

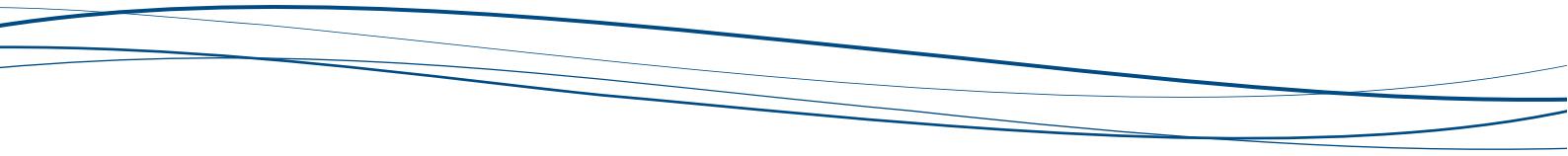


# Annual Report 2012





AdP - Águas de Portugal, SGPS, S.A.  
**Annual Report 2012**





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# Chairman's Message

**"In 2013 we will continue to be committed to the responsibility of developing an organizational culture oriented towards performance excellence, pursuing the promotion of operational efficiency, carrying out prudential management of risk and financial resources and promoting the rationalization of investments needed to provide these services."**

Águas de Portugal Group has contributed in a decisive way to the country's success in obtaining good results in terms of the quality of essential services provided for the population, particularly in the areas of water supply, wastewater treatment and urban solid waste treatment and recovery. This success has been largely driven by the business excellence of the AdP Group, which is characterized by high standards in terms of its requirements, rigour and transparency, based mainly on its human capital, which consists of over five thousand highly skilled workers who work daily to ensure essential services affecting the quality of life of the citizens of Portugal.

In 2012 there was a further demonstration of the capabilities of the Group, given its good performance in key economic and financial indicators. I would highlight the consolidated net profit of 93.8 million euros this year, which represents an increase of more than 4% over the previous year, resulting in large part from a policy of strong cost containment. It should be noted that this extremely positive result will allow us to both distribute dividends to the State shareholder and strengthen the Group's financial health, thus guaranteeing the future investments necessary for us to continue to provide high quality services to our customers.

I would also highlight the turnover, which grew to 791.4 million euros, and emphasize the very positive EBITDA earnings, which grew 3.4% to reach 357.2 million euros, despite the significant increase in energy costs. Investment during the year, despite declining by 53% compared to 2011, reached 229 million euros, which included investments essential to the quality of services of general economic interest which the Group's companies provide.

There were constraints in 2012, with an increase in the tariff deficits of water supply and wastewater treatment systems, which grew 18.1% to over 508 million euros at the end of the year, and a growth of 1.2% in short-term bank debt through the impact of customer debt on company treasury positions.

I am therefore pleased that 2012 marked the beginning of a process to restructure the sector in which the AdP Group operates and which is extremely relevant to its position. The strategic guidelines of the recommended restructuring are aimed at operational economic and financial sustainability, with the priority areas being system performance and aggregation which will allow for economies of scale and scope and promote a tariff balance in extended regions, the resolution of tariff deficits and the implementation of vertical integration strategies for the municipal systems in order to maximize operational process synergies with significant benefits for the population.

In this context, it is worth noting the work carried out by AdP during 2012 concerning the studies relating to the aggregation of water supply and wastewater sanitation systems, which were presented to municipalities that are our partners in companies managing the water supply and sanitation systems as part of a process that was concluded at the start of 2013. Technical and financial proposals were drawn up regarding the vertical integration of water services, as a result of the contacts with local authorities, involving more than 100 municipalities in partnerships for the integrated management of water services.

In the waste sector, the guidelines received by the Board of Directors, which I chair, have been to make this business unit autonomous and implement the necessary steps to open it up to the private sector, which is expected to occur through the divestiture of the equity which AdP SGPS holds in EGF. On our part we will do everything so that the process takes place in an exemplary manner, with the involvement of our municipal partners, to fulfil our public service objectives at an appropriate level of quality.

I would also like to highlight the work carried out by the Group in international markets, a business area that doubled its turnover mainly due to the increased activity in Angola, and the noteworthy continuation of the Technical Assistance project for the National Directorate for Water Supply and Wastewater Sanitation and the awarding of five new technical assistance contracts. In Mozambique, our local company, Aquatec, received a new impetus which led to the winning of a technical assistance contract in 2012. A similar contract was also awarded in the Democratic Republic of Congo.

