equity and non-repayable investment grants.

3.7 Regulatory risk

Regulation is the most significant restriction on the profit of the economic activities undertaken by the Group. The Regulator can take measures with a negative impact on cash flow, with all the adverse consequences arising therefrom. AdP has sought to monitor the activities of the Regulator more closely in order to minimise these risks, thereby seeking to anticipate potential negative impacts on the companies arising from rules issued by ERSAR.

The plan of the 19th Constitutional Government, as well as the Plan for Economic and Financial Assistance, foresee the autonomisation of the waste sub-sector of the Águas de Portugal Group (AdP) and the need to implement the necessary measures to open up to private investment. Thus, during the first half of 2012, several working groups began to conduct studies concerning the revision of the existing regulatory model, particularly in terms of legal and economic regulation of the multi-municipal systems for urban solid waste treatment. Several measures are being implemented that shall lead to a restructuring of the sector, including the sale of the EGF sub-holding (waste). To this date, the Board of Directors of AdP SGPS has no knowledge of the impact that those measures may have on the consolidated financial statements of the AdP Group, besides those already disclosed in these financial statements.

The preparation of the new organisational law of ERSAR was undertaken in recent years and it is under discussion in Parliament. This new law envisages the reinforcement of the independence of the Regulator and its powers, particularly in relation to tariffs.

4. Estimates and judgments

The estimates and judgments that have an impact on the AdP Group's financial statements are assessed continuously and they represent, at the date of each report, the best estimate of the Board of Directors, bearing in mind the historic performance, accumulated experience and expectations with respect to future events which, in the circumstances in question, are believed to be reasonable. The intrinsic nature of the estimates can mean that the real reflection of situations that have been the target of an estimate may, for the purposes of financial reporting, differ from the estimated amounts. The estimates and judgments that generate a significant risk of leading to a material adjustment in the book value of assets and liabilities over the next financial year are:

4.1 Provisions

The companies of the AdP Group regularly analyse any obligations arising from past events and which must be recognised or disclosed. The Group is party to several ongoing legal proceedings in relation to which it has made a judgment, based on the opinion of its lawyers, to decide if a provision should be set up for these contingencies (note 40).

The subjectivity inherent in determining the likelihood and amount of outflows of the internal resources needed to discharge obligations may lead to significant adjustments, either due to the change of those assumptions or through the future recognition of provisions previously disclosed as contingent liabilities.

4.2 Tangible and intangible assets

The determination of assets' useful lives and the depreciation/amortisation method are essential to calculate the amount of depreciation and amortisation to be recognised in the consolidated income statement.

These two parameters were defined in accordance with the best estimate of the Board of Directors for the assets and business in question. However, since it is mostly a concessioned and regulated activity, the useful life of assets is associated with the pattern of economic benefits obtained and which are determined by economic regulation (for the concession term).

The Group annually tests if goodwill suffered any impairment loss. The recoverable value of cash generating units is determined based on the value in use, which requires the use of estimates.

4.3 Impairment of receivables

The calculation of an impairment loss can be triggered by a number of events, many of which are outside the influence of the AdP Group, such as the future availability of funding, the cost of capital and the maintenance of the present market regulation structure, not to mention any other internal or external changes to the AdP Group. The identification of impairment indicators, the estimate of future cash flows and the determination of the fair value of assets (or a group of assets) requires a high degree of judgment by the Board of Directors, in terms of identifying and assessing the different impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. In the specific case of the AdP Group, impairment indicators change with the growth of the infrastructure network, the expected tariff changes or the current strategies of AdP shareholders, which together with other factors may lead to changes in the pattern or amount of future cash flows. Impairment losses on trade receivables are mainly calculated based on the age of receivables, the risk profile of customers and their financial situation. The estimates related to the evaluation of the impairment of receivables differ from business to business.

The impairment of any of the reported assets at the issue date of the consolidated financial statements of the AdP Group is not considered likely, beyond the impairment losses already recognised in these financial statements. If, for the purpose of any assessment, any sign of impairment is found, the relevant book amount of the asset on the balance sheet will be adjusted against the profit or loss for the year. In addition to the above-mentioned uncertainties, there are some areas of judgment with an impact reflected in the financial statements. Although it is thought unlikely that they will lead to a material change in the next financial year they may nonetheless bring about a change in the assumptions or assessment by the Board of Directors of the AdP Group companies.

4.4 Fair value of derivatives

The fair value of financial instruments that do not have an active market is calculated based on evaluations that reflect the mark-to-market of such instruments. The Group uses its judgment to choose the evaluation techniques and assumptions to use to assess the derivatives contracted at the financial reporting date. Changes in the fair value of the derivatives that do not qualify as hedges are recognised in profit or loss and those classified as hedges are recognised directly in the consolidated statement of comprehensive income.

4.5 Post-employment benefits

The determination of liabilities for retirement pensions and other employee benefits requires the use of assumptions and estimates, including the use of actuarial projections, estimated rates of return on investments, discount rates and growth of pensions and salaries

and other factors that may impact on the costs and liabilities of pension plans, health care plans and on other benefits. The main actuarial assumptions used to calculate the liability for retirement benefits are described in Note 27.1.

4.6 Estimate of tax and deferred tax

The AdP Group believes that any review of tax returns will not result in material corrections in the consolidated financial statements, which may require the creation of any provision for taxes. Deferred tax assets are recognised for all recoverable losses to the extent it is probable that there will be taxable profits against which the losses can be offset.

The Board of Directors, considering the current climate and the impact such may have on future results, needs to make judgments to determine the amount of deferred tax assets that can be recognised in view of: the date and probable amount of future taxable profit and future tax planning strategies.

The estimates were based on the best information available at the date of preparation of the consolidated financial statements. However, situations may occur in subsequent periods that were not foreseeable at the time and were not considered in these estimates. In accordance with IAS 8, changes to the estimates that occur after the consolidated financial statements date are corrected in profit or loss in a prospective manner.

5. Relevant facts that have an impact on the profit or loss for the year

The profit and financial position of the AdP Group are influenced by several relevant facts in 2013.

5.1 Derivatives

In April 2013, AdP SGPS cancelled two derivatives, contracted with BNP, with a balance sheet value as at 31 December 2012 of EUR 39,150,472 (negative). This operation was conducted in the framework of a global negotiation led by the Portuguese State, with AdP SGPS benefitting from the results of the broader negotiations. The cancellation in these more favourable conditions allowed the payment made to be lower than the amount recorded on the balance sheet by EUR 15,811,963. However, the capital gain recorded in the income statement was only EUR 10,065,993 by virtue of one of the hedging instruments registering at the end of last year, in comprehensive income, EUR 4,644,479 (expense).

	31.12.2013
Notional 75,000,000 - balance sheet value as at 31/12/2012	28,275,433
Notional 50,000,000 - balance sheet value as at 31/12/2012	10,875,039
	39,150,472
Amount already recognised in comprehensive income	(4,644,479)
	34,505,993
Termination value	24,440,000
Accounting capital gain	10,045,993

Swap	Risk hedged	Notional	Maturity	J.V.	J.V.	In profit or	In comprehensive	In profit or	In comprehensive
				31.12.2013	31.12.2012	loss 2013	Income 2013	loss 2012	Income 2012
Mitsubishi - exchange rate	EUR/Yen exchange rate	100,000,000	2015	(22,127,077)	(1,124,899)	(21,002,178)	-	(17,373,087)	-
Currency exchange update	EUR/Yen exchange rate	100,000,000	2015	18,410,857	(3,930,822)	22,341,680	-	13,909,305	-
Sub-total				(3,716,220)	(5,055,721)	1,339,502	-	(3,463,782)	-
Citibank - interest rate	Interest rate	50,000,000	2022	(8,874,000)	(11,150,000)	2,276,000	-	(1,425,000)	-
BNP - interest rate	Interest rate	75,000,000	2022	-	(28,275,433)	-	-	(9,804,955)	-
BNP - interest rate	Interest rate	50,000,000	2023	-	(10,875,039)	-	-	-	(4,644,479)
BBVA - interest rate	Interest rate	20,000,000	2023	(3,156,548)	(4,323,611)	-	1,167,063	-	(1,885,225)
Sub-total				(12,030,548)	(54,624,083)	2,276,000	1,167,063	(11,229,955)	(6,529,704)
Total				(15,746,768)	(59,679,804)	3,615,502	1,167,063	(14,693,737)	(6,529,704)
Cancellation of derivatives						10,065,993	4,644,479	-	-
Effect on income statement and comprehensive income for year						13,681,495	5,811,542	(14,693,737)	(6,529,704)

5.2 Personnel costs

In 2012, by order of the state budget law, Christmas allowance was not paid, nor was the accruals of holiday pay to be paid in 2013 recorded. In 2013, by order of the decision of the Constitutional Court, in addition to the accrual of the month of holiday pay to be paid in 2014, the Christmas allowance was also paid as well as holiday pay that was not accrued in the previous year. Thus, 15 months are recorded in personnel expenses in 2013 against 12 in 2012. The values are therefore not directly comparable.

5.3 Adoption of revised IAS 19

The most significant changes in the new version of IAS 19 are related to the recording of the amendments in established and active benefit obligations of the plan. It is required that changes in the defined benefit obligations and fair value of assets of the plan are recognised when they occur (eliminating the "corridor" approach), thus speeding up the recognition of past service costs. This new version of IAS 19 ensures that all actuarial gains and losses should be immediately recognised in other comprehensive income. The AdP Group presents in the financial statements up to 31 December 2013 restatements resulting from the application of IAS 19 revised. At 31 December 2012 the impacts in question are: minus EUR 1.3 million in assets; EUR 2.5 million in equity; minus EUR 3.6 million in liabilities. Restatements beyond the balance sheet are disclosed in the respective notes, where applicable.

6. Information by business segment

31.12.2013	Regulated activity UNA-PD	Regulated activity UNR	Unregulated activity EPAL	Unregulated activity International	Unregulated activity Corporate services	Adjustments	Total consolidated
External sales	516,962,442	161,356,208	131,411,024	4,414,192	2,044,981	-	816,188,847
Inter-segment sales	13,580,806	325,686	11,668,080	31,593	18,615,301	(44,221,466)	-
Total revenue	530,543,248	161,681,894	143,079,104	4,445,785	20,660,282	(44,221,466)	816,188,847
Cost of sales/variation of inventories	(16,705,633)	(12,175,599)	(2,285,541)	-	(480,479)	-	(31,647,252)
External supplies and services	(142,057,027)	(46,683,278)	(28,458,633)	(3,448,664)	(6,254,724)	-	(226,902,326)
Personnel costs	(60,533,638)	(44,397,308)	(28,596,114)	(1,138,955)	(9,583,931)	-	(144,249,946)
Amort. deprec. and reversals in financial year	(161,889,210)	(57,812,417)	(25,008,814)	(73,846)	(1,445,316)	-	(246,229,603)
Provisions and reversals in financial year	693,268	(174,284)	(338,026)	167,808	-	-	348,766
Impairment losses and reversals	337,857	(158,355)	(524,459)	-	3,107	-	(341,850)
Investment grants	54,586,658	18,138,210	1,275,977	-	91,039	-	74,091,884
Other operating expenses and losses	(8,101,264)	(3,018,460)	(1,583,777)	(515,799)	(296,946)	-	(13,516,246)
Other operating income and gains	6,085,330	2,390,256	2,329,744	77,410	257,147	-	11,139,887
Inter-segment operating profit	(38,596,887)	(2,624,941)	(3,468,668)	(427,551)	839,191	44,278,856	-
Total operating profit	164,362,702	15,165,718	56,420,793	(913,812)	3,789,370	57,390	238,882,161
External financial profit	(51,652,842)	649,817	(1,306,144)	(293,691)	2,320,248	-	(50,282,612)
Inter-segment financial income	(27,482,539)	(1,284,728)	323,685	(19,096)	28,520,068	(57,390)	-
Profit before tax	85,227,321	14,530,807	55,438,334	(1,226,599)	34,520,686	(57,390)	188,599,549
Income tax	(21,911,941)	(7,430,224)	(18,098,346)	267,612	(11,530,193)	-	(58,703,092)
Net income of financial year	63,315,380	7,100,583	37,339,988	(958,987)	23,099,493	-	129,896,457
Attributable to non-controlling interests	22,422,933	2,760,541	-	-	34,472	-	25,217,946
Attributable to shareholders of AdP SGPS, S.A.	40,892,445	4,340,043	37,339,989	(958,985)	23,065,019	-	104,678,511
	63,315,378	7,100,584	37,339,989	(958,985)	23,099,491	-	129,896,457

Note: Total revenue includes tariff deviations of the period.

31.12.2012 (restated)	Regulated activity UNA-PD	Regulated activity UNR	Unregulated activity EPAL	Unregulated activity International	Unregulated activity Corporate services	Adjustments	Total consolidated
External sales	504,881,444	148,026,054	132,892,322	3,816,040	1,786,117	-	791,401,977
Inter-segment sales	13,108,758	557,536	11,312,946	5,028	17,903,690	(42,887,958)	-
Total revenue	517,990,202	148,583,590	144,205,268	3,821,068	19,689,807	(42,887,958)	791,401,977
Cost of sales/variation of inventories	(17,804,846)	(12,156,048)	(2,876,184)	-	(257,898)	-	(33,094,976)
External supplies and services	(138,678,993)	(44,394,032)	(30,573,125)	(3,064,187)	(5,639,894)	-	(222,350,231)
Personnel costs	(49,124,873)	(39,861,483)	(23,259,647)	(815,413)	(8,090,745)	-	(121,152,161)
Amort. deprec. and reversals in financial year	(155,167,356)	(51,086,265)	(27,675,107)	(44,757)	(1,638,176)	-	(235,611,661)
Provisions and reversals in financial year	495,876	59,878	806,671	(177,192)	696,548	-	1,881,781
Impairment losses and reversals	(5,094,099)	(408,243)	(2,015,507)	-	(76,608)	-	(7,594,457)
Investment grants	49,782,889	17,857,831	(6,649)	-	6,462	-	67,640,533
Other operating expenses and losses	(7,695,948)	(5,187,249)	(1,842,336)	(189,144)	(411,822)	-	(15,326,499)
Other operating income and gains	9,504,066	6,702,119	5,749,778	87,832	542,348	-	22,586,143
Inter-segment operating profit	(37,764,211)	(2,412,517)	(3,681,491)	(382,805)	1,294,583	42,946,441	-
Total operating profit	166,442,707	17,697,581	58,831,671	(764,598)	6,114,605	58,483	248,380,449
External financial profit	(47,315,161)	4,073,565	(2,439,687)	(281,696)	(30,329,799)	-	(76,292,778)
Inter-segment financial income	(31,132,103)	(1,916,620)	434,359	(17,218)	32,690,065	(58,483)	-
Profit before tax	87,995,443	19,854,526	56,826,343	(1,063,512)	8,474,871	-	172,087,671
Income tax	(24,969,757)	(5,881,521)	(16,049,629)	177,279	(1,269,018)	-	(47,992,646)
Net income of financial year	63,025,686	13,973,005	40,776,714	(886,233)	7,205,853	-	124,095,025
Attributable to non-controlling interests	23,259,563	7,327,909	-	-	(58,730)	-	30,528,742
Attributable to shareholders of AdP SGPS, S.A.	39,766,121	6,645,095	40,776,714	(886,233)	7,264,586	-	93,566,283
	63,025,684	13,973,004	40,776,714	(886,233)	7,205,856	-	124,095,025

Note: Total revenue includes tariff deviations of the period.

7. Financial instruments by category of IAS 39

7.1 Classification of financial assets and liabilities according to IAS 39

31.12.2013	Financial assets at fair value through profit or loss	Borrowings and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total financial instruments	Assets and liabilities not classified as financial instruments	Total financial position 31.12.2013
Tangible fixed assets	-	-	-	-	-	771,152,867	771,152,867
Intangible assets	-	-	-	-	-	4,688,624,825	4,688,624,825
Investment properties	-	-	-	-	-	973,390	973,390
Financial investments	34,068	126,577,771	-	-	126,611,839	-	126,611,839
Financial investment in associates	-	-	-	-	-	236,784	236,784
Deferred tax assets	-	-	-	-	-	262,342,817	262,342,817
Derivatives	-	-	-	-	-	-	-
Tariff deviation - cost recovery asset	-	-	-	-	-	564,124,345	564,124,345
Trade receivables and other non-current assets	-	192,687,897	-	-	192,687,897	-	192,687,897
Inventories	-	-	-	-	-	7,206,366	7,206,366
Trade receivables	-	447,477,536	-	-	447,477,536	-	447,477,536
State and other public entities	-	-	-	-	-	9,234,782	9,234,782
Other financial assets	-	-	-	-	-	-	-
Other current assets	-	155,483,093	-	-	155,483,093	-	155,483,093
Cash and cash equivalents	-	369,391,115	-	-	369,391,115	-	369,391,115
	34,068	1,291,617,412	-	-	1,291,651,480	6,305,620,425	7,595,547,656
Provisions	-	-	-	-	-	12,412,060	12,412,060
Pension liabilities	-	-	-	-	-	4,260,079	4,260,079
Non-current borrowings	-	-	-	2,423,505,635	2,423,505,635	-	2,423,505,635
Trade payables and other non-current liabilities	-	-	-	129,279,953	129,279,953	-	129,279,953
Deferred tax liabilities	-	-	-	-	-	305,054,337	305,054,337
Amortisation of future investment	-	-	-	-	-	497,244,254	497,244,254
Investment grants	-	-	-	-	-	1,943,203,034	1,943,203,034
Tariff deviation - cost recovery liability	-	-	-	-	-	132,377,898	132,377,898
Derivatives	-	-	15,746,778	-	15,746,778	-	15,746,778
Borrowings	-	-	-	616,695,220	616,695,220	-	616,695,220
Trade payables	-	-	-	79,094,478	79,094,478	-	79,094,478
Other current liabilities	-	-	-	151,331,559	151,331,559	-	151,331,559
Income tax	-	-	-	-	-	14,416,800	14,416,800
State and other public entities	-	-	-	-	-	28,578,501	28,578,501
	-	-	15,746,778	3,399,906,845	3,415,653,623	2,937,617,718	6,353,271,341

31.12.2012	Financial assets at fair value through profit or loss	Borrowings and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Liabilities at fair value through equity	Total financial instruments	Assets and liabilities not classified as financial instruments	Total financial position 31.12.2012
Tangible fixed assets	-	-	-	-	-	-	791,135,430	791,135,430
Intangible assets	-	-	-	-	-	-	4,722,944,524	4,722,944,524
Investment properties	-	-	-	-	-	-	1,069,272	1,069,272
Financial investments	28,232	117,972,696	-	-	-	118,000,928	-	118,000,928
Financial investment in associates	-	-	-	-	-	-	213,784	213,784
Deferred tax assets	-	-	-	-	-	-	267,531,026	267,531,026
Tariff deviation - cost recovery asset	-	-	-	-	-	-	508,207,171	508,207,171
Trade receivables and other non-current assets	-	185,978,072	-	-	-	185,978,072	-	185,978,072
Inventories	-	-	-	-	-	-	7,576,991	7,576,991
Trade receivables	-	474,811,470	-	-	-	474,811,470	-	474,811,470
State and other public entities	-	9,961,992	-	-	-	9,961,992	-	9,961,992
Other current assets	-	175,351,544	-	-	-	175,351,544	-	175,351,544
Cash and cash equivalents	-	335,280,411	-	-	-	335,280,411	-	335,280,411
	28,232	1,299,356,185	-	-	-	1,299,384,417	6,298,678,198	7,598,062,615
Provisions	-	12,904,974	-	-	-	12,904,974	-	12,904,974
Pension liabilities	-	9,639,079	-	-	-	9,639,079	-	9,639,079
Non-current borrowings	-	-	-	2,476,130,548	-	2,476,130,548	-	2,476,130,548
Trade payables and other non-current liabilities	-	-	-	143,374,537	-	143,374,537	-	143,374,537
Deferred tax liabilities	-	-	-	-	-	-	319,475,539	319,475,539
Amortisation of future investment	-	-	-	-	-	-	465,449,041	465,449,041
Investment grants	-	-	-	-	-	-	1,925,337,858	1,925,337,858
Tariff deviation - cost recovery liability	-	-	-	-	-	120,156,451	120,156,451	
Derivatives	-	-	44,481,154	-	15,198,660	59,679,814	-	59,679,814
Borrowings	-	-	-	619,910,904	-	619,910,904	-	619,910,904
Trade payables	-	-	-	108,865,984	-	108,865,984	-	108,865,984
Other current liabilities	-	-	-	161,035,133	-	161,035,133	-	161,035,133
Income tax	-	-	-	-	-	-	11,622,421	11,622,421
State and other public entities	-	-	-	-	-	-	28,578,501	28,578,501
	-	22,544,053	44,481,154	3,509,317,106	15,198,660	3,591,540,973	2,870,619,811	6,462,160,784

7.2 Fair value hierarchy

All financial instruments at fair value are classified in one of three hierarchy levels, as follows:

	31.12.2013			31.12.2012		
	level 1	level 2	level 3	level 1	level 2	level 3
Financial assets at fair value through profit or loss						
Investments in shares	34,068	-	-	28,232	-	-
Financial liabilities at fair value through profit or loss						
Derivatives	-	-	-	44,481,154	-	-
Financial liabilities at fair value through comprehensive income						
Derivatives	-	15,746,778	-	-	15,198,660	-

8. Intangible assets

	31.12.2013	31.12.2012
Right to use infrastructure (DUI) - IFRIC 12	4,341,306,512	4,314,006,593
Goodwill and assignments	3,785,877	3,785,877
Development costs	4,750,927	4,927,045
Industrial property and other rights	24,526,858	26,046,323
Computer software	272,914	69,236
Other intangible assets	21,486,835	22,146,538
Intangible assets in progress	292,494,902	351,962,912
	4,688,624,825	4,722,944,524

The Group does not recognise internally generated intangible assets.

8.1 Movements in the period

Gross value	31.12.2012	Increases	Currency conversion	Decreases/disposals	Reclassification	Transf.	Reversals	31.12.2013
DUI	5,768,611,730	24,093,748	-	(1,062,037)	9,523	189,982,267	-	5,981,635,231
Goodwill	3,785,877	-	-	-	-	-	-	3,785,877
Development projects	10,926,497	-	(637)	-	-	(113,211)	-	10,812,649
Industrial property	38,381,669	48,693	-	(633,846)	-	(4,665)	-	37,791,851
Computer software	274,922	9,670	-	-	-	9,287	-	293,879
Other intangible assets	35,282,851	134,669	510	-	-	411,115	-	35,829,145
Intangible assets in progress	351,962,912	130,716,852	-	-	(375,597)	(189,809,264)	-	292,494,903
	6,209,226,458	155,003,632	(127)	(1,695,883)	(366,074)	475,529	-	6,362,643,535

Accumulated amortisation	31.12.2012	Increases	Currency conversion	Decreases/disposals	Reclassification	Transf.	Reversals	31.12.2013
DUI	(1,454,605,137)	(154,309,279)	-	-	(31,178,915)	(273,497)	38,109	(1,640,328,719)
Development projects	(5,999,452)	(300,511)	637	-	-	237,603	-	(6,061,723)
Industrial property	(12,335,346)	(1,051,324)	-	100,359	-	21,318	-	(13,264,993)
Computer software	(205,686)	(3,190)	-	-	187,911	-	-	(20,965)
Other intangible assets	(13,136,313)	(1,128,374)	(510)	-	(91,689)	14,576	-	(14,342,310)
	(1,486,281,934)	(156,792,678)	127	100,359	(31,082,693)	-	38,109	(1,674,018,710)
Net value	4,722,944,524	(1,789,046)	-	(1,595,524)	(31,448,767)	475,529	38,109	4,688,624,825

8.2 Right to use of infrastructure and intangible assets in progress

Gross value	31.12.2012	Increases	Decreases/disposals	Reclassification	Transf.	Reversals	31.12.2013
DUI	5,768,611,730	24,093,748	(1,062,037)	9,523	189,982,267	-	5,981,635,231
Intangible assets in progress	351,962,912	130,716,852	-	(375,597)	(189,809,264)	-	292,494,903
	6,120,574,642	154,810,600	(1,062,037)	(366,074)	173,003	-	6,274,130,134

Accumulated amortisation	31.12.2012	Increases	Decreases/disposals	Reclassification	Transf.	Reversals	31.12.2013
DUI	(1,454,605,137)	(154,309,279)	-	(31,178,915)	(273,497)	38,109	(1,640,328,719)
	(1,454,605,137)	(154,309,279)	-	(31,178,915)	(273,497)	38,109	(1,640,328,719)
Net value	4,665,969,505	501,321	(1,062,037)	(31,544,989)	(100,494)	38,109	4,633,801,415

The decreases result from infrastructure returned to the municipalities (Simarsul and Simlis) and are related to infrastructures that were part of the integrated assets and which were taken back by the municipalities.

The reclassification of accumulated amortisation is the result of amounts transferred under the heading accrued contractual investment expenses for right to use infrastructure - firm (note 30).

In 2013, like the previous year, there was a significant reduction in investment by the AdP Group. This reduction is due to the constraints of the economic situation of the country as well as the macroeconomic development of our country and the regulatory framework of the adjustment process in the context of the ongoing economic and financial assistance programme. These constraints were in addition to the charges stemming from the 2010-2013 Stability and Growth Pact (SGP), which imposed limits on the annual growth of borrowings by the state-owned enterprises sector. It should also be noted the constraints arising from the lack of access to credit, a situation compounded by financial difficulties resulting from higher average collection periods associated with municipal corporate customers, making it particularly complex to fund investments.

The most significant investments of the year are, by company and by nature:

(these amounts are rounded off)

Water supply	Abstractions	Water mains pipes	Reservoirs
Águas de Trás-os-Montes e Alto Douro, S.A.	2,843,000	-	-
AgdA - Águas Públicas do Alentejo, S.A.	-	4,044,000	3,160,000
	2,843,000	4,044,000	3,160,000

Wastewater treatment	WWTP	Sewage pipes	Pumping stations
Águas do Noroeste, S.A.	5,947,000	16,568,000	4,914,000
Águas do Zêzere e Côa, S.A.	-	2,752,000	-
Águas do Centro, S.A.	3,829,000	-	-
Sanest, S.A.	-	2,515,000	-
Simtejo, S.A.	3,323,000	-	-
AgdA - Águas Públicas do Alentejo, S.A.	6,607,000	-	-
Simdouro, S.A.	6,164,000	4,533,000	-
AdRA - Águas da Região de Aveiro, S.A.	-	-	2,031,000
	25,870,000	26,368,000	6,945,000

Waste	Landfills	Organic recovery
Suldouro, S.A.	8,021,465	-
Resinorte, S.A.	-	1,384,152
Ersuc, S.A.	-	2,227,380
Valorlis, S.A.	-	1,800,075
Amarsul, S.A.	-	1,643,964
Algar, S.A.	-	2,826,607
	8,021,465	9,882,178

8.3 Goodwill

	31.12.2013	31.12.2012
Goodwill		
Valorsul, S.A.	3,306,807	3,306,807
Algar, S.A.	130,604	130,604
Aquasis, S.A.	209,965	209,965
	3,647,376	3,647,376
Goodwill and assignments		
Empresa Geral do Fomento, S.A.	138,501	138,501
	138,501	138,501
	3,785,877	3,785,877

Goodwill impairment tests were performed, taking as reference the recoverable amount of the cash generating unit that generated the goodwill. The recoverable value is the value in use, and this in turn corresponds to the guaranteed remuneration (dividends) in each one of the years over the concession term. These sums are an integral part of the EVEF (economic and financial feasibility study) attached to the contracts of concession. The guaranteed return is calculated based on the risk-free interest rate corresponding to the 10-year treasury

bonds yield (7.46% at 31 December 2012, and 6.29% at 31 December 2013) plus a spread of 3% defined by contract, or through the TBA and 6-month Euribor plus 3% spread. This remuneration (paid in the form of dividends, generated cash flow) is considerably higher in value than the value of the cash generating unit (in this case, the concession holding company) plus the value of goodwill, i.e. the recoverable amount is greater than the current value.

9. Tangible fixed assets

	31.12.2013	31.12.2012
Land and natural resources	121,652,416	121,661,594
Buildings and other constructions	115,192,694	120,151,363
Basic equipment	521,621,857	537,198,186
Transport equipment	407,985	643,572
Office equipment	2,577,006	2,583,500
Other securities	2,131,286	2,251,550
Investments in progress	7,569,623	6,645,665
	771,152,867	791,135,430

9.1 Movements in the period

Gross value	31.12.2012	Increases	Currency conversion	Decreases/disposals	Reclassification	Transf.	31.12.2013
Land and natural resources	121,661,594	-	-	(9,178)	-	-	121,652,416
Buildings and other constructions	218,940,776	5,668	-	-	-	274,177	219,220,621
Basic equipment	1,043,785,891	506,696	-	(3,889,995)	-	3,777,540	1,044,180,132
Transport equipment	3,902,901	77,386	(1,661)	(290,080)	-	-	3,688,546
Office equipment	28,609,507	394,699	(9,116)	(168,985)	-	530,588	29,356,693
Other	24,605,759	156,168	(1,811)	-	-	240,260	25,000,376
Investments in progress	6,645,665	6,244,486	-	(596,713)	(38,148)	(4,685,667)	7,569,623
	1,448,152,093	7,385,103	(12,588)	(4,954,951)	(38,148)	136,898	1,450,668,407

Almost all the tangible assets originate from EPAL (except the head office of the Group). The acquisition of assets by EPAL in the 2013 financial year was approximately EUR 6.6 million. They were essentially related to remodelling projects of the Valada-Tejo abstraction, expansion of the distribution network and intervention work on pipes of the sections Barbadinhos – Penha de França, Rua Filipa de Vilhena road and Rua Soldados da Índia road. The "decreases" item in 2013 essentially refers to the deactivation of a section of the ring pipeline, which was rerouted, caused by the construction of the new Vila Franca de Xira Hospital. These works cost EUR 2.2 million. The reduction of the heading "Tangible assets in progress" in 2013, amounting to EUR 4.6 million corresponds essentially to the conclusion of Lisbon Network expansion projects (EUR 368,123), and rehabilitation of the section Barbadinhos - Penha de França (EUR 1,232,124), as well as several other works on the Lisbon network.

Accumulated amortisation	31.12.2012	Increases	Currency conversion	Decreases/disposals	Reclassification	Transf.	31.12.2013
Land and natural resources	-	-	-	-	-	-	-
Buildings and other constructions	(98,789,413)	(5,238,514)	-	-	-	-	(104,027,927)
Basic equipment	(505,046,409)	(19,775,799)	-	2,263,933	-	-	(522,558,275)
Transport equipment	(3,259,329)	(299,802)	415	278,155	-	-	(3,280,561)
Office equipment	(26,026,007)	(922,199)	5,494	163,025	-	-	(26,779,687)
Other	(22,354,209)	(516,674)	1,811	-	(18)	-	(22,869,090)
	(655,475,367)	(26,752,988)	7,720	2,705,113	(18)	-	(679,515,540)

Impairment losses	31.12.2012	Increases	Currency conversion	Decreases/disposals	Reclassification	Transf.	31.12.2013
Basic equipment	(1,541,296)	-	-	1,541,296	-	-	-
	(1,541,296)	-	-	1,541,296	-	-	-
Net value	791,135,430	(19,367,885)	(4,868)	(708,542)	(38,166)	136,898	771,152,867

Almost all of the tangible assets of the AdP Group have their origin in EPAL. The net amounts reported in the transfers column relate to the transfer of the value of advance payments of investments in the amount of EUR 136,898.

	Transfers
Tangible fixed assets	136,898
Intangible fixed assets	475,529
Advance payment on investments	(612,427)
	-

9.2 Leasing

Net book value of intangible assets acquired using leasing:

	31.12.2013	31.12.2012
DUI - Land and natural resources	936,072	1,180,326
DUI - Buildings and other constructions	2,812,763	3,523,103
DUI - Basic equipment	700,205	1,173,640
DUI - Transport equipment	851,681	883,536
	5,300,721	6,760,605

Net book value of tangible fixed assets acquired using leasing:

	31.12.2013	31.12.2012
Land and natural resources	5,050,000	5,050,000
Buildings and other constructions	15,081,721	15,879,054
Transport equipment	77,478	-
Office equipment	-	117,600
	20,209,199	21,046,654

10. Investment properties

	31.12.2013	31.12.2012
Land	7,347	7,347
Buildings	2,576,989	2,576,989
Accumulated depreciation	(1,610,946)	(1,515,064)
	973,390	1,069,272

The fair value of investment properties is equivalent to the book value. The fair value of each investment property was determined by valuation with reference to 31 December 2009, performed by an independent research entity which has a recognised and relevant professional qualification. The Board of Directors of the Group does not consider it to have changed significantly as at 31 December 2013.

11. Financial investments

	31.12.2013	31.12.2012
Renewal fund	2,677,885	2,677,885
Capital replenishment fund	123,316,515	114,828,974
Other financial investments	818,348	700,814
Impairment losses on financial investments	(200,909)	(206,745)
	126,611,839	118,000,928

On the date of the establishment of the multi-municipal concession holding companies, these were obliged to keep the goods and resources assigned to the concession in good working order, maintenance and safety conditions, ensuring such by carrying out the necessary repairs, renewals and adaptations. The Company, after the beginning of the service operations, should have set up a Renewal Fund for this purpose. Decree-Law 195/2009 of 20 August amended the legal scheme of the multi-municipal systems, whereby the companies were no longer obliged to keep such renewal funds, from 1 January 2010, the date on which that law came into force. The concession holding and regulated companies are obliged, in accordance with the concession contracts, to set up a Capital Replenishment Fund in an institution authorised by the Bank of Portugal. The amount of that fund corresponds to the annual amortisation amount of the capital for the creation of a Capital Replenishment Fund, which will be managed by the concession holder and which it is entitled to receive at the end of the contract. The income of the Fund shall be deducted from expenses and charges in each year, in order to safeguard the interests of users, since the rate of return on invested capital is incorporated in the tariff. These funds were transferred and

are deposited with IGCP - the Agency that manages the Treasury and Public Debt. For the Group companies that had their concession period extended, the Capital Replenishment Fund was not increased, since it was already higher at that time than that required by contract. In these cases it was not used, i.e. it was not reduced, maintaining the value already deposited and duly securitised with IGCP.

The table below details the value of the funds by Group company:

	31.12.2013		31.12.2012	
	Capital replenishment fund	Equipment renewal fund	Capital replenishment fund	Equipment renewal fund
UNA-PD				
Águas do Algarve	8,267,571	-	8,267,571	-
Águas do Centro Alentejo	1,136,390	-	1,136,390	-
Águas do Centro	7,424,059	-	6,988,101	-
Águas do Douro e Paiva	11,202,199	-	10,393,840	-
Águas do Mondego	4,696,134	-	4,174,341	-
Águas do Norte Alentejano	2,177,301	-	2,177,301	-
Águas do Noroeste	11,584,853	-	11,584,853	-
Águas do Oeste	8,701,624	-	7,734,118	-
Águas de Santo André	279,868	2,677,885	279,868	2,677,885
Águas de Trás-os-Montes e Alto Douro	6,444,684	-	6,444,684	-
Águas do Zêzere e Côa	5,836,591	-	5,275,587	-
AgdA - Águas Públicas Alentejo	-	-	-	-
Sanest	7,994,351	-	7,543,503	-
Simarsul	4,865,147	-	4,865,147	-
Simdouro	786,944	-	468,043	-
Simlis	2,001,014	-	1,917,709	-
Simria	4,509,387	-	4,170,419	-
Simtejo	7,864,911	-	6,870,161	-
	95,773,028	2,677,885	90,291,636	2,677,885
UNR				
Algar	5,093,724	-	4,773,414	-
Amarsul	4,743,936	-	4,363,612	-
Ersuc	3,082,175	-	2,763,479	-
Resiestrela	1,021,277	-	817,021	-
Resinorte	1,180,328	-	918,033	-
Resulima	1,617,262	-	1,504,572	-
Suldouro	2,158,599	-	2,003,424	-
Valnor	2,500,090	-	2,174,007	-
Valorlis	1,314,254	-	1,226,907	-
Valorminho	592,365	-	553,911	-
Valorsul	4,032,000	-	3,024,000	-
	27,336,010	-	24,122,380	-
Corporate services				
AdP SGPS ⁽¹⁾	207,477	-	414,958	-
	207,477	-	414,958	-
	123,316,515	2,677,885	114,828,974	2,677,885

(1) The amount presented by AdP SGPS refers to the amounts received from the subsidiaries, Simlis, Valorminho and Valorlis and which were invested in the Instituto de Gestão e Crédito público (IGCP). Since IGCP does not allow investment of amounts below 100,000 euros, all the investments of the Group companies below that amount were concentrated in the holding company prior to being invested in IGCP.

11.1 Accumulated impairment losses on financial investments

	31.12.2013
Opening balance	(206,745)
Increase	(300)
Decrease	6,136
Closing balance	(200,909)

12. Investments in associates

	31.12.2013	31.12.2012
Miese, Lda.	208,783	208,783
Águas de Timor, Lda.	5,001	5,001
Trevo Oeste, S.A. (supplies)	23,000	-
	236,784	213,784

Investments in associates are presented at the value resulting from the equity method. The consolidated financial statements, under this method, include the Group's share of the total recognised gains and losses from the date that significant influence commences until the date it effectively ends. Associates are entities in which the Group holds between 20% and 50% of the voting rights, or over which the Group has significant influence but cannot exert control. These companies engaged in no business activity in 2013.