In 2013 we will continue to be committed to the responsibility of developing an organizational culture oriented towards performance excellence, pursuing the promotion of operational efficiency, carrying out prudential management of risk and financial resources and promoting the rationalization of investments needed to provide these services, which are essential to the well-being of the population, to public health, to the development of economic activities and to the protection of the environment. These services must be assured based on the principles of universal access, quality of service and fair pricing.

The involvement of all stakeholders is essential to successfully overcoming the complex challenges presented to us within this sustainable development paradigm. On behalf of the Board of Directors, I would like to hereby express our recognition of all the commitment and energy shown by the employees of the Group in 2012, expressing the wish that we remain motivated with the necessary strength to be able together to attain the demanding goals ahead.



Afonso Lobato de Faria  
Chairman of the Board of Directors

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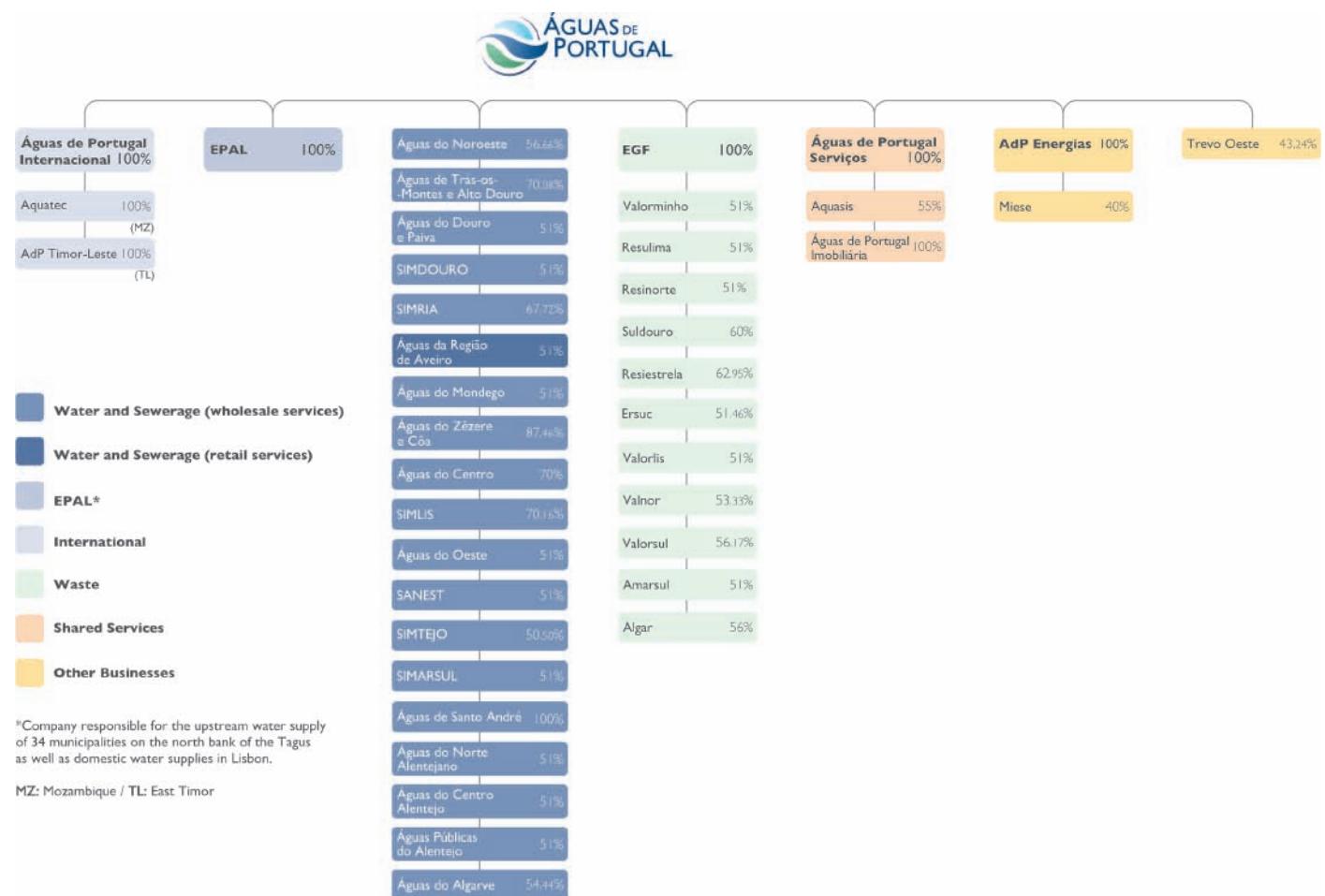
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# The AdP Group