13. Deferred tax

	31.12.2013	31.12.2012 Restated	31.12.2012
Deferred tax assets	262,342,817	266,605,346	267,531,026
	262,342,817	266,605,346	267,531,026
Deferred tax liabilities	305,054,337	319,475,539	319,475,539
	305,054,337	319,475,539	319,475,539

13.1 Movements in the period

	Opening balance	Restated	Restated opening balance	Corrections	Allocation	Utilisation	Closing balance
DEFERRED TAX ASSETS							
Provisions							
Provisions - risks and charges	3,118,289	-	3,118,289	(263,084)	994,722	(724,082)	3,125,845
Provisions - impairment losses	10,700,262	-	10,700,262	(809,949)	758,021	(661,576)	9,986,758
Provisions - pensions	7,118,042	(3,598,000)	3,520,042	38,000	-	-	3,558,042
Provisions - other	1,198,644	-	1,198,644	-	-	-	1,198,644
Tax losses	14,968,332	-	14,968,332	3,384,945	1,470,253	(2,358,072)	17,465,458
Other	-	-	-	-	-	-	-
Amortisation not accepted as valid/ unrealised contractual investment	745,490,448	-	745,490,448	(36,169,241)	58,100,740	(16,739,239)	750,682,708
Tax amortisation/ accounting/ grant difference	109,164,908	-	109,164,908	35,985,193	2,634,048	(15,084,597)	132,699,552
Amortised cost	-	-	-	-	206,231	-	206,231
Tariff deviation	120,545,398	-	120,545,398	(3,373,888)	17,650,945	(2,444,558)	132,377,897
Transition adjustments - Grants	8,698,961	-	8,698,961	218,370	-	(837,343)	8,079,988
Others (detail others in commentary)	5,808,129	-	5,808,129	(2,057,330)	-	(36)	3,750,763
Assessment base	1,026,811,413	(3,598,000)	1,023,213,413	(3,046,984)	81,814,960	(38,849,503)	1,063,131,886
Income tax	242,556,933	(925,680)	241,631,253	(13,771,828)	18,605,810	(9,538,250)	236,926,985
Municipal surtax	24,974,093	-	24,974,093	(365,614)	1,763,141	(955,788)	25,415,832
Recognised deferred tax assets	267,531,026	(925,680)	266,605,346	(14,137,442)	20,368,951	(10,494,038)	262,342,817
DEFERRED TAX LIABILITIES							
Revaluations							
Tax revaluations	26,040,758	-	26,040,758	(732,928)	-	(103,942)	25,203,888
Free revaluations	112,532,314	-	112,532,314	1,846,172	-	-	114,378,486
Reinvestment of capital gains	169,650	-	169,650	(4,877)	-	-	164,773
Other	-	-	-	-	-	-	-
Amortisation not accepted as valid/ unrealised contractual investment	455,788,727	-	455,788,727	(1,788,345)	2,723,160	(39,334,577)	417,388,965
Tax amortisation/ accounting/ grant difference	50,871,877	-	50,871,877	(272,695)	756,255	(12,454,635)	38,900,802
Tariff deviation	516,122,074	-	516,122,074	(17,364,836)	68,527,008	(3,159,901)	564,124,345
Others (detail others in commentary)	5,638,487	-	5,638,487	(2,168,975)	-	(209,123)	3,260,389
Assessment base	1,167,163,887	-	1,167,163,887	(20,486,484)	72,006,423	(55,262,178)	1,163,421,648
Income tax	291,456,195	-	291,456,195	(16,160,874)	17,701,618	(14,110,787)	278,886,152
Municipal surtax	28,019,344	-	28,019,344	(371,315)	71,593	(1,551,437)	26,168,185
Recognised deferred tax liabilities	319,475,539	-	319,475,539	(16,532,189)	17,773,211	(15,662,224)	305,054,337

The calculation of deferred tax assets and liabilities has been adjusted according to the change in rate of tax reflected in Law No. 2/2014 dated 16 January, which reduced it from 25% to 23%, and those values are reflected in the income tax rows and columns of corrections.

Deferred tax	Value
Tax assets	(4,262,529)
Tax liabilities	14,421,202
Deferred tax in period	10,158,673
AdP Internacional (Angola)	291,300
Tax recognised on income statement	10,449,973

A number of Group companies have expected tax results in the future that will not allow the deferred tax assets generated by the reported losses to be recovered, and so deferred tax assets were not calculated.

Tax losses not highlighted as deferred taxes (by extinction date)	31.12.2013
2014	1,774,323
2015	7,579,944
2016	3,493,250
2017	1,926,391
2018	3,318,660
2019	3,613,719
	21,706,287

14. Derivatives

	31.12.2013	31.12.2012
Currency swaps	(22,127,077)	(1,124,899)
Currency conversion impact of JPY's	18,410,847	(3,930,822)
Net effect	(3,716,230)	(5,055,721)
Interest rate swaps	(12,030,548)	(54,624,093)
	(15,746,778)	(59,679,814)

Swap	Risk hedged	Notional	Maturity	J.V.	J.V.	In profit or loss	In comprehensive	In profit or loss	In comprehensive
				31.12.2013	31.12.2012	2013	income 2013	2012	income 2012
Mitsubishi – exchange rate	EUR/Yen exchange rate	100,000,000	2015	(22,127,077)	(1,124,899)	(21,002,178)	-	(17,373,087)	-
Currency exchange update	EUR/Yen exchange rate	100,000,000	2015	18,410,857	(3,930,822)	22,341,680	-	13,909,305	-
Sub-total				(3,716,220)	(5,055,721)	1,339,502	-	(3,463,782)	-
Citibank - interest rate	Interest rate	50,000,000	2022	(8,874,000)	(11,150,000)	2,276,000	-	(1,425,000)	-
BNP - interest rate	Interest rate	75,000,000	2022	-	(28,275,433)	-	-	(9,804,955)	-
BNP - interest rate	Interest rate	50,000,000	2023	-	(10,875,039)	-	-	-	(4,644,479)
BBVA - interest rate	Interest rate	20,000,000	2023	(3,156,548)	(4,323,611)	-	1,167,063	-	(1,885,225)
Sub-total				(12,030,548)	(54,624,083)	2,276,000	1,167,063	(11,229,955)	(6,529,704)
Total (1)				(15,746,768)	(59,679,804)	3,615,502	1,167,063	(14,693,737)	(6,529,704)
Cancellation of derivatives (a)						10,065,993	4,644,479	-	-
Effect on income statement and comprehensive income for year						13,681,495	5,811,542	(14,693,737)	(6,529,704)

(1) Reported under the derivative financial instruments item on the face of the balance sheet (liabilities)

AdP uses derivatives solely to manage the financial risks to which it is exposed. AdP does not use derivatives for speculation, in accordance with its financial policies. Even though the derivatives contracted by AdP are effective instruments in the hedging of risks they do not all qualify as hedge accounting instruments under the rules and requirements of IAS 39. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them are recognised in profit or loss. The fair value of derivatives is estimated based on listed instruments, whenever available. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash flow method determined by external entities, based on generally accepted market valuation techniques. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is adjusted on a regular basis and any gains or losses resulting from this revaluation are recorded directly in the income statement for the period, except those referring to hedge derivatives. The recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

Financial instruments associated with the loans from Depfa (notional of EUR 20 million) are considered as cash flow hedging instruments, and so the respective changes in such fair value is recorded directly in equity from 2012. Evaluations of the effectiveness of the instruments were carried out and the results were within the 80% to 125% range.

(a) Cancellation of derivatives contracts

In April 2013, AdP SGPS cancelled two derivatives, contracted with BNP, with a balance sheet value as at 31 December 2012 of EUR 39,150,472 (negative). This cancellation was conducted in the framework of a global negotiation led by the Portuguese State, with AdP SGPS benefitting from the results of the broader negotiations. The cancellation in these more favourable conditions allowed the payment made to be lower than the amount recorded on the balance sheet by EUR 15,811,963. However, the capital gain recorded in the income statement was only EUR 10,065,993 by virtue of one of the hedging instruments registering at the end of last year, in comprehensive income, EUR 4,644,479 (expense).

	31.12.2013
Notional 75,000,000 - balance sheet value as at 31/12/2012	28,275,433
Notional 50,000,000 - balance sheet value as at 31/12/2012	10,875,039
	39,150,472
Amount already recognised in comprehensive income	(4,644,479)
	34,505,994
Termination value	24,440,000
Accounting capital gain	10,065,993

15. Tariff deviation

	31.12.2013	31.12.2012
Regulatory assets - gross tariff deviation	564,124,345	508,207,171
Regulatory liabilities - gross tariff deviation	(132,377,898)	(120,156,451)
Total	431,746,447	388,050,720

Conciliation of gross tariff deviations	Tariff deviation asset	Tariff deviation liability	Net total deviation	In sales
Balance as at 31 December 2012	508,207,171	(120,156,451)	388,050,720	
Deviations and surplus of 2013	68,527,008	(17,069,135)	51,457,873	51,457,873
Reclassification of deviations of the year	(2,444,558)	2,444,558	-	(7,762,146)
Historical tax rate correction impact	(10,165,276)	2,403,130	(7,762,146)	-
Movements in 2013	55,917,174	(12,221,447)	43,695,727	43,695,727
Balance as at 31 December 2013	564,124,345	(132,377,898)	431,746,447	43,695,727

Resulting from the change of tax rate established in Law No. 2/2014 of 16 January, and given that the deferred tax assets and liabilities should be entirely measured at the tax rate on income at the date of future materialisation, the company considered the respective adjustment as a reclassification in the financial year, because of contractual clauses that determine the guaranteed income for the Group companies. This adjustment only affects the financial position of the AdP Group, notably through the reclassification of deferred tax assets and liabilities against the tariff deviation.

	ASSETS deficit assets	ASSETS deferred tax	LIABILITIES deficit liabilities	LIABILITIES deferred tax	Impact net balance	Impact in sales
UNA-PD						
Águas do Algarve	15,330,078	-	-	(3,824,596)	11,505,482	1,304,220
Águas do Centro Alentejo	9,804,435	-	-	(2,444,797)	7,359,638	1,088,079
Águas do Centro	68,857,027	-	-	(17,162,673)	51,694,354	9,122,058
Águas do Douro e Paiva	833,390	-	-	(210,153)	623,237	(385,520)
Águas do Mondego	11,275,701	-	-	(2,811,880)	8,463,821	1,207,642
Águas do Norte Alentejano	33,765,311	-	-	(8,422,524)	25,342,787	3,148,429
Águas do Noroeste	107,863,234	-	-	(26,894,003)	80,969,231	12,452,846
Águas do Oeste	66,926,010	-	-	(16,671,530)	50,254,480	10,873,353
Águas de Trás-os-Montes e Alto Douro	68,481,924	-	-	(17,120,306)	51,361,618	(1,361,872)
Águas do Zêzere e Côa	53,338,784	-	-	(13,311,408)	40,027,376	3,664,059
AgdA - Águas Públicas Alentejo	-	239,537	(969,834)	-	(730,297)	(576,468)
Sanest	-	6,208,692	(24,835,032)	-	(18,626,340)	493,320
Simarsul	39,278,614	-	-	(9,789,642)	29,488,972	5,323,152
Simdouro	7,525,001	-	-	(1,873,481)	5,651,520	1,431,962
Simlis	14,834,634	-	-	(3,714,902)	11,119,732	(1,576,907)
Simria	34,625,130	-	-	(8,637,650)	25,987,480	3,095,996
Simtejo	-	8,014,921	(32,093,834)	-	(24,078,913)	(1,087,330)
AdRA - Águas da Região de Aveiro	31,385,072	-	-	(7,810,463)	23,574,609	6,723,251
Total UNA-PD	564,124,345	14,463,150	(57,898,700)	(140,700,008)	379,988,787	54,940,270
UNR						
Algar	-	1,324,653	(5,307,334)	-	(3,982,681)	(336,701)
Amarsul	-	2,097,053	(8,413,025)	-	(6,315,972)	(1,094,220)
Ersuc	-	1,440,715	(5,782,118)	-	(4,341,403)	(864,626)
Resiestrela	-	1,190,164	(4,795,982)	-	(3,605,818)	(1,704,392)
Resinorte	-	237,874	(974,785)	-	(736,911)	(1,168,358)
Resulima	-	797,358	(3,193,490)	-	(2,396,132)	(141,889)
Suldouro	-	2,434,936	(9,782,155)	-	(7,347,219)	(1,964,148)
Valnor	-	1,012,273	(4,036,189)	-	(3,023,916)	740,572
Valorlis	-	687,131	(2,750,094)	-	(2,062,963)	(23,962)
Valorminho	-	430,863	(1,730,020)	-	(1,299,157)	(299,876)
Valorsul	-	6,904,234	(27,714,006)	-	(20,809,772)	(4,386,943)
Total UNR	-	18,557,254	(74,479,198)	-	(55,921,944)	(11,244,543)
Total	564,124,345	33,020,404	(132,377,898)	(140,700,008)	324,066,843	43,695,727

16. Trade receivables and other non-current assets

		31.12.2013	31.12.2012 Restated	31.12.2012
Trade receivables	16.2	137,994,352	106,433,659	106,433,659
Investment grants - Cohesion fund and others	20 (a)	9,191,249	33,962,440	33,962,440
Concession charges - Accrued investment		34,854	37,863	37,863
Other	16.1	46,772,141	46,493,661	46,899,661
		193,992,596	186,927,623	187,333,623
Impairment losses	16.3	(1,304,699)	(1,355,551)	(1,355,551)
		192,687,897	185,572,072	185,978,072

16.1 Other non-current assets

As a result of amendments to the existing volume of investment in the initial concession contracts, in some cases investments for expansion or modernisation arise that may present residual value at the end of the concession period, which corresponds to most of the balance presented. The amounts recognised derive from the following Group companies:

	31.12.2013	31.12.2012
Sanest	14,872,748	13,771,063
Águas do Douro e Paiva	11,875,084	11,543,291
Águas do Algarve	10,209,532	9,529,182
Valorlis	4,510,784	4,362,651
Simria	1,971,963	-
Simlis	1,304,700	1,304,700
Other Group companies	2,027,330	6,388,775
Total	46,772,141	46,899,662

The "Other Group companies" item includes the value of EUR 702,037 (EUR 2,521,037 in December 2012; EUR 2,115,000 in December 2012 restated) from excess coverage of the pension plan (EPAL).

16.2 Trade receivables

	31.12.2013	31.12.2012
General	1,693,220	3,149,116
Municipalities	137,119,908	104,548,941
	138,813,128	107,698,057
Amortised cost (effective interest rate)	(818,776)	(1,264,398)
	137,994,352	106,433,659

In this year there was an increase under the non-current trade receivables item resulting from the increased number of payment agreements made by the Group with its customers (municipalities). Note 18.3 shows the age of the trade receivables balances of the municipality customers.

The following table presents the main municipalities with debts under non-current trade receivables, i.e. resulting from agreements signed with customers:

	31.12.2013	31.12.2012
Lisbon Municipality	23,632,924	-
Ambiolhã, EM	10,542,840	1,975,728
Seixal Municipality	9,225,453	2,374,513
Chaves Municipality	7,547,140	6,864,536
Aveiro Municipality	6,602,220	6,602,220
Loures Municipality	6,554,524	9,184,777
Macedo de Cavaleiros Municipality	5,198,617	2,747,953
Vila Nova de Gaia Municipality	4,994,981	-
Lagos Municipality	4,804,505	-
Palmela Municipality	4,605,855	5,316,091
Portalegre Municipality	2,956,115	2,872,554
Vila Real Municipality	2,837,354	4,169,125
Barreiro Municipality	2,780,059	3,517,438
Odivelas Municipality	2,755,549	3,498,749
Leiria Municipality	2,570,651	3,427,534
Ovar Municipality	2,256,977	2,256,977
Guarda Municipality	2,072,007	2,446,765
Estarreja Municipality	2,053,788	2,053,788
Other	33,128,349	45,240,193
	137,119,908	104,548,941

16.3 Accumulated impairment losses on other non-current assets

	31.12.2013
Opening balance	(1,355,551)
Decrease	-
Direct cancellation	-
Reclassification	50,852
Closing balance	(1,304,699)

17. Inventories

	31.12.2013	31.12.2012
Goods	270,109	234,710
Raw materials and consumables	6,095,694	6,716,012
Finished and intermediate products	1,192,879	978,372
Reclassification and correction of stocks	4,503	4,716
Accumulated impairment losses on inventories	(356,819)	(356,819)
	7,206,366	7,576,991

17.1 Accumulated impairment losses on inventories

	31.12.2013
Opening balance	(356,819)
Increase	-
Reversals	-
Closing balance	(356,819)

18. Current trade receivables

	31.12.2013	31.12.2012
Trade receivables - current account	396,782,122	426,616,015
Trade receivables - Interest on arrears	23,198,765	20,132,700
Doubtful debtors	18,445,046	18,224,557
Estimate of services to be billed	25,668,552	26,048,870
Impairment losses on trade receivables	(16,616,949)	(16,210,672)
	447,477,536	474,811,470

18.1 Trade receivables

Trade receivables - current account	31.12.2013	31.12.2012
General	55,249,117	53,219,154
Municipalities	383,176,816	411,754,118
Estimate of services to be billed	25,668,552	26,048,870
	464,094,485	491,022,142
Impairment losses on trade receivables	(16,616,949)	(16,210,672)
	447,477,536	474,811,470

General trade receivables	31.12.2013	31.12.2012
EPAL, S.A.	17,977,570	15,226,214
Valorsul, S.A.	8,433,713	7,971,130
AdRA - Águas da Região de Aveiro, S.A.	5,532,563	5,139,350
AdP Internacional, S.A.	3,102,029	2,397,400
Amarsul, S.A.	2,716,453	4,297,812
Águas de Santo André, S.A.	2,238,400	2,714,806
Resinorte, S.A.	2,127,551	1,518,234
Other	13,120,838	13,954,208
	55,249,117	53,219,154

General trade receivables result mostly from downstream distribution activity (EPAL, AdRA - Águas da Região de Aveiro, and Águas de Santo André). A part of the activity of waste companies (recycling and production of electricity) also has non-municipal enterprises as clients, such as Sociedade Ponto Verde and energy companies, classified as general customers.

In this financial year there was an increase under the current trade receivables item resulting from the increased number of payment agreements made by the Group with its customers (municipalities), which are classified as non-current trade receivables.

18.2 Interest on arrears

Trade receivables - Interest on arrears	31.12.2013	31.12.2012
General	423,608	64,187
Municipalities	22,775,157	20,068,513
	23,198,765	20,132,700

18.3 Trade receivables - Municipalities

Reconciliation of debt of current and non-current trade receivables with the framework of debts by municipality:

	31.12.2013	31.12.2012
Non-current municipal trade receivables		
Municipal trade receivables - payment agreements	137,119,908	104,548,941
Total non-current municipal trade receivables	137,119,908	104,548,941
Discount of trade receivables debts	(818,776)	(1,264,398)
Total non-current municipalities at discounted value	136,301,132	103,284,543
Current municipal trade receivables		
Municipal trade receivables - TRH	3,948,325	4,948,063
Municipal trade receivables - payment agreements	50,898,917	37,583,268
Municipal trade receivables - injunctions	97,253,461	62,319,285
Municipal trade receivables - others	200,127,783	279,091,626
Municipal trade receivables - doubtful debtors	7,816,786	7,386,976
Municipal trade receivables - Interest on arrears	22,775,157	20,068,513
Municipal trade receivables	356,387	356,387
	383,176,816	411,754,118
Impairment on municipality trade receivables	(6,512,259)	(7,386,976)
Total current municipal trade receivables	376,664,557	404,367,142
Total municipal trade receivables	512,965,689	507,651,685
Total municipal trade receivables (nominal value)	513,784,465	508,916,083

Debts of municipal entities over EUR 2,000,000:

	Outstanding at N-2	Outstanding at N-1	Outstanding at N	Total outstanding	Total not yet matured	Total debt 31.12.2013	Total debt 31.12.2012
Lisbon Municipality	201,528	59,640	10,890,369	11,151,537	36,289,628	47,441,165	48,050,154
Évora Municipality	9,008,535	6,595,341	7,516,624	23,120,500	840,662	23,961,161	20,696,136
Chaves Municipality	1,249,736	3,482,413	7,466,589	12,198,739	9,685,748	21,884,486	19,144,640
Seixal Municipality	2,374,924	161,171	832,646	3,368,741	13,565,790	16,934,531	16,901,267
Fundão Municipality	8,627,452	2,021,963	4,734,616	15,384,031	557,153	15,941,183	12,226,843
Guarda Municipality	3,851,384	2,830,586	5,031,448	11,713,418	3,630,107	15,343,526	10,959,081
Loures Municipality	-	-	2,438,254	2,438,254	12,181,142	14,619,396	13,758,115
Ambiolhão, EM	-	-	216,977	216,977	13,653,495	13,870,471	13,406,460
Setúbal Municipality	6,583,417	1,248,160	2,573,364	10,404,940	412,114	10,817,055	9,101,131
VRSA SGU EM, SA	1,512,722	3,268,038	3,439,877	8,220,638	1,656,968	9,877,605	6,354,898
Albufeira Municipality	5,255,300	1,720,050	875,613	7,850,963	1,030,027	8,880,990	20,768,879
Macedo de Cavaleiros Municipality	722,587	472,445	12,896	1,207,927	6,866,497	8,074,424	5,645,720
Odivelas Municipality	-	-	3,761,947	3,761,947	4,274,163	8,036,110	4,786,131
Aveiro Municipality	9,463	22,172	782,894	814,529	6,786,016	7,600,545	7,550,281
Lagos Municipality	-	-	235,143	235,143	7,153,449	7,388,593	11,002,605
Vila Real Santo António Municipality	1,552,470	558,673	4,535,295	6,646,438	469,643	7,116,081	6,171,042
Vila Nova de Gaia Municipality	-	-	3,486	3,486	7,095,533	7,099,019	3,802,410
Vila Real Municipality	139,805	676,931	1,652,178	2,468,913	4,493,073	6,961,986	7,131,849
Nazaré Municipality	3,310,544	1,331,795	1,458,443	6,100,782	544,671	6,645,452	5,248,995
Palmela Municipality	1,098,326	492	516,141	1,614,958	4,836,022	6,450,980	5,869,831
Alenquer Municipality	3,740,538	75,421	1,866,404	5,682,363	739,363	6,421,726	6,736,624
Alcobaça Municipality	353	22,765	2,595,940	2,619,058	3,345,630	5,964,687	5,428,598
Portalegre Municipality	-	5,290	1,514,455	1,519,745	4,069,406	5,589,150	4,501,149
Barreiro Municipality	1,745,085	-	1,300,121	3,045,206	2,401,180	5,446,385	8,107,768
FAGAR, EM	238,343	86,666	3,800,956	4,125,965	1,209,034	5,334,998	4,400,277
Coimbra Municipality	724,652	191	1,397,495	2,122,337	2,833,097	4,955,434	4,102,023
Mirandela Municipality	248,143	819,981	1,778,942	2,847,066	1,943,674	4,790,740	5,327,022
Taviraverde, EM	113,716	868,539	3,386,848	4,369,104	404,842	4,773,946	4,834,224
Leiria Municipality	-	-	-	-	4,460,537	4,460,537	5,477,399
TROFÁGUAS - Serviços Ambientais, EEM	3,441,945	724,767	145,958	4,312,670	138,279	4,450,949	2,019,984
Viana do Castelo Municipality	-	533,409	1,494,739	2,028,148	2,201,452	4,229,600	2,434,446
Sabugal Municipality	1,543,146	178,941	2,047,067	3,769,154	364,541	4,133,695	2,746,644
Reguengos de Monsaraz Municipality	1,309,918	1,093,267	1,484,440	3,887,625	216,326	4,103,951	3,601,445
Alcochete Municipality	2,021,386	720,306	943,549	3,685,242	192,973	3,878,215	3,121,988
Peso da Régua Municipality	7,340	754,712	1,408,041	2,170,093	1,188,886	3,358,979	2,421,723
Gouveia Municipality	1,278,759	332,730	1,500,201	3,111,690	223,083	3,334,773	2,427,405
Sesimbra Municipality	232,056	-	1,217,574	1,449,630	1,851,810	3,301,440	4,627,714
Trofa Municipality	506,381	1,144,360	1,467,719	3,118,460	175,841	3,294,301	3,468,649
Valpaços Municipality	34,407	798,139	1,132,237	1,964,783	1,191,316	3,156,099	3,147,144
Alijó Municipality	172,567	105,576	2,531,376	2,809,519	195,410	3,004,929	3,022,223
Celorico da Beira Municipality	718,357	663,206	1,004,821	2,386,384	466,791	2,853,176	1,909,849
Alandroal Municipality	59,921	38,382	413,818	512,121	2,338,020	2,850,141	1,977,834
Lamego Municipality	2,155	1,018,245	1,429,196	2,449,595	399,638	2,849,233	5,053,001
Figueira de C. Rodrigo Municipality	850,679	293,474	1,095,232	2,239,385	585,957	2,825,342	2,135,680
Azambuja Municipality	926,296	17,396	861,628	1,805,320	982,970	2,788,290	3,542,348
Penamacor Municipality	18,550	170,905	1,096,492	1,285,947	1,455,269	2,741,216	2,115,222
Manteigas Municipality	1,327,589	447,417	790,521	2,565,527	107,690	2,673,217	1,822,092
Pinhel Municipality	844,796	428,133	1,246,714	2,519,643	152,520	2,672,163	1,538,194
Caminha Municipality	137,412	115,299	390,580	643,291	2,028,541	2,671,832	4,267,247
Moimenta da Beira Municipality	32,929	-	1,507,464	1,540,393	1,045,758	2,586,151	2,188,615
Vila Nova de Poiares Municipality	932,105	517,326	648,258	2,097,689	395,779	2,493,468	1,416,697
Santiago do Cacém Municipality	382	4,487	169,790	174,659	2,273,892	2,448,551	1,206,855
Beja Municipality	-	-	731,466	731,466	1,712,930	2,444,396	1,927,778
Ovar Municipality	-	4	5,090	5,094	2,392,902	2,397,996	2,433,251
Bragança Municipality	948,718	399,892	698,906	2,047,516	341,623	2,389,139	1,607,150
Espinho Municipality	-	2,745	1,073,611	1,076,356	1,301,946	2,378,302	1,818,685
Moita Municipality	439,932	72,456	190,659	703,047	1,663,939	2,366,986	2,563,202
Grândola Municipality	-	-	606,810	606,810	1,729,022	2,335,833	1,675,641
Vila do Bispo Municipality	121,806	888,031	1,086,314	2,096,151	114,406	2,210,558	1,371,060
Seia Municipality	-	346,454	796,261	1,142,715	1,043,349	2,186,064	3,013,812
Sintra Municipality	2,185,656	-	-	2,185,656	-	2,185,656	3,850,906
SMAES de Santo Tirso	761,014	982,916	216,005	1,959,935	206,361	2,166,297	1,038,763
Estarreja Municipality	73	4,135	42,368	46,576	2,078,457	2,125,033	2,200,292
Belmonte Municipality	51,491	154,549	949,674	1,155,714	956,310	2,112,024	1,357,025
Almeida Municipality	621,658	108,713	1,163,447	1,893,818	200,831	2,094,649	1,321,670
Santa Maria da Feira Municipality	2,668	-	-	2,668	2,006,772	2,009,440	5,701,951
Bombarral Municipality	11,833	-	223,793	235,626	1,765,209	2,000,835	2,345,595
Trade receivables with balance under EUR 2,000,000	9,255,164	7,429,270	25,810,804	42,495,239	52,503,945	94,999,184	114,984,751
	83,108,112	46,818,365	136,238,584	266,165,060	247,619,408	513,784,465	508,916,083

Note: the balances include the balances of municipal companies when applicable.

Given the maturity of debt (2 years) the Group companies have been using the legal mechanisms available to ensure the recovery of the amounts in question, namely bringing proceedings for an injunction and/or other legal proceedings.

18.4 Impairment losses on trade receivables

	31.12.2013	31.12.2012
Impairment losses on trade receivables		
Opening balance	(16,210,672)	(12,969,464)
Increase	(2,469,760)	(4,834,892)
Transfers	(64,308)	(2,468)
Reversals	2,126,783	1,589,301
Currency conversion differences	1,008	756
Closing balance	(16,616,949)	(16,210,672)

The increased impairment of current customers in 2013 was found mainly in the following Group companies:

	31.12.2013	31.12.2012
Águas de Santo André, S.A.	(981,539)	(929,675)
EPAL, S.A.	(651,396)	(569,110)
AdRA - Águas da Região de Aveiro, S.A.	(235,124)	(887,208)
Águas do Algarve, S.A.	(223,234)	(1,081,294)
Resiestrela, S.A.	(206,895)	(665)
Other Group companies	(171,571)	(1,366,940)
	(2,469,759)	(4,834,892)

19. State and other public entities

	31.12.2013	31.12.2012
Income tax withheld by third parties	485,339	2,698,206
VAT receivable	5,067,012	6,831,105
Other	3,682,431	432,681
State and other public entities - assets	9,234,782	9,961,992
Income tax withheld on behalf of third parties	(1,650,735)	(1,129,460)
VAT payable	(2,509,809)	(2,131,444)
Social security contributions	(1,937,702)	(1,809,444)
Local government tax	(30,808)	(58,209)
TRH/TGR	(22,717,206)	(22,151,649)
Other taxes and other duties	(1,527,245)	(1,298,295)
State and other public entities - liabilities	(30,373,505)	(28,578,501)
Net value of State and other public entities balances	(21,138,723)	(18,616,509)

20. Other current assets

		31.12.2013	31.12.2012
Advances to trade payables		7,336,579	4,525,960
Personnel		486,921	500,053
Finance leasing		-	40,357
Loans to Group companies not consolidated		1,401,924	1,397,809
Accrued interest and others		29,687,827	27,525,671
Other receivables		37,111,126	50,433,924
Investment grants - Cohesion fund and others	20.1	71,542,862	86,952,951
Advances to investment suppliers		2,013,462	567,451
Deferrals		11,538,129	9,892,814
Accumulated impairment losses	20.2	(5,635,737)	(6,485,446)
		155,483,093	175,351,544

20.1 Investment grants by group company

Investment grants - Cohesion fund and others	31.12.2013	31.12.2012
Águas do Algarve, S.A.	2,841,546	6,933,622
Águas do Centro Alentejo, S.A.	3,309,998	4,271,925
Águas do Centro, S.A.	1,396,536	2,013,617
Águas do Mondego, S.A.	-	6,229,307
Águas do Norte Alentejano, S.A.	1,984,927	2,032,555
Águas do Noroeste, S.A.	15,688,895	19,877,509
Águas do Oeste, S.A.	12,181,704	13,494,319
AdRA - Águas da Região de Aveiro, S.A.	8,578,714	-
Águas de Trás-os-Montes e Alto Douro, S.A.	-	2,991,470
Águas do Zêzere e Côa, S.A.	-	5,966,506
AgdA - Águas Públicas Alentejo, S.A.	356,860	4,544,004
Algar, S.A.	2,401,686	1,578,645
Amarsul, S.A.	2,801,344	2,418,048
Ersuc, S.A.	161,564	856,944
Resiestrela, S.A.	441,492	866,995
Resinorte, S.A.	225,585	928,504
Simarsul, S.A.	9,747,452	766,649
Simdouro, S.A.	4,303,074	1,814,160
Simria, S.A.	1,011,303	2,762,566
Simtejo, S.A.	1,277,002	2,067,938
Suldouro, S.A.	1,507,946	1,994,805
Valorlis, S.A.	1,325,234	2,542,863
	71,542,862	86,952,951

Amounts receivable	31.12.2013	31.12.2012
Investment grants - Cohesion fund MLP	9,191,249	33,962,440
Investment grants - Cohesion fund CP	71,542,862	86,952,951
	80,734,111	120,915,391

The change in this item is due to the receipt of part of the funds:

Investment grants opening balance	120,915,391
Recognition of fund entitlement	86,198,239
Income in period	(121,047,919)
Corrections to recognition of entitlement	(5,441,954)
Other corrections	110,354
Investment grants closing balance	80,734,111

Reconciliation of cash-flow	
Cash flow income	130,776,170
Income from other grants	(7,282,341)
Advance payment Águas de Trás-os-Montes e Alto Douro, S.A.	(940,509)
Advance payment Águas do Algarve, S.A.	(2,310,119)
Reimbursement Águas de Trás-os-Montes e Alto Douro, S.A.	804,718
Cash-flow income from other debtors	121,047,919

20.2 Impairment losses on other current assets

	31.12.2013
Opening balance	(6,485,446)
Increases	(87,077)
Reversals	82,368
Reduction (direct to debt)	854,418
Closing balance	(5,635,737)

21. Cash and cash equivalents

	31.12.2013	31.12.2012
Cash	2,922,998	2,012,376
Current accounts	50,323,459	55,374,838
Term deposits	297,944,658	211,293,197
Other securities	18,200,000	66,600,000
	369,391,115	335,280,411

22. Equity

The share capital of 434,500,000 euros is composed of 86,900,000 shares of 5 euros each, and it is fully paid up.

22.1 Shareholders

	31.12.2013		31.12.2012	
	Value	%	Value	%
Parpública, S.G.P.S., S.A.	351,945,000	81%	313,613,590	72.18%
Parcaixa, S.G.P.S., S.A.	82,555,000	19%	82,555,000	19.00%
Direção-Geral do Tesouro	-	-	38,331,410	8.82%
	434,500,000	100%	434,500,000	100%

22.2 Net earnings per share

	31.12.2013	31.12.2012 Restated ⁽¹⁾	31.12.2012
Net profit of financial year	104,678,511	93,566,283	93,841,091
Average number of shares	86,900,000	86,900,000	86,900,000
Earnings per share (basic and diluted)	1.20	1.08	1.08

(1) Adoption of revised IAS 19

23. Reserves and other adjustments

	31.12.2013	31.12.2012 restated ⁽¹⁾	31.12.2012
Legal reserve	15,001,702	12,888,142	12,888,142
Free reserve	1,044,437	2,541,128	-
Fair value reserve of derivative hedging instruments	(718,163)	(6,529,704)	(6,529,704)
Currency conversion reserve	229,542	109,687	109,687
	15,557,518	9,009,253	6,468,125

(1) Adoption of revised IAS 19

	31.12.2012	31.12.2012 restated ⁽¹⁾	Increases/ decreases	Dividends	Allocation of net profit	31.12.2013
Legal reserve	12,888,142	12,888,142	-	-	2,113,560	15,001,702
Free reserve	-	2,541,128	(1,221,883)	(274,808)	1,044,437	
Fair value reserve	14	(6,529,704)	(6,529,704)	5,811,541	-	(718,163)
Currency conversion reserve	(a)	109,687	109,687	119,855	-	229,54
	6,468,125	9,009,253	4,709,513	-	1,838,752	15,557,518
Retained earnings	294,044,696	294,044,696	(18,784)	(23,500,000)	91,727,531	362,253,443
Net income	93,841,091	93,566,283	104,678,511	-	(93,566,283)	104,678,511
	387,885,787	387,610,979	104,659,727	(23,500,000)	(1,838,752)	466,931,954
	394,353,912	396,620,232	109,369,240	(23,500,000)	-	482,489,472

(1) Adoption of revised IAS 19.

(a) variation of currency conversion reserve

	31.12.2013	31.12.2012
Opening balance	109,687	(33,308)
- Águas do Brasil, S.A.	83,824	58,665
- Aquatec, Lda.	36,031	84,330
Closing balance	229,542	109,687

24. Retained earnings

	31.12.2013
Opening balance	294,044,696
Appropriation of net profit of 2012	91,727,531
Dividends paid out	(23,500,000)
Other variations	(18,784)
Closing balance	362,253,443

25. Non-controlling interests

	31.12.2013
Opening balance	307,047,919
Dividends distributed	(11,403,214)
Net profit of 2013	25,217,946
Capital paid in and increased	4,405,409
Other	18,783
Closing balance	325,286,843

The subsidiaries that underwent share capital increases and paid in capital were:

	Paid-in capital
Águas do Noroeste, S.A.	2,136,443
Águas de Trás-os-Montes e Alto Douro, S.A.	845,927
Simdouro, S.A.	1,423,039
	4,405,409

26. Provisions

	31.12.2013	31.12.2012
Tax	28,923	30,000
Legal proceedings	593,742	575,554
Industrial accidents	114,442	147,406
Other	11,674,953	12,152,014
	12,412,060	12,904,974

26.1 Movements in the period

	31.12.2012	Increase	Decrease	Reversals	Reclassification	Currency conversion	31.12.2013
Tax	30,000	-	(1,078)	(81,938)	81,938	-	28,922
Legal proceedings	575,554	320,519	(38,600)	(262,659)	-	(1,072)	593,742
Industrial accidents	147,406	-	(32,964)	-	-	-	114,442
Other	12,152,014	1,172,714	(70,434)	(1,497,402)	(81,938)	-	11,674,954
	12,904,974	1,493,233	(143,076)	(1,497,402)	-	(1,072)	12,412,060

The movements in the period by Group company are:

Provisions - others	31.12.2012	Increase	Decrease	Reclassification	Reversals	31.12.2013
Águas do Algarve, S.A.	78,511	-	-	-	-	78,511
Águas do Douro e Paiva, S.A.	81,938	-	-	(81,938)	-	-
Águas do Mondego, S.A.	30,000	-	(30,000)	-	-	-
Águas do Norte Alentejano, S.A.	46,918	-	-	-	-	46,918
AdP - Águas de Portugal, SGPS, S.A.	5,326,966	-	-	-	-	5,326,966
AdP Internacional, S.A.	1,504,647	177,192	-	-	(345,000)	1,336,839
AdP Serviços, S.A.	338,897	-	-	-	-	338,897
Águas de Santo André, S.A.	1,479,328	420,592	(1,165)	-	(724,082)	1,174,673
Algar, S.A.	47,051	-	(4,758)	-	(42,293)	-
Empresa Geral do Fomento, S.A.	-	-	-	-	-	-
EPAL, S.A.	1,556,679	400,000	-	-	(72,000)	1,884,679
Ersuc, S.A.	722,000	-	(33,536)	-	-	688,464
Sanest, S.A.	155,112	-	(788)	-	-	154,324
Simlis, S.A.	370,378	801	-	-	(283,234)	87,945
Simria, S.A.	322,796	-	(187)	-	-	322,609
Suldouro, S.A.	30,000	-	-	-	(30,793)	(793)
Valorlis, S.A.	30,793	-	-	-	-	30,793
Valorsul, S.A.	30,000	174,129	-	-	-	204,129
Total	12,152,014	1,172,714	(70,434)	(81,938)	(1,497,402)	11,674,954

27. Pension liabilities

	31.12.2013	31.12.2012 restated	31.12.2012
EPAL pension fund	4,260,079	6,041,079	9,639,079
EGF pension fund	-	-	-
	4,260,079	6,041,079	9,639,079

The overall liabilities (EPAL) are hedged through assets of the pension fund and a specific provision recorded in liabilities, in the amount of EUR 4,260,079. Non-current assets (note 16) record an excess of coverage for the defined benefits plan in the amount of EUR 702,037 (EUR 2,521,037 in December 2012). The difference between these two amounts corresponds to the value presented in note 27.2 as the provision for liabilities.

27.1 Actuarial assumptions

	EPAL 31.12.2013	EGF 31.12.2013	EPAL 31.12.2012	EGF 31.12.2012
Standard retirement age	65 years	65 years	65 years	65 years
Mortality table	TV 88/90	TV 73/77	TV 88/90	TV 73/77
Disability table	EVK 80	EVK 80	EVK 80	EVK 80
Rate of return	3.10%	-	3.75%	-
Discount rate	3.10%	3.50%	3.75%	3.75%
Wage growth rate	0% in 2014; 2.5% after 2015	-	0% in 2012 and 2013; 2.5% in subsequent years	-
Pensions growth rate	0% in 2014; 1.25% after 2015	-	% in 2012 and 2013; 1.25% in subsequent years	1.00%
Pre-retirement contributions growth rate	0% in 2014; 1.25% after 2015	-	0% in 2012 and 2013; 2.5% in subsequent years	-

27.2 Fund summary

	31.12.2013	31.12.2012 restated⁽¹⁾	31.12.2012
Other current assets	702,037	2,115,000	2,521,037
Pension liabilities	(4,260,079)	(6,041,079)	(9,639,079)
	(3,558,042)	(3,926,079)	(7,118,042)

(1) Adoption of revised IAS 19.