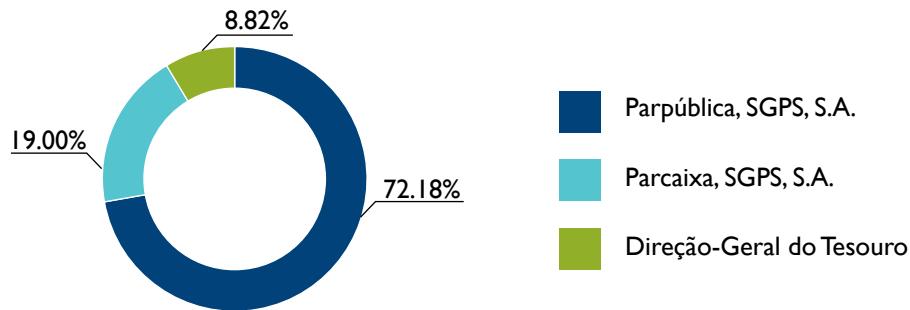
## Group organization chart

On 31 December 2012, the shareholder structure of AdP - Águas de Portugal, SGPS, S.A. comprised 41 companies, 39 of which were majority owned.



## Shareholders

On 31 December 2012, the share capital of AdP - Águas de Portugal, SGPS, S.A. was owned by the following shareholders:



On 31 January 2013, the shareholding that the Direção Geral do Tesouro (Directorate General of the Treasury) held in the company's social capital was fully transferred to Parpública, SGPS, S.A., which now holds 81% of the social capital of AdP SGPS.

## Main indicators

### Economic and financial data

	2010	2011	2012
Turnover	724.5	834.2	791.4
Tariff deficit	37.3	112.3	65.2
Operating income <sup>(1)</sup>	176.6	287.6	248.8
EBITDA <sup>(2)</sup>	277.1	345.8	357.2
Financial results	(50.5)	(90.6)	(76.3)
Net Income for the year	79.5	89.6	93.8

(1) Earnings before interest and tax

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

	2010	2011	2012
Tangible and intangible assets (net)	5,406.3	5,604.8	5,515.1
Investment	602.6	495	229
Customer debt (excluding tariff deficits) <sup>(1)</sup>	315.7	438.1	555.2
Total assets	7,213.4	7,493	7,598.1
Financial debt - Medium and long term	2,416.1	2,365.1	2,476.1
Financial debt - Short term	509.4	612.8	619.9
Financial debt - Total	2,925.4	2,977.9	3,096
Financial debt - Net	2,546.8	2,691.6	2,760.7
Investment grants	1,842.5	1,950.8	1,925.3
Liabilities	6,284.9	6,458.5	6,462.2
Equity <sup>(2)</sup>	928.5	1,034.4	1,135.9
Non-controlling interests	234.2	278.1	307

(1) Without specifying the earnings

(2) Shareholder equity includes minority interests

## Operating data

	2010	2011	<b>2012</b>
Volume of water produced <sup>(1) (3)</sup>	643.3	611.4	593.6
Volume of water distributed <sup>(1) (4)</sup>	119.8	80.3	77.4
Volume of wastewater treated <sup>(1)</sup>	472.3	485.0	450.6
Volume of solid urban waste treated <sup>(2)</sup>	3.7	3.5	3.2
Number of employees	5,847	5,285	5,246

(1) Unit: millions of m<sup>3</sup>

(2) Unit: millions of tons

(3) Includes water produced by EPAL, UNA-PD and UNI

(4) Includes water distributed by EPAL, UNI, AdRA and AdSA

## Economic and financial data

	2010	2011	<b>2012</b>
Financial structure <sup>(1)</sup>	3.2	2.9	2.7
Solvency <sup>(2)</sup>	0.4	0.5	0.5
Financial autonomy <sup>(3)</sup>	0.4	0.4	0.4
Turnover growth <sup>(4)</sup>	9.9%	5.0%	0.6%
EBITDA margin <sup>(5)</sup>	40.3%	47.9%	49.2%
ROCE before Tax <sup>(6)</sup>	3.3%	4.2%	4.4%

(1) Bank debt/ Equity

(2) (Equity + Investment grants)/ Liabilities

(3) (Equity + Investment grants)/ Assets

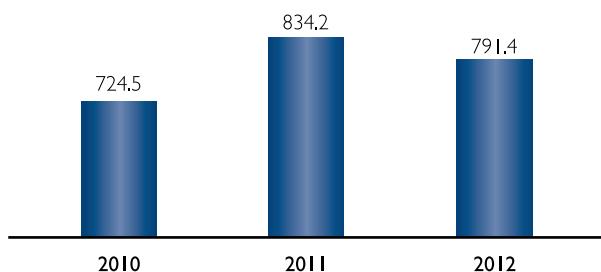
(4) Net of tariff deficits

(5) EBITDA/ Turnover net of tariff deficits

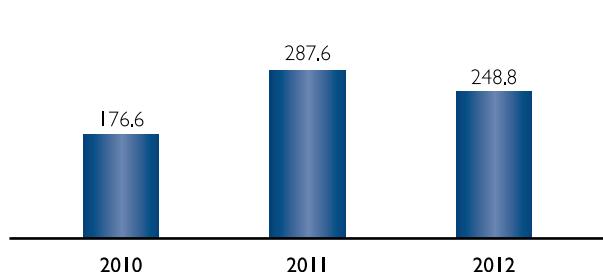
(6) (EBIT/ Capital employed; EBIT = Operating income - Tariff deficits;

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

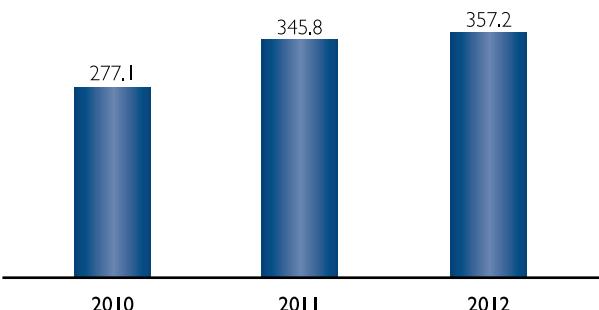
**Turnover**  
(millions of euros)



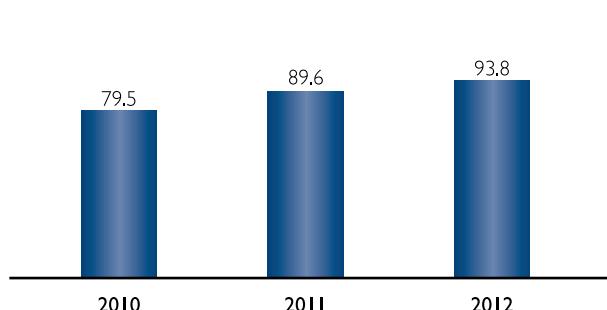
**Operating income**  
(millions of euros)



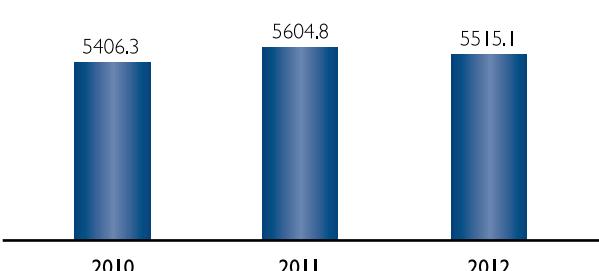
**EBITDA**  
(millions of euros)



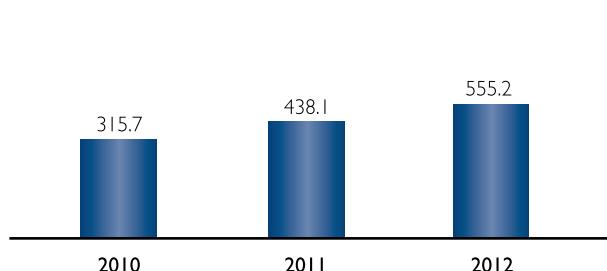
**Net income for the year**  
(millions of euros)