	31 December 2013			31 December 2012 (restated) ⁽¹⁾			31 December 2012		
	EPAL	EGF	Total	EPAL	EGF	Total	EPAL	EGF	Total
Liability at end of period	41,368,042	528,860	41,896,902	41,406,079	556,421	41,962,500	45,004,079	556,421	45,560,500
Value of assets at end of period	(37,810,000)	(468,471)	(38,278,471)	(37,480,000)	(559,037)	(38,039,037)	(37,480,000)	(559,037)	(38,039,037)
Actuarial gains/(losses) not recognised	-	-	-	-	-	-	(406,037)	-	(406,037)
Provision for liabilities	3,558,042	60,389	3,618,431	3,926,079	(2,616)	3,923,463	7,118,042	(2,616)	7,115,426

(1) Adoption of revised IAS 19.

The overall liabilities (EPAL) are hedged through assets of the pension fund and a specific provision recorded in liabilities, in the amount of EUR 4,260,079. Non-current assets (note 16) record an excess of coverage for the defined benefits plan in the amount of EUR 702,000. The difference between these two amounts corresponds to the value presented in note 27 as the provision for liabilities. EGF, considering the immateriality of the unhedged liability, has not made any provision.

27.3 Change in liabilities

	31 December 2013			31 December 2012 (restated) ⁽¹⁾			31 December 2012		
	EPAL	EGF	Total	EPAL	EGF	Total	EPAL	EGF	Total
Liability at start of period	41,406,079	556,421	41,962,500	42,943,000	602,284	43,545,284	42,943,162	602,284	43,545,446
Change in discount rate	-	-	-	-	17,753	17,753	-	17,753	17,753
Current services cost	193,000	-	193,000	196,000	-	196,000	196,000	-	196,000
Interest costs	1,476,000	18,871	1,494,871	1,924,000	24,583	1,948,583	1,553,000	24,583	1,577,583
Changes to plan	245,000	-	245,000	-	-	-	-	-	-
Recognition of new pre-retirements	-	-	-	-	-	-	(102,000)	-	(102,000)
Actuarial gains/losses	267,000	54,392	321,392	(2,206,921)	23,785	(2,183,136)	6,054,917	23,785	6,078,702
(Gains)/losses changes in financial assumptions	2,261,963	5,538	2,267,501	3,289,000	-	3,289,000	-	-	-
Benefits paid	(4,481,000)	(106,362)	(4,587,362)	(4,739,000)	(111,984)	(4,850,984)	(5,641,000)	(111,984)	(5,752,984)
Liability at end of period	41,368,042	528,860	41,896,902	41,406,079	556,421	41,962,500	45,004,079	556,421	45,560,500

(1) Adoption of revised IAS 19.

The liability sensitivity for defined benefits given the change in the key assumption (discount rate), is presented as follows:

	Change	Liabilities
Discount rate	+ 0.4%	- 3.4%

27.4 Change in fund assets

	31 December 2013			31 December 2012 (restated) ⁽¹⁾			31 December 2012		
	EPAL	EGF	Total	EPAL	EGF	Total	EPAL	EGF	Total
Value at start of period	37,480,000	559,037	38,039,037	35,360,000	602,308	35,962,308	35,360,261	602,308	35,962,569
Fund return	1,371,000	18,970	1,389,970	1,627,000	40,558	1,667,558	1,541,000	40,558	1,581,558
Fund contribution	-	-	-	-	24,049	24,049	-	24,049	24,049
(Actuarial) gains and losses	(3,177,000)	(4,227)	(3,181,227)	(1,886,000)	-	(1,886,000)	3,891,000	-	3,891,000
Benefits paid	2,136,000	(105,309)	2,030,691	2,379,000	(107,878)	2,271,122	(3,312,261)	(107,878)	(3,420,139)
Value at end of period	37,810,000	468,471	38,278,471	37,480,000	559,037	38,039,037	37,480,000	559,037	38,039,037

(1) Adoption of revised IAS 19.

27.5 Cost of Period

	31 December 2013			31 December 2012 (restated) ⁽¹⁾			31 December 2012		
	EPAL	EGF	Total	EPAL	EGF	Total	EPAL	EGF	Total
Current services cost	193,000	-	193,000	196,000	-	196,000	196,000	-	196,000
Interest costs	106,000	18,871	124,871	297,000	24,583	321,583	1,553,000	24,583	1,577,583
Return on assets	-	(18,970)	(18,970)	-	(40,558)	(40,558)	(1,541,000)	(40,558)	(1,581,558)
Recognition of new pre-retirements	-	-	-	-	-	-	(102,000)	-	(102,000)
Changes to plan	245,000	-	245,000	-	-	-	-	-	-
Actuarial gains and losses	-	-	-	-	-	-	-	-	-
Total	544,000	(99)	298,901	493,000	(15,975)	477,025	106,000	(15,975)	90,025

(1) Adoption of revised IAS 19.

27.6 Composition of fund assets

	31.12.2013	31.12.2012
Equity instruments	13,831,360	15,249,744
Debt instruments	22,760,271	21,492,936
Other	1,686,840	1,296,357
	38,278,471	38,039,037

Investment policy

The investment policy of the Pension Fund takes into account the nature of the benefits covered by the Pension Plans, the characteristics of the population covered and the time horizon of the liabilities assumed (including the breakdown between liabilities with the participants and beneficiaries of the pension fund), the level of hedging of the Pension Fund and the management structure of the Pension Fund. The investment policy will be subject to review at least every three years or when a change in the assumptions listed above justifies such. The investment policy of the Pension Fund aims to maximise the potential return of the fund investments in the medium and long term, based on rules and procedures founded on prudence and in-depth knowledge of the markets in order to avoid inappropriate risks of loss. Investment in financial investments should be made in a diversified and prudent manner, with particular regard to the interest rate, credit and liquidity risks.

Restrictions/Notes on the Overall Fund and on each Portfolio:

- Investing in stocks and/or bonds may be done directly or through collective investment in transferable securities (UCITS) that meet the requirements of legislation adopted pursuant to Council Directive No. 85/611/EEC of 20 December, amended by Directive No. 2001/108/EC of 21 January 2002.
- In principle, the fund makes foreign exchange risk hedging for shares denominated in currencies other than the euro, so there should be no significant currency risk in these investments.
- Direct investment in bonds will be made in securities denominated in euros or another currency, provided the corresponding currency hedging is undertaken.
- In principle, the fund makes foreign exchange risk hedging for other instruments denominated in currencies other than the euro that are not direct investments in bonds or shares, so there should be no significant currency risk in these investments.
- For the purposes of compliance with the allocation to non-Euro bonds, the criterion of classification of securities shall be the currency of issuance of the bonds, and not exposure to foreign exchange risk. Hence, a bond issued in USD will be considered a non-Euro bond, regardless of the currency hedging policy of the management entity.
- Exposure to the bond class is limited to rated bonds.
- Fixed rate Euro bonds should have a minimum rating of "BBB" or equivalent. The share of 'BBB' rated bonds should not exceed 30% of the bond component. The 'BBB' rating covers debt securities with ratings of 'BBB-' and 'BBB+'. Bonds rated below BBB, except Portuguese sovereign debt, shall be classified in the class of high yield and their share may go up to 7.5% of the entire asset value. Portuguese (private and public) debt bonds will be classified in the Euro fixed rate class and are not subject to the minimum BBB rating. They may represent up to 15% of the bond component.
- Whenever the downgrade of a bond occurs that involves non-compliance with the rating limits, and if the Management entity wants to keep the security in the portfolio, then the situation should be reported to the Member and the respective approval obtained.
- Any change to the classification for purposes of the limits set forth in the Investment Policy shall require the prior written approval of the Member.
- The "Government" component of the bonds shall not constitute less than 40% of the bond class. "Government" means the fixed rate debt issued by central government and quasi-government agencies. Emerging markets and high yield issues (albeit in Euros) are not included. Portuguese government debt issues are included.
- The limit on securities that are not traded on stock exchanges or other regulated markets in Member States of the European Union, or similar markets of OECD countries, is 5%.
- Assets denominated in non-euro currencies may not exceed the 25% ceiling.

- No investment in venture capital funds may be made without the prior written approval of the Member.
- The manager will ensure the sectoral management (public debt/private debt), management of the country and duration of the bond component within the limits and restrictions set forth in this investment policy.

The Pension Fund may use repo transactions and securities lending operations with the aim of increasing the portfolio's profitability. Operations with derivatives and lending operations must be mandatorily carried out: i) on a regulated market; or ii) with a financial institution legally authorised to do so in a Member State of the European Economic Area or in another OECD country, provided that the rating of this institution is qualitatively equal to or greater than "BBB"/"Baa2" in accordance with ratings universally used or other classifications proven to be equivalent. The risk of the pension fund portfolio is monitored, in terms of evaluation and control of financial risks (market risk, credit risk and currency risk), in accordance with internally set limits using the VaR (Value at Risk) methodology for this purpose.

27.7 Evolution of liabilities in the last 5 years

	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Liability at end of period	41,368,042	41,406,079	42,943,162	48,434,848	49,550,207	51,360,779
Value of assets at end of period	37,810,000	37,480,000	35,360,261	36,918,960	35,742,744	33,931,212
Unrecognised actuarial gains and losses	-	-	(1,808,008)	(1,121,918)	(1,745,126)	1,828,240
Hedging excess	(702,037)	(2,115,000)	24	(2,932)	(49,537)	(41,425)
Provision for Águas de Moçambique	-	-	-	-	110,351	-
Provision for liabilities	4,260,079	6,041,079	9,390,885	12,640,738	15,712,477	15,642,752

27.8 Defined contribution plan

The company's contributions made during the year were EUR 516,167 (EUR 485,492 in EPAL and EUR 30,675 in EGF). Moreover, employees made individual contributions in the amount of EUR 21,293 in EPAL and EUR 6,922 in EGF.

28. Borrowings

Non-current	31.12.2013	31.12.2012
Bank loans - EIB	1,718,467,460	1,766,756,876
Bank loans - Commercial Paper	-	-
Bond loans	500,000,000	500,000,000
Other Bank loans and private placement of debt	188,827,279	190,816,611
Loans obtained - adjustment for amortised cost	(1,132,670)	(810,552)
Other loans	437,058	609,636
Bank loans	2,406,599,127	2,457,372,571
Debts to leasing companies	16,906,508	18,757,977
Total non-current borrowings	2,423,505,635	2,476,130,548

Current	31.12.2013	31.12.2012
Bank overdrafts	161,127,050	163,264,596
Bank loans	452,071,250	454,108,492
Other loans	1,497,211	172,578
Bank loans	614,695,511	617,545,666
Debts to leasing companies	1,999,709	2,365,238
Total current borrowings	616,695,220	619,910,904
Total bank loans	3,021,294,638	3,074,918,237
Total borrowings	3,040,200,855	3,096,041,452

Loans in foreign currency and bonds are subject to ownership clauses, which state that any changes to the shareholder structure of the company can lead to immediate repayment of the debt. In relation to loan agreements with the European Investment Bank, the AdP Group, besides the usual constraints (payment default, compliance with general and environmental law, cross default, pari passu, negative pledge, false statements, bankruptcy, insolvency, settlement, material changes), also takes into consideration:

- Changes in the shareholder structure of the companies of the AdP Group;
- Changes due to spin-off, merger or sale of companies;
- Changes to companies' assets;

- Change/ termination of businesses;
- Changes in the shareholder structure of AdP/EGF;
- Operations performed with a guarantee/collateral of AdP/ EGF;
- Compliance with obligations defined in the concession/ management agreements;
- Changes in turnover of the companies.

Moreover, and in connection with such financing agreements, the Portuguese Republic is the guarantor of the AdP Group to the European Investment Bank for the timely and full implementation of all financial obligations and payments.

28.1 Loans by maturity

	31.12.2013	31.12.2012
Non-current		
Bank loans - EIB	1,718,467,460	1,766,756,876
Bond loans	500,000,000	500,000,000
Other Bank loans and private placement of debt	188,827,279	190,816,611
Current		
Bank loans	452,071,250	454,108,492
	2,859,365,989	2,911,681,979
By maturity	31.12.2013	31.12.2012
Less than 1 year	452,071,250	454,108,492
1 to 2 years	182,062,981	94,297,060
2 to 3 years	91,493,178	178,631,086
3 to 4 years	104,774,335	92,535,811
4 to 5 years	108,245,781	94,187,908
Over 5 years	1,920,718,464	1,997,921,622
	2,859,365,989	2,911,681,979

28.2 Loans by interest rate type

	31.12.2013	31.12.2012
Floating interest rate		
Less than 1 year	388,150,712	383,178,743
1 to 2 years	27,562,286	39,833,827
2 to 3 years	29,202,140	24,020,223
Over 3 years	956,529,051	975,971,406
	1,401,444,189	1,423,004,199
Fixed interest rate	31.12.2013	31.12.2012
Less than 1 year	63,920,538	70,929,749
1 to 2 years	154,500,695	54,463,233
2 to 3 years	62,291,038	154,610,863
Over 3 years	1,177,209,529	1,208,673,935
	1,457,921,800	1,488,677,780
	2,859,365,989	2,911,681,979

28.3 Leasing

	31.12.2013	31.12.2012
Leasing		
Current	1,999,709	2,365,238
Non-current	16,906,508	18,757,977
	18,906,217	21,123,215

Outstanding principal by type of asset acquired	31.12.2013	31.12.2012
Buildings and other constructions	18,371,817	19,983,349
Basic equipment	228,371	516,679
Transport equipment	306,029	622,535
Office equipment	-	652
	18,906,217	21,123,215
Future minimum payments	31.12.2013	31.12.2012
Less than 1 year	2,122,209	2,571,104
1 to 5 years	7,157,936	7,508,789
Over 5 years	10,252,044	12,185,992
	19,532,189	22,265,885
Interest	31.12.2013	31.12.2012
Less than 1 year	122,500	205,866
1 to 5 years	329,047	589,959
Over 5 years	174,425	346,845
	625,972	1,142,670
Present value of minimum payments	31.12.2013	31.12.2012
Less than 1 year	1,999,709	2,365,238
1 to 5 years	6,828,889	6,918,830
Over 5 years	10,077,619	11,839,147
	18,906,217	21,123,215

29. Trade payables and other non-current liabilities

	31.12.2013	31.12.2012
Investment suppliers	32,915,761	32,290,376
Other accounts payable	Note 29.1 96,364,192	111,084,161
	129,279,953	143,374,537

29.1 Other accounts payable (by Group company):

	31.12.2013	31.12.2012
AdRA - Águas da Região de Aveiro, S.A.	40,699,873	41,246,023
Simdouro, S.A.	19,048,671	24,425,862
Águas do Centro, S.A.	6,756,182	16,608,270
Águas de Santo André, S.A.	6,062,590	6,585,815
Águas do Algarve, S.A.	5,685,364	3,256,012
Simarsul, S.A.	5,455,744	5,860,763
AgdA - Águas Públicas Alentejo, S.A.	4,204,073	3,975,134
Águas do Mondego, S.A.	3,183,931	4,775,897
Águas do Centro Alentejo, S.A.	2,141,561	2,226,142
Resiestrela, S.A.	1,490,036	-
Águas do Norte Alentejano, S.A.	1,145,134	1,085,331
Other subsidiaries	491,033	1,038,912
	96,364,192	111,084,161

The payables result from amounts owed to the municipalities for the integration of infrastructure in the multi-municipal systems.

30. Accrued contractual investment expenses

The companies, as stated in note 2.5.3 and based on the provisions of the concession and management agreements of the partnerships, as well as in accordance with regulatory requirements, and where applicable, annually recognise the share of estimated expenses to meet contractual costs with unrealised investments or expansion and modernisation investments approved or imposed by the Concession Grantor. Thus, the accrued contractual investment expenses recognised are those expressed in the following table:

	31.12.2013	31.12.2012
Water - Production and Depuration		
Águas do Algarve, S.A.	47,024,346	44,068,330
Águas do Centro Alentejo, S.A.	3,313,464	2,562,985
Águas do Centro, S.A.	5,583,230	6,710,931
Águas do Douro e Paiva, S.A.	22,488,971	22,228,896
Águas do Mondego, S.A.	9,049,093	7,727,647
Águas do Norte Alentejano, S.A.	5,009,309	5,031,602
Águas do Noroeste, S.A.	27,750,409	31,377,275
Águas do Oeste, S.A.	9,742,848	8,832,779
Águas de Santo André, S.A.	11,732,552	10,901,621
Águas de Trás-os-Montes e Alto Douro, S.A.	24,757,866	23,835,884
Águas do Zêzere e Côa, S.A.	6,041,873	8,798,322
AgdA - Águas Públicas Alentejo, S.A.	3,033,039	2,202,148
Sanest, S.A.	35,699,278	36,515,498
Simarsul, S.A.	8,257,245	6,882,192
Simdouro, S.A.	4,035,102	2,633,042
Simlis, S.A.	2,707,150	2,581,642
Simria, S.A.	5,227,989	4,655,209
Simtejo, S.A.	68,019,809	58,649,705
AdRA - Águas da Região de Aveiro, S.A.	23,197,161	16,891,412
	322,670,734	303,087,120
Solid Waste		
Algar, S.A.	31,716,792	30,256,123
Amarsul, S.A.	28,053,715	27,301,874
Ersuc, S.A.	13,405,705	11,719,361
Resiestrela, S.A.	1,904,107	2,103,489
Resinorte, S.A.	9,842,642	7,747,719
Resulima, S.A.	11,416,462	10,535,797
Suldouro, S.A.	16,713,073	14,816,504
Valnor, S.A.	6,256,314	5,832,098
Valorlis, S.A.	2,933,311	3,275,745
Valorminho, S.A.	1,814,649	1,803,094
Valorsul, S.A.	50,516,750	46,970,117
	174,573,520	162,361,921
	497,244,254	465,449,041

30.1 Movements in the period

Accrued contractual investment expenses		31.12.2013
Opening balance		465,449,041
Amortisation in financial year	note 40.	62,689,019
Definitive transfer	note 8.2	(31,137,111)
Other adjustments		243,305
Closing balance		497,244,254

31. Investment grants

	31.12.2013	31.12.2012
Investment grants - Cohesion fund	1,663,123,827	1,643,519,187
Investment grants - Others	25,734,256	25,006,158
Addition to infrastructure assets	254,344,951	256,812,513
	1,943,203,034	1,925,337,858

31.1 Movements in the period

	31.12.2013
Investment grants	
Opening balance	1,643,519,187
Recognition of fund entitlement	86,198,239
Recognition of income	(61,308,947)
Corrections to recognition of income	157,302
Corrections to recognition of entitlement	31.1.1 (5,441,954)
Closing balance	1,663,123,827
Income in period	(a) 123,493,829

(a) The difference between the amount of receivables reflected under this item and under the amount receivable item (note 20 ii)), refers to amounts received as advance payments net of refund of amount received:

	31.12.2013
Reconciliation of cash-flow	
Income - cash flow	123,493,829
Advance payment - Águas de Trás-os-Montes e Alto Douro, S.A.	(940,509)
Advance payment - Águas do Algarve, S.A.	(2,310,119)
Refunded payment - Águas de Trás-os-Montes e Alto Douro, S.A.	804,718
Cash-flow income - other debtors	121,047,919

31.1.1 Corrections to entitlements to grants were made in the following Group companies

	31.12.2013
Simria, S.A.	(1,499,114)
Águas do Algarve, S.A.	(2,752,457)
Several of low value	(1,190,383)
	(5,441,954)

31.2 Amounts recognised on income statement

	31.12.2013	31.12.2012
Investment grants - Cohesion fund	61,308,947	54,666,085
Investment grants - Others	3,113,169	3,388,419
Addition to infrastructure assets	9,669,768	9,586,029
	74,091,884	67,640,533

32. (Current) trade payables

	31.12.2013	31.12.2012
Trade payables current account - General	38,849,016	48,654,321
Investment suppliers	35,825,233	55,730,298
Trade payables - Invoices being checked and reconciled	2,133,365	2,522,888
Other trade payables balances	2,286,864	1,958,477
	79,094,478	108,865,984

The amounts recorded for investment suppliers, chiefly relate to debts to municipalities for the integration of assets in the multi-municipal systems (non-current debts are presented in note 29). The table below contains the subsidiaries with the most significant values:

Investment suppliers	31.12.2013	31.12.2012
Águas de Trás-os-Montes e Alto Douro, S.A.	3,683,446	2,542,033
Simdouro, S.A.	3,117,021	146,455
AgdA - Águas Públicas Alentejo, S.A.	2,974,181	1,428,483
AdRA - Águas da Região de Aveiro, S.A.	2,737,200	1,099,090
Águas do Noroeste, S.A.	2,723,835	5,126,202
Algar, S.A.	2,123,511	1,368,013
EPAL, S.A.	2,113,453	1,340,375
Simtejo, S.A.	2,099,225	9,073,933
Águas do Zêzere e Côa, S.A.	2,089,983	2,148,510
Simarsul, S.A.	1,525,447	8,333,419
Other subsidiaries	10,637,931	23,123,785
	35,825,233	55,730,298

33. Other current liabilities

	31.12.2013	31.12.2012
Advances to trade receivables	137,724	51,574
Accrued personnel costs (a)	15,311,334	9,430,225
Shareholders	587,921	1,998,966
Accrued expenses (b)	35,512,972	39,566,071
Deposits to suppliers	6,088,903	5,614,028
Other deposits	1,872,056	1,264,735
Lisbon Council (sewerage duty)	14,416,938	13,727,711
Other Creditors	49,248,574	55,361,362
Deferrals	28,155,137	34,020,461
	151,331,559	161,035,133

(a) As provided for in the State Budget for 2013 expenses on holiday allowances in 2012 were not accrued. The expenditure was subsequently registered in the current year by virtue of the decision of the Constitutional Court.

(b) Accrued expenses contains the accrued interest, electricity, insurance, etc. As well as the estimate made by EPAL for the subsurface duties payable to Lisbon Council.

34. Income tax payable

	31.12.2013	31.12.2012
Income tax - Assets	-	-
Income tax - Liabilities	12,692,551	11,622,421
	12,692,551	11,622,421

Value of income tax in period. There are no payments in arrears to tax authorities.

35. Sales and provision of services

35.1 Sales and provision of services by nature

	31.12.2013	31.12.2012
Sales		
Water - Production and Depuration	211,883,832	205,266,676
Solid Waste	93,197,706	75,801,541
EPAL	130,228,306	131,658,540
Corporate services	113,989	94,333
	435,423,833	412,821,090
Provision of services		
Water - Production and Depuration	250,138,341	225,836,350
Solid Waste	79,403,044	80,770,479
EPAL	1,182,718	1,233,782
International	4,414,192	3,816,040
Corporate services	1,930,992	1,691,784
	337,069,287	313,348,435
Tariff deviations		
Water - Production, Treatment and Transport	54,940,270	73,778,418
Solid Waste	(11,244,543)	(8,545,966)
	43,695,727	65,232,452
	816,188,847	791,401,977

35.2 Sales and provisions of services by markets

	Domestic market	International market	Internal transactions	31.12.2013	31.12.2012
Sales					
Water - Production and Depuration	214,158,718	-	(2,274,887)	211,883,832	205,266,676
Solid Waste	93,080,407	119,262	(1,963)	93,197,706	75,801,541
EPAL	141,893,722	-	(11,665,416)	130,228,306	131,658,540
Corporate services	379,397	-	(265,408)	113,989	94,333
	449,512,244	119,262	(14,207,674)	435,423,833	412,821,090
Provision of services					
Water - Production and Depuration	262,614,719	-	(12,476,378)	250,138,341	225,836,350
Solid Waste	80,140,714	-	(737,670)	79,403,044	80,770,479
EPAL	1,185,382	-	(2,664)	1,182,718	1,233,782
International	-	4,445,785	(31,593)	4,414,192	3,816,040
Corporate services	22,659,920	416,634	(21,145,562)	1,930,992	1,691,784
	366,600,735	4,862,419	(34,393,867)	337,069,287	313,348,435
Tariff deviations	43,695,727	-	-	43,695,727	65,232,452
Tariff deviations	43,695,727	-	-	43,695,727	65,232,452
	859,808,706	4,981,681	(48,601,541)	816,188,847	791,401,977

35.3 Tariff deviations

35.3.1 By nature

	31.12.2013	31.12.2012
Tariff deviations		
Deviations and surplus of financial year	51,457,873	55,651,694
Tariff deviations - rectify historical record	(7,762,146)	9,085,713
Reclassification	-	495,045
Gross tariff deviations	43,695,727	65,232,452

In 2013, there was a significant variation of tariff adjustments as a result of better performance of Group companies (best individual net earnings) and a slight decrease in the rate used in the calculation of guaranteed remuneration (see table below).

	31.12.2013	31.12.2012
TBA	0.24%	1.03%
Treasury bills	6.29%	7.46% ⁽¹⁾

(1) On 25 January 2013, an order by the Ministry of Agriculture, Sea, Environment and Spatial Planning was issued stating that the reference value of 7.46 % indicated by IGCP should be considered as the maximum level for the calculation of yields on TBs during the period the EFAP is effective.

A risk premium of 3% is added to this rate.

35.3.2 By Group company

Gross tariff deviations	31.12.2013	31.12.2012
Water - Production and Depuration		
Águas do Algarve, S.A.	1,304,220	1,745,788
Águas do Centro Alentejo, S.A.	1,088,079	1,225,739
Águas do Centro, S.A.	9,122,058	11,645,854
Águas do Douro e Paiva, S.A.	(385,520)	942,371
Águas do Mondego, S.A.	1,207,642	2,239,190
Águas do Norte Alentejano, S.A.	3,148,429	3,986,864
Águas do Noroeste, S.A.	12,452,846	15,186,091
Águas do Oeste, S.A.	10,873,353	13,213,297
Águas de Trás-os-Montes e Alto Douro, S.A.	(1,361,872)	2,483,039
Águas do Zêzere e Côa, S.A.	3,664,059	7,841,729
AgdA - Águas Públicas Alentejo, S.A.	(576,468)	(1,421,178)
Sanest, S.A.	493,320	378,627
Simarsul, S.A.	5,323,152	7,406,731
Simdouro, S.A.	1,431,962	2,920,351
Simlis, S.A.	(1,576,907)	(413,982)
Simria, S.A.	3,095,996	3,426,793
Simtejo, S.A.	(1,087,330)	(6,290,636)
AdRA - Águas da Região de Aveiro, S.A.	6,723,251	7,237,873
Total Water - Production and Depuration	54,940,270	73,754,541
Solid Waste		
Algar, S.A.	(336,701)	479,626
Amarsul, S.A.	(1,094,220)	(5,955,210)
Ersuc, S.A.	(864,626)	2,843,592
Resiestrela, S.A.	(1,704,392)	(913,506)
Resinorte, S.A.	(1,168,358)	(1,725,846)
Resulima, S.A.	(141,889)	(1,285,142)
Suldouro, S.A.	(1,964,148)	(2,578,390)
Valnor, S.A.	740,572	(491,047)
Valorlis, S.A.	(23,962)	273,895
Valorminho, S.A.	(299,876)	(300,171)
Valorsul, S.A.	(4,386,943)	1,106,233
Total Solid Waste	(11,244,543)	(8,545,966)
Total	43,695,727	65,208,575

This table reflects the deviation values of the year, assigned to the effect arising from the change in tax rate (see note 15).

36. Cost of sales

	31.12.2013	31.12.2012
Cost of goods sold & services rendered - goods	7,065,893	6,563,423
Cost of goods sold & services rendered - raw materials	12,466,028	12,234,453
Cost of goods sold & services rendered - consumables	6,168,497	6,232,653
Cost of goods sold & services rendered - various materials	6,351,665	8,191,212
Prior-year corrections	(75,275)	1,607
	31,976,808	33,223,348
Capitalisation of cost of goods sold & services rendered	(110,394)	(128,838)
	31,866,414	33,094,510
Production variations	(219,162)	466
	31,647,252	33,094,976

37. External supplies and services

	31.12.2013	31.12.2012
Subcontracts	34,308,889	32,219,859
Specialised services	25,438,661	26,484,781
Maintenance and repairs	34,790,587	30,054,715
Materials	6,329,272	5,300,320
Energy and fluids	81,773,778	81,208,135
Waste and effluent treatment	7,080,967	7,458,119
Surveillance and security	4,485,554	4,521,539
Travel and accommodation	2,834,326	3,381,287
Rents	9,671,911	10,124,820
Communications	5,434,989	5,729,678
Insurance	8,573,312	8,423,341
Other	10,796,658	10,529,963
Prior-year corrections	(827,117)	1,266,427
	230,691,787	226,702,984
External supplies and services capitalised	(3,789,461)	(4,352,753)
	226,902,326	222,350,231

38. Personnel costs

	31.12.2013	31.12.2012 Restated ⁽¹⁾	31.12.2012
Remuneration	110,651,758	96,624,096	96,624,096
Charges on remuneration	24,767,504	20,382,503	20,382,503
Insurance	5,457,244	5,236,006	5,236,006
Compensation for contract termination	3,219,340	410,788	410,788
Other personnel costs	4,919,338	4,956,305	4,569,305
Prior-year corrections	479,803	(222,930)	(222,930)
	149,494,987	127,386,768	126,999,768
Capitalised personnel costs	(5,245,041)	(6,234,607)	(6,234,607)
	144,249,946	121,152,161	120,765,161

(1) Adoption of revised IAS 19.

Law No. 12-A/2012 of 30 June continued to be enforced in 2013, aimed at reducing the salaries of corporate bodies by 5% as well as the 2013 State Budget Law that aims to reduce Managers' salaries by 10% from January 2011. From 2012, the 5 Directors appointed for the 2011-2014 term began to receive the remuneration provided for in the new Statute of Public Manager Law. In 2013, the wage reductions provided for in the State Budget continued to be enforced, aiming to reduce the salaries of employees between 3.5% and 10% from January 2011.

As provided for in the State Budget for 2013 expenses on holiday allowances in 2012 were not accrued. In 2012 only 12 months of personnel expenses were recorded, also due to the suspension of the payment of the Christmas allowance. In 2013, by decision of the

Constitutional Court, expenses on holiday allowance for the previous year was incurred, with the restoration of the allowances for Christmas plus expenses related to holiday allowances and the holiday allowance for next year, as stipulated in law. Thus, 15 months of personnel expenses are recorded in 2013 compared to 12 months the previous year, which would explain the apparent increase in personnel expenses. The remaining increase was due to spending on compensation and lower volume of capitalisation.

38.1 Remuneration of the governing bodies

	31.12.2013	31.12.2012
Board of Directors	376,716	335,805
Audit Committee	43,564	47,441
Statutory Auditor	18,495	18,495
	438,775	401,741

38.2 Average number of employees

	31.12.2013	31.12.2012
Governing bodies	155	155
Permanent employees and other	5,194	5,339
	5,349	5,494

39. Amortisations, depreciations and reversals in financial year

	31.12.2013	31.12.2012
Amortisation - Investment properties	95,882	95,882
Amortisation - Tangible assets	26,752,987	29,512,812
Amortisation - Intangible assets	2,483,398	2,795,976
Amortisation - DUI	154,309,279	153,941,788
Depreciation of contractual investment	note 30. 62,689,019	49,510,793
	246,330,565	235,857,251
Reversals, depreciation and amortisation	(38,110)	(330,570)
	246,292,455	235,526,681
Prior-year corrections	(62,852)	84,980
	246,229,603	235,611,661

40. Provisions and reversals in financial year

	31.12.2013	31.12.2012
Provisions in financial year - Tax	-	32,027
Provisions in financial year - Ongoing legal proceedings	320,519	253,625
Provisions in financial year - Others	1,172,714	1,608,913
	1,493,233	1,894,565
Reversal of provisions - Tax	(81,938)	(97,210)
Reversal of provisions - Ongoing legal proceedings	(262,659)	(257,845)
Reversal of provisions - Others	(1,497,402)	(3,421,291)
	(1,841,999)	(3,776,346)
	(348,766)	(1,881,781)

Consult jointly with note 26.

41. Impairment losses and reversals in financial year

	31.12.2013	31.12.2012
Impairment losses - debts receivable - current accounts	2,469,760	4,834,892
Impairment losses - debts receivable - other debtors	87,077	2,807,291
Impairment losses - inventories - raw materials and consumables	-	8,570
Impairment losses - financial investments	300	13,077
Impairment losses - intangible assets	-	1,541,296
Impairment losses - prior-year corrections	-	1,129
	2,557,137	9,206,255
Reversal of impairment losses - trade receivables	(2,126,783)	(1,589,301)
Reversal of impairment losses - other trade receivables	(82,368)	-
Reversal of impairment losses - Inventories - goods	-	(22,497)
Reversal of impairment losses - financial investments	(6,136)	
	(2,215,287)	(1,611,798)
	341,850	7,594,457

42. Other operating expenses

		31.12.2013	31.12.2012
Direct and indirect taxes	Note 42.1	10,465,338	10,080,966
Losses on inventories		13,976	17,988
Losses on non-financial investments		502,139	1,844,202
Donations		348,326	390,665
Exchange differences in non-financial operations		118,391	80,127
Other expenses and losses		1,714,026	2,261,493
Prior-year corrections		355,754	651,261
		13,517,950	15,326,702
Capitalised expenses		(1,704)	(203)
		13,516,246	15,326,499

42.1 Direct and indirect taxes

	31.12.2013	31.12.2012
Stamp duty	2,691,289	2,592,309
ERSAR Duties	5,147,204	4,612,250
Water Resource Levy	597,599	481,741
Duties	830,900	1,185,955
Other	1,198,346	1,208,711
	10,465,338	10,080,966

43. Other operating income and gains

		31.12.2013	31.12.2012
Additional income	Note 43.1	5,977,115	7,364,891
Operating grants		290,169	279,051
Other income and gains		4,162,998	10,962,676
Prior-year corrections		709,605	3,979,975
		11,139,887	22,586,593
Income and gains capitalised		-	(450)
		11,139,887	22,586,143

The decrease in "other operating income" results from compensation received in 2012 (from the Ministry of Health paid to EPAL) in the amount of EUR 1.5 million for the works of the Vila Franca de Xira Hospital from the insurer to Valorsul for drop in profits (breakdown) in the amount of EUR 3.9 million and from the construction company building the headquarters in the amount of EUR 0.4 million. It should also be mentioned that interest on arrears in the amount of EUR 1.7 million was classified as operating income in 2012 (this did not occur in 2013).

43.1 Additional income

		31.12.2013	31.12.2012
Equipment rental		166,431	169,735
Sale of energy		1,172,141	686,833
Studies, projects and technological assistance		22,627	1,775
Performing duties in corporate posts		3,983	6,890
Social services		12,071	12,021
Other	(a)	4,599,862	6,487,637
		5,977,115	7,364,891

(a) The other additional income item includes works carried out by Group companies on behalf of third parties, as well as some fees charged to those third parties.

44. Financial expenses

		31.12.2013	31.12.2012
Interest incurred	44.1	104,164,360	113,752,942
Unfavourable currency conversion differences		1,568	-
Other financial expenses	44.2	9,815,928	21,026,503
Prior-year corrections		(211,046)	840,767
		113,770,810	135,620,212
Financial expenses capitalised		(6,313,923)	(13,720,894)
		107,456,887	121,899,318

The decrease in financial expenses capitalised is directly related to the decrease in the volume of investments.

44.1 Interest incurred

		31.12.2013	31.12.2012
Interest incurred - commercial paper		618,955	574,770
Interest incurred - EIB		43,993,439	47,643,883
Interest incurred - leasing operations		353,533	795,888
Interest incurred - bond loans		9,311,309	12,100,639
Interest incurred - Interest on arrears		1,945,406	1,218,156
Interest incurred - others		47,941,718	51,419,606
		104,164,360	113,752,942

44.2 Other financial expenses

		31.12.2013	31.12.2012
Borrowings - Commissions/guarantees		5,384,261	3,853,061
Losses on financial instruments at fair value (see note 14)		-	14,693,778
Other		4,431,667	2,479,664
		9,815,928	21,026,503

45. Financial income

		31.12.2013	31.12.2012
Interest earned	Note 45.1	42,768,703	41,783,940
Other financial income and gains		939,877	4,032,256
Gains on financial instruments at fair value (see note 14)		13,681,495	-
Prior-year corrections		(213,452)	(216,401)
		57,176,623	45,599,795

45.1 Interest earned

	31.12.2013	31.12.2012
Deposits	5,416,566	5,866,887
Financial investments	9,023,734	9,744,165
Interest on arrears	23,289,082	21,791,082
Other interest	5,039,321	4,381,806
	42,768,703	41,783,940

45.1.1 Interest on arrears (by Group company)

	31.12.2013	31.12.2012
Águas de Trás-os-Montes e Alto Douro, S.A.	3,751,193	2,455,359
Águas do Zêzere e Côa, S.A.	3,015,210	2,579,890
Simtejo, S.A.	2,954,319	3,223,709
Águas do Centro Alentejo, S.A.	2,130,966	-
Águas do Noroeste, S.A.	1,975,670	1,518,335
Águas do Algarve, S.A.	1,527,530	3,798,962
Simarsul, S.A.	1,333,026	1,453,524
Águas do Oeste, S.A.	1,247,400	1,163,261
Other subsidiaries	5,353,768	5,598,042
	23,289,082	21,791,082

46. Income from investments

	31.12.2013	31.12.2012
Expenses and losses - other	-	(10,042)
Income and gains - other	(2,348)	16,787
	(2,348)	6,745

47. Income tax for the year

	31.12.2013	31.12.2012 Restated	31.12.2012
Income tax for the year	(69,008,856)	(59,715,811)	(59,715,811)
Excess income tax estimate	1,490,491	3,775,083	3,775,083
Underestimated income tax	(1,634,700)	(2,085,739)	(2,085,739)
	(69,153,065)	(58,026,467)	(58,026,467)
Deferred tax	10,449,973	10,033,821	9,921,629
	10,449,973	10,033,821	9,921,629
	(58,703,092)	(47,992,646)	(48,104,838)

Item	31.12.2013	31.12.2012
Consolidated profit before tax	188,599,549	172,474,671
Permanent differences		
Losses	(335,770)	(1,704,345)
Depreciation and amortisation	(51,435,765)	(148,125,341)
Equity variations	39,420,875	(29,351,746)
Provisions	15,365,695	37,601,968
Recovery of impairment losses	(16,987,288)	(8,364,825)
Other (IFRC 12 and tariff deviations)	18,463,625	56,141,638
Assessment base	193,090,921	137,375,512
Municipal surtax base	214,748,922	153,596,686
Remaining base	(21,658,001)	(16,221,175)
Tax	50,821,359	42,153,252
State surtax	8,300,206	6,483,671
Amounts separately taxed and others	772,986	852,337
Settlement of prior-year's tax	(2,083)	304,921
Extraordinary tax credit on investment	(1,042,285)	-
Tax overheads	58,850,183	49,794,181
Current tax	69,008,856	59,715,811
Deferred tax	(10,158,673)	(9,921,629)

48. Related parties' transactions

	Parent company	Other shareholders	Executive committee	Other related parties
Assets				
Municipalities	-	-	-	551,888,007
Liabilities				
Municipalities	-	-	-	89,607,658
Income				
Sales and provision of services to municipalities	-	-	-	446,497,293
Other income from municipalities	-	-	-	27,724,758
Expenses				
Expenses with Non-executive Directors	-	-	-	-
Expenses with Executive Directors	-	-	378,842	-
Other expenses with municipalities	-	-	-	16,468,076
Dividends	19,035,000	4,465,000	-	-
	19,035,000	4,465,000	378,842	1,132,185,792

49. Contractual investment

The estimated off-balance sheet financial commitments made by the AdP Group, arising from the award of the concession contracts relative to initial investment, replacement, renovation and expansion to occur during the remaining term of the concession is as follows:

	Contractual investment	Investment already made	Investment in progress	Unrealised contractual investment (N)	Unrealised contractual investment (N+1)	Unrealised contractual investment (N+2 .. N+5)	Unrealised contractual investment (>N+5)
UNA-PD	6,968,524,739	4,714,279,727	207,702,385	-	219,867,556	313,917,636	1,512,757,435
UNR	1,432,802,567	968,204,306	70,142,571	-	91,064,008	115,022,266	201,564,942
	8,401,327,306	5,682,484,033	277,844,956	-	310,931,564	428,939,902	1,714,322,377

Contractual investment was reduced by EUR 125 million from the previous year due to changes to the investment plans:

Change of contractual investment	
Águas do Douro e Paiva, S.A.	(46,004,502)
Sanest, S.A.	(9,118,003)
Resinorte, S.A.	(99,832,515)
Águas do Algarve, S.A.	3,777,610
Águas do Noroeste, S.A.	7,561,060
Resiestrela, S.A.	4,534,590
Other Group companies	13,334,368
	(125,747,392)

The contractual investment of Resulima is not updated compared to the investment amounts already made and planned which are found to be EUR 11 million higher.