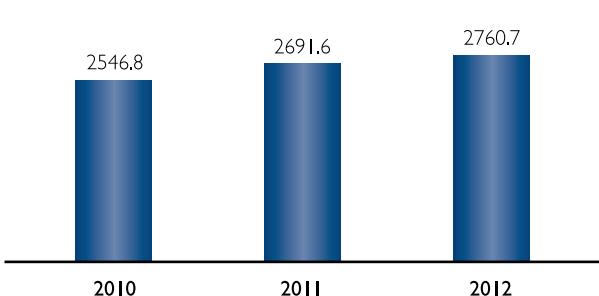
**Tangible and intangible assets (net)**  
(millions of euros)



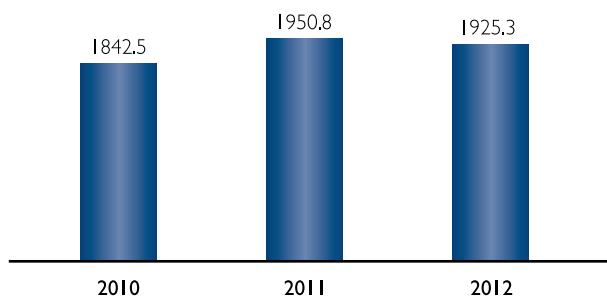
**Customer debt**  
(millions of euros)



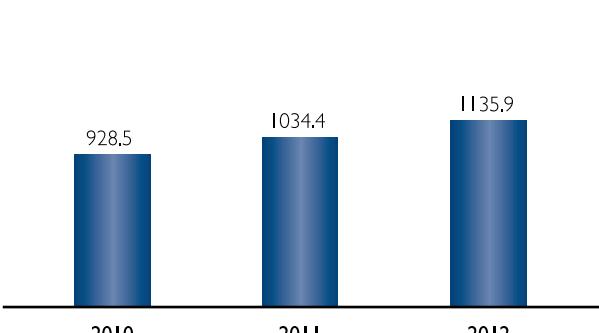
**Financial debt - net**  
(millions of euros)



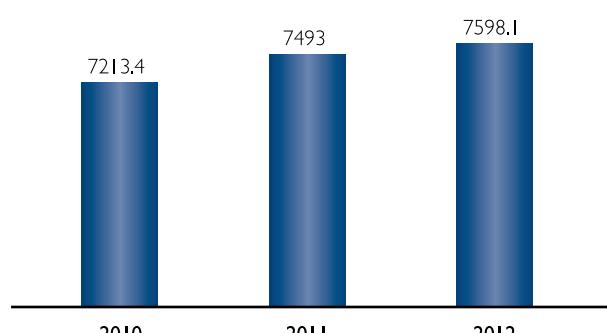
**Investment grants**  
(millions of euros)