The following table presents the future commitments of the Group regarding rents payable to the municipalities for the integration of the infrastructures, as defined in the concession contracts.

	Rent already recognised	Rent recognised in debt	Future rents - N	Future rents - (N+1)	Future rents Remaining - period	31.12.2013	31.12.2012
Águas do Algarve, S.A.	933,362	-	-	146,695	3,690,486	4,770,543	3,777,609
Águas do Centro Alentejo, S.A.	1,427,746	-	-	175,730	2,236,494	3,839,970	3,816,096
Águas do Mondego, S.A.	31,431,380	-	-	1,474,647	3,361,245	36,267,272	36,267,277
Águas do Norte Alentejano, S.A.	421,946	4,291	-	86,087	1,406,195	1,918,519	1,456,182
Águas do Noroeste, S.A.	5,256,603	-	-	223,793	3,818,394	9,298,790	8,687,793
Águas do Oeste, S.A.	40,054	-	-	4,727	112,776	157,557	157,557
Águas de Santo André, S.A.	5,746,152	-	-	478,846	8,140,381	14,365,379	14,365,379
Águas de Trás-os-Montes e Alto Douro, S.A.	4,184,720	1,644,007	-	784,083	15,525,308	22,138,118	19,233,723
Águas do Zêzere e Côa, S.A.	6,870,941	1,036,337	-	970,265	18,913,970	27,791,513	27,688,061
AgdA - Águas Públicas Alentejo, S.A.	-	532,850	-	169,579	14,168,990	14,871,419	7,312,902
Simarsul, S.A.	2,013,551	971,842	-	271,026	5,455,744	8,712,163	8,740,208
Simdouro, S.A.	49,600,692	-	-	5,707,945	19,048,671	74,357,308	73,881,050
Simlis, S.A.	1,470,328	-	-	101,414	1,307,335	2,879,077	2,866,505
Simtejo, S.A.	-	-	-	-	-	-	47,281,825
December 2013	109,397,475	4,189,327	-	10,594,837	97,185,989	221,367,628	255,532,167
December 2012	139,440,173	8,517,207	-	11,371,472	96,203,315	255,532,168	-

The value of future rents of AgdA - Águas Públicas Alentejo shows an increase of EUR 7.5 million reflecting the integration of assets of Arraiolos and Montemor-o-Novo due to the operational start-up of water supply systems. In Simtejo, the amount previously presented as income was corrected as it is already reflected in the respective financial statements.

50. Contingent assets and liabilities

50.1 Treasury Unit (Águas de Portugal Group)

Following an audit by the Court of Auditors on the degree of compliance of the Treasury Unit of the State by State Enterprises, envisaged in the State Budget Law of 2010 and reiterated in the following State Budget Law, some AdP Group companies were notified by this Court that they are considered to not be complying with that law. Accordingly, the AdP Group exercised its right of reply on the notification of the Court of Auditors, defending its understanding that there was no non-compliance since, pursuant to that law, it had requested in good time a partial waiver of compliance with that legislation, and it had presented the relevant grounds for that purpose. Moreover, it should be mentioned that in this respect and in relation to the same process, the Secretary of State of the Treasury stated the following [included in the Court of Auditors report]: "The reasons given by State-owned companies to waive compliance with the principle of the Treasury Unit are wholly justifiable in the current economic climate. The definitive findings of the case are not yet known, and the Board of Directors of AdP, SGPS, SA does not expect that any punitive action will be taken towards the Group companies.

The Group companies were excluded from application of the above-referred legislative provision for 2013 by order of the Secretary of State of the Treasury, on 20 December.

50.2 Ongoing legal proceedings

Company	Description of proceedings	Risk classification	Value (euros)	Favourable to the company	Favourable to third parties
Águas do Algarve, S.A.	Case no.232/2000 - the proceedings are in the Administrative Court of the Lisbon Circuit, filed by Sociedade de Construções Soares da Costa, S.A.. The claim filed against ÁGUAS DO ALGARVE, S.A. originally against Águas do Sotavento Algarvio, S.A., is in the amount of EUR 2,662,385.97 (two million six hundred and sixty-two thousand three hundred and eighty-five euros and ninety-seven cents). The hearing stage is completed, now the decision of the judges based on the facts is awaited.	Remote	2,662,386	x	
Águas do Algarve, S.A.	Case no. 46/09.3BELLE filed in Loulé Administrative and Tax Court by Somague Engigás Neopul-Construtores, ACE against Águas do Algarve SA. The case concerns the construction contract "Design/construction of the system of water supply and sewerage to the islands of Culatra and Armona as upstream services - Crossings of the River Formosa Estuary by directed horizontal perforation" based on the technical impossibility of the construction of the crossings of the River Formosa Estuary, which has led to a legal petition in the amount of EUR 8,332,017.21.	Remote	8,332,017	x	
Águas do Algarve, S.A.	Case No. 297691/11.6YIPRT - Proc. 105/12.5BELLE - Vila Real de Santo António Municipality - On 05/12/2011, AdA brought injunction proceedings in the amount of EUR 1,596,416. After the Defendant contested the case, Loulé Administrative and Tax Court decided to annul the entire case due to unfitness. AdA appealed the decision and so did the defendant. The appeal was filed with the Central Administrative Court of South Portugal on 13/11/2012 and it has number 9414/12. It is awaiting a legal ruling. As court cases related with the billing of VMG generate certain risk vis-à-vis their decision, since there is some resistance on the part of the Customers towards the payment of costs not incurred by the Company, a provision of EUR 1,081,293.57 was set up in 2012 (Vila Real de Santo António EUR 390,043.69 + Tavira Verde EUR 691,249.87). This was reinforced in 2013 by EUR 223,233.	Probable	1,596,416	Partial	
Águas do Algarve, S.A.	Case No. 296791/11.4YIPRT - Proc. 10/12.7BELLE - Vila Real de Santo António Municipality - On 05/12/2011, AdA brought injunction proceedings in the amount of EUR 2,495,898.41. The case was filed with Loulé Administrative and Tax Court on 23/01/2012. AdA was requested to improve the initial petition and it was again sent to the court on 01/03/2012. The defendant submitted a response on 11/04/2012 and the preliminary hearing will be held on 31/01/2013. Since court cases related with the billing of VMG generate certain risk vis-à-vis their decision, as there is some resistance on the part of the Customers towards the payment of costs not incurred by the Company, a provision of EUR 1,081,293.57 was set up in 2012 (Vila Real de Santo António EUR 390,043.69 + Tavira Verde EUR 691,249.87).	Probable	2,495,898	Partial	
Águas do Algarve, S.A.	Case No. 4278/11.2BELLE - Tavira Municipality/ Tavira Verde, E.M. - Administrative case filed on 14/07/2011, in the value of EUR 2,533,779.30. The preliminary hearing was held on 21/05/2012, where it was decided to append this case to the previous case with the number 65/10.7BELLE. Awaiting decision of the court. As court cases related with the billing of VMG generate certain risk vis-à-vis their decision, since there is some resistance on the part of the Customers towards the payment of costs not incurred by the Company, a provision of EUR 1,081,293.57 was set up in 2012 (Vila Real de Santo António EUR 390,043.69 + Tavira Verde EUR 691,249.87). This was reinforced in 2013 by EUR 223,233.	Probable	2,533,779	Partial	
Águas do Algarve, S.A.	Case no. 715/09.8BELLE filed in Loulé Administrative and Tax Court by Águas do Algarve, S.A. against Somague Engigás Neopul- Construtores, ACE and against the respective companies of that consortium. The case concerns the petition of EUR 1,894,762.79 for definitive non-compliance with the construction contract, imputable to the contractor (it is the same construction contract "Design/construction of the system of water supply and sewerage to the islands of Culatra and Armona as upstream services - Crossings of the River Formosa Estuary by directed horizontal perforation"). The ruling was published that acquitted the defendants. This ruling did not appraise the main issues raised in the case (basically, the justness of the termination of the construction contract and the claim for damages arising therefrom by Águas do Algarve). Having been solely based on, in the understanding of the Court, the fact that the case had been filed outside of the expiry deadline of 132 days as provided for in Article 255 of the RJEOP (Law on Public Works Contracts), which was approved by Decree-Law No. 59/99 of 2 March. This decision is manifestly illegal. The legal provision (Article 255 of RJEOP) that sets the expiry deadline of 132 days invoked by the ruling shall only apply to cases filed by the contractor and not also to cases filed by the developer (Águas do Algarve in this case). Even if that provision were applicable to the present case, the case was filed on the 130th day following the termination of that contract. Thus, an appeal was filed with the Central Administrative Court of South Portugal, which is pending. The filing of this appeal will only result in the case continuing its normal processing to determine whether termination of the contract by Águas do Algarve is based on good cause or not and also to ascertain what damages are payable as a result.	Remote	1,894,763	x	
Águas do Centro Alentejo, S.A.	Case No. 360365/10.4YIPRT which is being heard by the 1st Civil Circuit Court of Évora Judicial District. AdCA is the plaintiff and Évora Municipality the defendant. The case concerns the conversion into ordinary proceedings of the injunction brought in November 2010, for payment of the debt of EUR 5,599,742.96. The case is awaiting scheduling of the trial hearing. In the meantime, the municipality has already made some payments under the PAEL programme, and at as 31 December 2013, the amount of only EUR 899,819.60 is outstanding with respect to these proceedings, plus added interest on arrears;	Possible	5,599,742	x	
Águas do Centro Alentejo, S.A.	Case No. 194/12.2BEBJA being heard in the Beja Administrative and Tax Court. It is an enforcement proceedings against Évora Municipality for the collection of EUR 5,026,576.34. It was injunction No. 216966/11.0YIPRT that was converted into enforcement proceedings. Évora Municipality contested the enforcement, without legal grounds, claiming the invoices submitted for enforcement had been included in the PAEL programme.	Possible	5,026,576.34	x	

Company	Description of proceedings	Risk classification	Value (euros)	Favourable to the company	Favourable to third parties
Águas do Centro Alentejo, S.A.	Case No. 358/13.IBEBJA being heard in the Beja Administrative and Tax Court. It is the result of injunction proceedings 98658/13.5YIPRT against Évora Municipality for the collection of EUR 7,498,698.00. It is the conversion into ordinary proceedings of the injunction filed in July 2013, owing to opposition by the municipality concerned. The probability of winning the case is high.	Possible	7,498,698.00	x	
Águas do Centro Alentejo, S.A.	Case No. 359/13.0BEBJA being heard in the Beja Administrative and Tax Court. It is the result of injunction proceedings 99440/13.5YIPRT against Évora Municipality for the collection of EUR 7,030,769.97. It is the conversion into ordinary proceedings of the injunction filed in July 2013, owing to opposition by the municipality concerned. The probability of winning the case is high.	Possible	7,030,769.97	x	
Águas do Noroeste, S.A.	Construtora do Tâmega, SA and Others	Remote	2,965,666		x
Águas do Noroeste, S.A.	Construtora do Tâmega, SA and Others	Remote	3,326,980		x
Águas do Noroeste, S.A.	Alberto Martins de Mesquita & Filhos, S.A.	Remote	8,457,485		x
Águas do Oeste, S.A.	Billing of minimums of Alcobaca Municipality in 2010	Possible	2,285,656	x	
Águas de Santo André, S.A.	Injunction and ordinary administrative cases against Santiago do Cacém Municipal Council relative to the provision of services of collecting and treating urban wastewater.	Probable	2,567,879	x	
Águas de Santo André, S.A.	Injunction and ordinary administrative cases against Sines Municipal Council relative to the provision of services of collecting and treating urban wastewater and upstream supply of water for human consumption.	Probable	2,964,338	x	
Águas de Trás-os-Montes e Alto Douro, S.A.	Administrative offence due to lack of licensing (the work was duly licensed by CCDRN, in accordance with licence P.DV.No.266/07). AdTMAD has already presented its defence in these proceedings. Case No. 403549	Remote	2,500,000		x
Águas de Trás-os-Montes e Alto Douro, S.A.	AdTMAD has already presented its defence in these proceedings, case No. 2063/2008.	Remote	2,500,000		x
Águas de Trás-os-Montes e Alto Douro, S.A.	Administrative offence for disposal of wastewater to gutter. AdTMAD has already presented its defence in these proceedings. Case No. 5955/2008	Remote	2,500,000		x
Águas de Trás-os-Montes e Alto Douro, S.A.	Administrative offence for disposal of wastewater to underground water course. AdTMAD has already presented its defence in these proceedings. Case No. 10586/2009	Remote	2,500,000		x
Águas de Trás-os-Montes e Alto Douro, S.A.	Administrative offence for disposal of wastewater to underground water course. AdTMAD has already presented its defence in these proceedings. Case No. 4179/2009	Remote	2,500,000		x
Águas de Trás-os-Montes e Alto Douro, S.A.	This case alleges that the Defendant imposed a series of modifications and alterations to the initial design of the construction contract for the Construction of Pretarouca Dam, modifying its purpose and the initial form of the contract tendering procedure, in order to obtain indemnity for itself. The case was contested, and sufficient documentary evidence was provided that is considered important for the expiry of the case. In both situations, the scheduling of the hearing is pending. It is currently not possible to state, with a degree of reasonable probability, the final estimate of division of liability, including court costs and other charges Case No. 334/10	Remote	4,383,552		x
Águas de Trás-os-Montes e Alto Douro, S.A.	Declaratory proceedings for conviction due to non-payment of invoices issued by AdTMAD. Case No. 149/12	Remote	1,736,980	x	
Águas de Trás-os-Montes e Alto Douro, S.A.	Common administrative case, where the SADE/EDIIOC consortium petitions for the sum of EUR 3,053,327.10 as indemnity for extra work costs. AdTMAD contested and counterclaimed, filing for the amount of EUR 1,917,816.48 as indemnity for damages caused by the Plaintiff to AdTMAD for the delay in completing the work. AdTMAD levied contractual fines on this consortium that are still not being argued in court.	Remote	1,859,936		x
Águas de Trás-os-Montes e Alto Douro, S.A.	Administrative case filed by the company Conduril in Bragança administrative and fiscal court, concerning the contract to build Olgas Dam. Case No. 280/09	Remote	2,019,888		x
Águas do Zêzere e Côa, S.A.	Arbitrational case filed by FUNDAÇÃO MUNICIPALITY, where this entity claims the payment of indemnity totalling EUR 43,394,957.71 (forty-three million three hundred and ninety-four thousand nine hundred and fifty-seven euros and seventy-one cents). In parallel, AdZC claims from FUNDAÇÃO MUNICIPALITY the payment of indemnity in the amount of EUR 186,149 (one hundred and eighty-six thousand one hundred and forty-nine euros). By agreement of 29 October 2010, the Arbitrational Court only partially agreed with the claim of FUNDAÇÃO MUNICIPALITY, with an amount to be set in the enforcement of the ruling and with a limit-value of EUR 762,022.59 (seven hundred and sixty-two thousand and twenty-two euros fifty-nine cents). In turn, in relation to AdZC, the claim for indemnity was judged to be partially well-founded, with the award of compensation also to be set in the enforcement of the ruling and with the maximum limit of EUR 364,615 (three hundred and sixty-four thousand six hundred and fifteen euros). Both parties appealed on the decision to the Arbitrational Court, and the case is, at this moment, still awaiting the decision of the Central Administrative Court of South Portugal.	Remote	43,394,958		x

Empresa	Descrição do processo	Gradação de risco	Valorização (em euros)	A favor da empresa	A favor de terceiros
Águas do Zêzere e Côa, S.A.	Case no. 450/11.7BECTB – Common administrative case, in the form of ordinary proceedings, filed in the Castelo Branco Administrative and Tax Court by AGUIAR DA BEIRA MUNICIPALITY, ALMEIDA MUNICIPALITY, BELMONTE MUNICIPALITY, CELORICO DA BEIRA MUNICIPALITY, FIGUEIRA DE CASTELO RODRIGO MUNICIPALITY, FORNOS DE ALGODRES MUNICIPALITY, FUNDÃO MUNICIPALITY, GOUVEIA MUNICIPALITY, GUARDA MUNICIPALITY, MANTEIGAS MUNICIPALITY, MEDA MUNICIPALITY, PENAMACOR MUNICIPALITY, PINHEL MUNICIPALITY AND SABUGAL MUNICIPALITY against the MINISTRY OF AGRICULTURE, SEA, ENVIRONMENT AND SPATIAL PLANNING and AdZC. In this case the municipalities file to have (i) the concession contract for operation and management of the multi-municipal water supply system for public consumption and for the collection, treatment and disposal of wastewater; signed on 15 September 2000 between the Portuguese State and AdZC declared null and void, that (ii) the contracts for wastewater collection and water supply, entered into on the same date, between the Plaintiffs and AdZC are declared null and void, and that (iii) the contracts for the lease and maintenance of municipal infrastructure between the Plaintiffs and AdZC are declared null and void. The case of initial analysis of the merits of the case by the judge is pending, which is prior to the judgment phase.	Remote	n/a		
Sanest, S.A.	Nature of proceedings: Injunction No. 389714/08.3YIPRT, that converted to Case No. 119/09.2BELSBTAC Lisbon. Description of proceedings: Injunction proceedings filed by Sanest as per instructions of AdP against Sintra Municipality for the recovery of debts of the respective SMAS related to the provision of effluent collection services in the area of the respective municipality, billed following the implementation of the billing system based on flow measurements, in accordance with the Concession contract and Effluent Collection Contract.	Possible	1,845,277	x	
Sanest, S.A.	Nature of proceedings: Case No. 3872/07.4TBCSC and Attached/ Cascais – setting compensation for expropriation Description of proceedings: Appeal to Dispute Arbitrational Compensation in relation to the expropriation by Sanest of Plot I necessary for the construction of the new Guia WWTP; Liquid Phase, which refers to the DUP of Order No. 26441/2005, the Secretary of State of Territorial Planning and Cities, published in the Official Gazette II series No. 244, of 22/12/2005;	Possible	1,382,600		x
Sanest, S.A.	Nature of proceedings: Case No. 1263/12.4BELSB – Lisbon Administrative and Tax Court Description of Proceedings: Common Administrative Proceedings - ordinary form, filed by Sintra Municipality against Sanest for alleged losses caused by non-rectification/refund of VAT paid in excess by the plaintiff in bills issued by Sanest from July 2000 to April 2003, for Wastewater Collection and Treatment services under the Concession Contract and Effluent Collection Contract.	Possible	1,564,420		x

50.3 Guarantees

Liabilities for bank guarantees provided by the business units of the companies included in the consolidation perimeter are as follows:

BU	Courts	Finance institutions	Concession Grantors	Other	31.12.2013	31.12.2012
UNA-PD	9,326,305	-	249,399	13,962,278	23,537,982	29,900,730
EPAL	5,175,900	130,221,885	-	331,170	135,728,955	102,611,543
UNADR	-	-	-	313,582	313,582	133,940
UNR	178,562	4,527,954	1,049,143	5,175,585	10,931,244	12,273,130
UNI	-	2,524,480	-	27,509	2,551,989	2,330,197
Corporate services	-	1,628,813,766	-	278,646	1,629,092,412	1,659,255,937
Total	14,680,767	1,766,088,085	1,298,542	20,088,770	1,802,156,164	1,806,505,477

The holding of the AdP Group (AdP SGPS), under the loans contracted from the EIB, is guarantor of good compliance with the contracted obligations.

51. Auditor's and Statutory Auditor's fees

The fees of the Auditor and Statutory Auditor of the AdP Group at 31 December 2013 were the following:

	Statutory Auditor	Auditor	Other Services	Total
Ernst & Young	233,085	255,914	94,033	583,032
PricewaterhouseCoopers	9,000	6,496	64,453	79,949
Deloitte	10,520	-	8,520	19,040
BDO	26,311	-	19,855	46,166
Alves da Cunha, A. Dias & Associados, SROC	35,749	-	1,594	37,343
PMatos Silva, Garcia Jr, Pires Caiado, SROC	31,897	-	-	31,897
Crc - Colaço, Ros, Carrilho & Associados, SROC, Lda	15,600	-	-	15,600
Grant Thornton, SROC	15,658	-	-	15,658
KPMG	-	-	6,600	6,600
	377,820	262,410	195,055	835,285

52 Subsequent events

On 20 March 2014, Decree-Law No. 45/2014 was published approving the re-privatization of Empresa Geral do Fomento, S.A. (EGF). On 8 April 2014, RCM No. 30/2014 was published approving the Specification Documents for the opening of a public call for tenders for the implementation of the proposed divestiture of EGF, published in Official Gazette No. 71, Series II, of 10 April 2014.

Presented below is a condensed proforma balance sheet and proforma income statement with the potential impacts of the exit of the EGF Group from the perimeter of the Águas de Portugal Group, solely based on book values.

	Consolidated AdP 31.12.2013	Consolidated EGF (proforma) 31.12.2013	Consolidated AdP without EGF (proforma) 31.12.2013
Assets			
Intangible assets	4,688,624,825	685,880,552	4,002,744,273
Financial investments	126,611,839	(34,093,429)	160,705,269
Deferred tax assets	262,342,817	87,201,628	175,141,190
Trade receivables and other non-current assets	192,687,897	26,346,645	166,341,252
Trade receivables	447,477,536	70,725,370	376,752,166
Tariff deviation asset	564,124,345	-	564,124,346
Other assets	946,852,205	11,377,388	935,474,817
Cash and cash equivalents	369,391,115	55,748,566	313,642,550
Total assets	7,598,112,581	903,186,719	6,694,925,862
Liabilities			
Borrowings	2,423,505,635	141,720,740	2,281,784,895
Deferred tax liabilities	305,054,337	42,178,171	262,876,167
Accrued contractual investment expenses	497,244,254	174,573,521	322,670,734
Investment grants	1,943,203,034	285,943,595	1,657,259,439
Tariff deviation liability	132,377,898	74,479,198	57,898,700
Borrowings	616,695,220	62,476,132	554,219,088
Other liabilities	437,755,888	48,892,618	388,863,270
Total liabilities	6,355,836,267	830,263,975	5,525,572,292
Income Statement			
	Consolidated AdP 31.12.2013	Consolidated EGF (proforma) 31.12.2013	Consolidated AdP without EGF (proforma) 31.12.2013
31.12.2013			
External sales	772,493,121	172,926,437	599,566,684
Cost recovery tariff deficit/surplus	43,695,727	(11,244,543)	54,940,270
Total revenue	816,188,848	161,681,894	654,506,954
Cost of sales/variation of inventories	(31,647,252)	(12,175,599)	(19,471,653)
External supplies and services	(226,902,326)	(46,683,278)	(180,219,048)
Personnel costs	(144,249,946)	(44,397,308)	(99,852,638)
Amort. deprec. and reversals in financial year	(246,229,603)	(57,812,417)	(188,417,186)
Provisions and reversals in financial year	348,766	(174,284)	523,050
Impairment losses and reversals	(341,850)	(158,355)	(183,495)
Investment grants	74,091,884	18,138,210	55,953,674
Other operating expenses and losses	(13,516,246)	(3,018,460)	(10,497,786)
Other operating income and gains	11,139,887	2,390,256	8,749,631
Inter-segment operating profit	-	(2,624,941)	2,624,941
Total operating profit	238,882,161	15,165,718	223,716,443
External financial profit	(50,282,612)	649,817	(50,932,429)
Inter-segment financial income	-	(1,284,728)	1,284,728
Profit before tax	188,599,549	14,530,807	174,068,742
Income tax	(58,703,092)	(7,430,224)	(51,272,868)
Net profit of financial year	129,896,457	7,100,583	122,795,874
Attributable to non-controlling interests	25,217,946	2,760,541	22,457,405
Attributable to shareholders of AdP SGPS, S.A.	104,678,511	4,340,043	100,338,468
	129,896,457	7,100,584	122,795,873

The Board of Directors



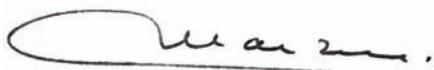
Afonso José Marçal Grilo Lobato de Faria
(Chairman)



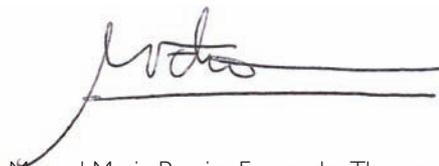
Álvaro António Magalhães Ferrão de Castello-Branco
(Member)



Gonçalo Ayala Martins Barata
(Member)



Manuel Joaquim Barata Frexes
(Member)



Manuel Maria Pereira Fernandes Thomaz
(Member)



José Manuel Barros
(Non-executive member)

The Chartered Accountant



Carla Isabel Costa Pinto Ribeiro

Report and opinion on the Audit Committee

ÁGUAS DE PORTUGAL

REPORT AND OPINION OF THE AUDIT COMMITTEE ON THE CONSOLIDATED FINANCIAL STATEMENTS

REPORT

- 1 - In compliance with applicable legal and statutory provisions, the Audit Committee issues this report and opinion on the Management Report and other consolidated financial statements of the company AdP - Águas de Portugal, SGPS, SA for the 2013 financial year, presented by the Board of Directors.
- 2 - The Audit Committee monitored the management of AdP - Águas de Portugal, SGPS, SA and the evolution of its business, through contacts with those primarily responsible, attending meetings of the Board of Directors, as well as through the reading of the minutes of other meetings of this governing body. It regularly held meetings, which were attended, as a rule, by the director responsible for financial matters and the statutory auditor. The Audit Committee obtained all the clarifications requested and was provided with all the documentation deemed necessary to carry out its supervisory role.
- 3 - The Audit Committee also appraised compliance with applicable legal and statutory requirements, finding no situations of materially relevant non-compliance. It exercised its powers in accordance with the provisions of Article 420 of the Portuguese Companies Code.
- 4 - Under the powers conferred by sub-paragraph (e) of Article 13(1) of Decree-Law no. 558/99 of 17 December, amended by Decree-Law no. 300/2007 of 23 August, and also by Order no. 14.277/2008 of the Minister of State and Finance, published in the Official Portuguese Gazette Series II, no. 99, of 23 May, and Article 33(1) and (3) of Decree-Law No. 133/2013 of 3 October, the Audit Committee checked the company's compliance with the obligations established therein, issuing the Quarterly Reports that were submitted to the competent authorities.
- 5 - The 2013 Management Report and Accounts provides information on compliance with sustainability objectives, notwithstanding the full analysis of the Group's sustainability in the economic, social and environmental fields benefiting from the presentation of the 2013 Sustainability Report, demonstrating material compliance with those principles.

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initials)

- 6 - It was checked that there is compliance, for the portion concerning the annual reporting of accounts analysed herein with the disclosure obligations set out in Article 44. Decree-Law n. 133/2013 of 3 October .
- 7 - The Audit Committee noted the report issued by the External Auditors on the consolidated accounts, finding no point of disagreement in relation to its content
- 8 - The Audit Committee analysed the Legal Certification of the Consolidated Accounts, issued pursuant to legislation by the Statutory Auditor, which includes two points of emphasis that are deemed reproduced herein. The Audit Committee was in agreement with such Statutory Audit Certificate and it took note of the annual report of the Statutory Auditor on the review carried out.
- 9 - The Audit Committee reiterates, regarding the emphasis on tariff deviations and its distribution among the companies making up the different business units of the AdP Group, its concern about the impact that the process of the sale of EGF may have on the capital structure and borrowing capacity of the AdP group, therefore the channelling of the product to the group of the disposal of EGF will contribute to the rebalancing of its capital structure after the sale.
- 10 - In the field of calculating the tariff deviations, the Audit Committee highlights that in relation to determining the rate of return for shareholders, the reference percentage of 6.29 % was used for 2013, lower than the maximum for the rate of profitability of 10-year government bonds, in accordance with Order of the Minister of Agriculture, Sea, Environment and Spatial Planning, of 25 January 2013, effective for the period the Economic and Financial Assistance Programme for Portugal is in force.
- 11 - The Audit Committee considers that the restructuring of the water and waste sectors in Portugal started in 2012 must consider the need to eliminate the accumulation of cost recovery deviations and the recognition of those existing.
- 12 -The Audit Committee also highlights the stabilisation of the debt situation of the municipal customers from 2012, which reached EUR 513.8 million at the end of 2013, this being EUR 5 million higher than the value at the end of 2012 (an increase of 1% from 2012, when the increase from 2011 to 2012 had been 29%). This development makes it essential to find a mechanism to give continuity to the settlement of this debt. The Board of Directors must pursue the policy of reducing outstanding debt.
- 13 - The Audit Committee considers, as a result of the work carried out, that the Report of the Board of Directors and the consolidated financial statements (which comprise the Consolidated Statement of Financial Position as at 31 December 2013, the Consolidated statement of income by nature and

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Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, Consolidated statement of cash flows for the year ended on that date and the Notes to the consolidated financial statements), are adequate for providing an understanding of the financial situation of the business group led by AdP - Águas de Portugal, SGPS, SA at 31 December 2013, and the manner in which the results were achieved and how the business activity developed.

- 14 - The Audit Committee highlights all the assistance it received from the Board of Directors, through the director responsible for financial matters, the Statutory Auditor and the departments of AdP - Águas de Portugal, SGPS, SA.

OPINION

As a result of the above-stated, the Audit Committee issues a favourable opinion on the management report and consolidated accounts for the 2013 financial year of AdP - Águas de Portugal, SGPS, SA, as regards their approval by the General Meeting.

Lisbon, 28 April 2014

THE AUDIT COMMITTEE

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Paulo Alexandre dos Santos Ferreira (Chairman)

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Mário José Alveirinho Carrega (Member)

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Ana Luísa Videira Gomes (Member)

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ALVES DA CUNHA, A. DIAS & ASSOCIADOS
STATUTORY AUDIT FIRM

STATUTORY AUDIT CERTIFICATE OF (CONSOLIDATED) ACCOUNTS

Introduction

1. We have examined the consolidated financial statements of AdP - Águas de Portugal, SGPS, SA, comprising the Consolidated Statement of Financial Position as at 31 December 2013 (which reports a total of EUR 7,595,548,000 and total equity of EUR 1,242,276,000, including a net profit of EUR 104,679,000), the consolidated statement of income and of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year ended on that date and the notes to the consolidated financial statements.

Responsibilities

2. The Board of Directors is responsible for preparing the consolidated financial statements in a manner that presents a true and appropriate view of the set of companies included in the consolidation, the consolidated results of its business activities and the consolidated cash flows. That responsibility also extends to the adoption of adequate accounting criteria and policies and ensuring an appropriate system of internal control.
3. Our responsibility is to express a professional and independent opinion, based on our examination of those financial statements

Scope

4. The examination we performed was conducted in accordance with the Technical Standards and Audit Directives of the Portuguese Association of Statutory Auditors, which require that the audit be planned and performed in such a manner as to obtain a reasonable level of assurance that the consolidated financial statements do not contain materially relevant distortions. To that end, the audit included:
 - a) Verifying that the financial statements of the companies included in the consolidation were appropriately examined and in relation to significant cases where they have not been examined, verification by sampling of the elements underlying the amounts and information disclosed in the consolidated financial statements and the evaluation of the estimates used in their preparation, based on the judgements and criteria defined by the Board of Directors;
 - b) Verifying the consolidation operations and application of the equity method;

- c) Appraisal of the suitability of the accounting policies adopted and their uniform application and disclosure, bearing in mind the circumstances;
 - d) Checking the applicability of the going concern principle; and
 - e) Assessing the adequacy of the overall manner in which the consolidated financial statements have been presented.
5. Our examination also checked whether the financial information contained in the management report matched that of the consolidated financial statements.
6. We believe that the examination carried out provides an acceptable basis for expressing our opinion.

Opinion

7. In our opinion, the aforementioned consolidated financial statements present in all materially relevant aspects a true and appropriate view, as at 31 December 2013, of the consolidated financial position of AdP - Águas de Portugal, SGPS, SA, the consolidated profits of its business operations and the consolidated cash flows for the year ended on that date, in conformity with the international accounting standards as adopted in the European Union.

Report on other legal requirements

8. It is also our opinion that the information contained in the management report matches that of the consolidated financial statements for the financial year.

Emphases

9. We highlight the following situations, without impacting on the opinion expressed in paragraph nos. 7 and 8.
- a) As referred to in sections 2.5.2, 15 and 35 of the Notes to the consolidated financial statements of AdP - Águas de Portugal, SGPS, SA, there are tariff deviations – assets of EUR 564,124,000 (EUR 508,207,000 in 2012), and tariff deviations – liabilities of EUR 132,378,000 (EUR 120,156,000 in 2012), which refer to the difference between the tariffs and prices charged and those that would permit the recovery of the costs incurred plus remuneration on equity and the productivity gains envisaged in the concession agreements of the water production and purification companies and waste management and recovery companies. The recovery/replacement of those deviations will depend on the manner in which it is considered by the concession grantor for the purposes of the financial equilibrium of the concession agreements, where such is justified.

The net tariff deviation (deficit less surplus) in 2013 was EUR 51,458,000 while in 2012 it was EUR 55,652,000. This change was driven by the slight alteration in the reference index used in the calculation of the guaranteed return, which, with three percentage points added, fell from 10.46% to 9.29%.

- b) As explained in section 3.2 and 18.3 of the Notes, the debts of customers (municipalities) stabilised (growth of 1% from 201, when the growth from 2011 to 2012 had been 29%). It is the opinion of the management of AdP - Águas de Portugal, SGPS, SA, that through the Programme to Support the Local Economy and the agreements to be signed, the customers (municipalities) will comply with their obligations and there are currently no indicators that lead to the recognition of impairment losses.

Lisbon, 24 April 2014

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ALVES DA CUNHA, A. DIAS & ASSOCIADOS
Statutory Audit Firm
represented by José Duarte Assunção Dias

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Auditor's Report on the Consolidated Financial Statements

Introduction

1. We have examined the attached consolidated financial statements of AdP - Águas de Portugal, S.G.P.S., S.A. comprising the Consolidated Statement of Financial Position as at 31 December 2013 (which reports a total of EUR 7,595,547,656 and total equity of EUR 1,242,276,315, including a net profit attributable to shareholders of the company, as parent of the group, of EUR 104,678,511), the consolidated statement of income by nature, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year ended on that date and the notes thereto.

Responsibilities

2. The Board of Directors is responsible for preparing the consolidated financial statements in a manner that presents a true and appropriate view of the financial position of the set of companies included in the consolidation, the consolidated profit and consolidated comprehensive income of its business activities, the consolidated changes in equity and the consolidated cash flows. That responsibility also extends to the adoption of adequate accounting criteria and policies and ensuring an appropriate system of internal control.
3. Our responsibility is to express a professional and independent opinion, based on our examination of those financial statements.

Scope

4. The examination we performed was conducted in accordance with the Technical Standards and Audit Directives of the Portuguese Association of Statutory Auditors, which require that the audit be planned and performed in such a manner as to obtain a reasonable level of assurance that the consolidated financial statements do not contain materially relevant distortions. To that end, the audit included:

Public limited company – Share capital EUR 1,105,000 – Registered in the Portuguese Association of Statutory Auditors as number 178 – Registered in the Portuguese Securities Market Commission as number 9011, Legal person number 505 988 283 – Registered in the Lisbon Company Registry Office under the same number
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- Verifying that the financial statements of the companies included in the consolidation were appropriately examined and in relation to significant cases where they have not been examined, verification by sampling of the elements underlying the amounts and information disclosed in the consolidated financial statements and the evaluation of the estimates used in their preparation, based on the judgements and criteria defined by the Board of Directors;
 - Verifying the consolidation operations;
 - The appraisal of the suitability of the accounting policies adopted and their disclosure, bearing in mind the circumstances;
 - Checking the applicability of the going concern principle; and
 - Assessing the adequacy of the overall manner in which the consolidated financial statements have been presented.
5. Our examination also included verifying that the financial information stated in the consolidated management report matched that of the consolidated financial statements.
6. We believe that the examination carried out provides an acceptable basis for expressing our opinion.

Opinion

7. In our opinion, the aforementioned consolidated financial statements present in all materially relevant aspects a true and appropriate view, as at 31 December 2013, of the financial position of AdP – Águas de Portugal, SGPS, SA, the consolidated profits of its business operations and the consolidated comprehensive income, the consolidated change in equity and the consolidated cash flows for the year ended on that date, in conformity with the international financial reporting standards as adopted in the European Union.

Emphases

8. We highlight the following situations, without impacting on our opinion.
- 8.1 As referred to in section 2.5.2 of the Notes to the consolidated financial statements, the AdP Group reports in its accounts the value of tariff shortfalls and surpluses and the prices charged which would be necessary to permit the recovery of the costs of the concession and provide a return on the investment made, thus ensuring the financial equilibrium of the concessions, as envisaged in the concession agreements. The AdP Group decided to reflect this situation in the consolidated financial statements, despite the mechanisms for reflecting those tariff and price shortfalls /surpluses not yet having been approved by the competent entities.
- 8.2 As disclosed in note 18 of the notes to the consolidated financial statements, there are balances receivable from municipalities that are significantly overdue. In the current climate of restricted

access to credit, this may affect the financial equilibrium of the AdP Group. The Board of Directors believes that the solutions will be found in the ongoing processes of renegotiation, which may ensure the economic and financial equilibrium of the concessions, and compliance with the contractual obligations.

Lisbon, 24 April 2014

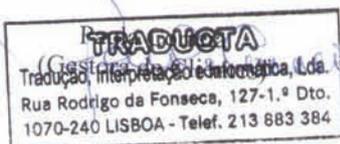
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Statutory Audit Firm (no. 178)
Represented by:

(illegible signature)
Rui Abel Serra Martins (ROC no. 1119)

STATEMENT

The documents entitled “Report and Opinion of the Audit Committee”; Legal Certification of Separate Accounts” and “Auditor’s Report” shown on pages 152 to 158 and the documents entitled “Report and Opinion of the Audit Committee”; Legal Certification of Consolidated Accounts” and “Auditor’s Report” shown on pages 236 to 244 of this annual report were translated by Traducta, Tradução, Interpretação e Informática, Lda from the original documents included in Águas de Portugal “Relatório e Contas 2013”.

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