**Equity**  
(millions of euros)



**Total assets**  
(millions of euros)

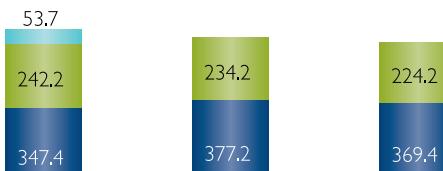


**Volume of water produced**  
(millions of m<sup>3</sup>)

Year	Volume (millions of m <sup>3</sup> )
2010	643.3
2011	611.4
2012	593.6

2010      2011      2012

**Volume of water produced**  
(millions of m<sup>3</sup>)



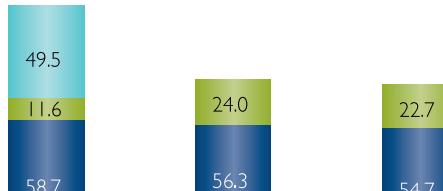
2010      2011      2012

**Volume of water distributed**  
(millions of m<sup>3</sup>)

Year	Volume (millions of m <sup>3</sup> )
2010	119.8
2011	80.3
2012	77.4

2010      2011      2012

**Volume of water distributed**  
(millions of m<sup>3</sup>)



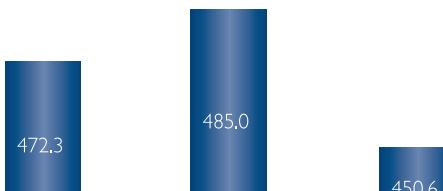
2010      2011      2012

**Volume of wastewater treated**  
(millions of m<sup>3</sup>)

Year	Volume (millions of m <sup>3</sup> )
2010	472.3
2011	485.0
2012	450.6

2010      2011      2012

**Volume of wastewater treated**  
(millions of m<sup>3</sup>)



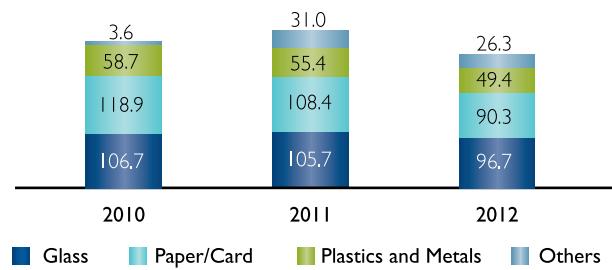
2010      2011      2012

**Volume of waste treated**  
(millions of tons)

Year	Volume (millions of tons)
2010	3.7
2011	3.5
2012	3.2

2010      2011      2012

**Waste selective collection - by material**  
(thousands of tons)



2010      2011      2012

# Main events

In February 2012 the Board of Directors of AdP SGPS was appointed for the 2012-2014 period, having been mandated by the Responsible Ministries to develop the work needed to implement a strategy to reorganize the water sector, as well as making the waste business unit autonomous, to prepare for the divestiture of the EGF sub-holding.

Under the restructuring process, studies were developed and presented to the partner municipalities on the aggregation of water supply and wastewater sanitation systems and the creation of a vertical integration structure downstream, specifically through the involvement of more than 100 municipalities in the study and analysis of State-Local Government partnerships for the integrated management of the water services. In the area of waste, the necessary preliminary studies were carried out to prepare for the process involving the sale of EGF.

In terms of the activity of the companies managing water and wastewater sanitation systems, operational highlights were the conclusion and operational start-up of several infrastructures, which resulted in the start-up of supply and service provision for various national subsystems and improvements in service levels and operational efficiency.

The Group investment plan for water and wastewater sanitation was revised, with 24 reprogramming processes submitted out of the 27 applications which were approved in late 2011 through the Thematic Territorial Enhancement Operational Programme (POVT - Programa Operacional de Valorização do Território). Following this reprogramming process there was a reduction in their number and the investment amount tendered for, now involving 24 applications under the terms of Axis II (Urban Water Cycle) of POVT/QREN, representing a total investment of around 584.8 million euros and community support of about 394 million euros.

Four new applications were submitted to POVT, corresponding to 118.6 million euros of investments already made by Águas do Algarve and Simtejo with an expected EU co-funding of around 45 million euros. An application for investments involving 996,000 euros, made by AdRA, was also submitted.

The AdP Group was also noteworthy in its key role in finding solutions for the issue of environmental liabilities, namely through the removal of the oily sludges caused by the industrial activity at the Sines petrochemical complex, which were stored at the Santo André landfill, giving rise to the resolution of this environmental liability which had existed for nearly three decades. Also noteworthy have been the removal of the waste deposited in the former Siderurgia Nacional (National Steelworks) and its rerouting to a more appropriate location.

In the waste sector, the start of operation of the new Mechanical and Biological Treatment (MBT) units in Aveiro and Coimbra, which enabled the 11 companies which manage the waste treatment and recovery systems in EGF to conclude the year with an operational capacity of around 36 MW, representing an increase of approximately 40% in comparison with 2011.

The year was also marked by the entry into operation of two Refuse-derived fuel (RDF) preparation units, located in Amarsul and Valnor; one Mechanical Treatment (MT) unit in Amarsul; and by the start of works to expand the Valença sanitation landfill.

As for multi-municipal systems, mention should be made of the importance of the signing into force of the Programme to Support the Local Economy (PAEL - Programa de Apoio à Economia Local), amounting to 1,000 million euros, which will reduce the amounts owed by municipal users to the respective systems. There was a significant increase (+108%) in the total value of overdue debt involving the negotiation of 39 new payment agreements, involving overdue debt totalling approximately 154.5 million euros. There was an increase of 51% in the number of debt recovery agreements.

Of note also in the area of the protection of water quality was the review of EPAL's Water Safety Plan (PSA).

EPAL was also in focus because its development and launch of a technological system for intelligent network management and control of water loss, called "WONE - Water Optimization for Network Efficiency", which featured in the 2013 WEX Global Awards for Innovation.

Mention should also be made of EPAL's initiative to support the poorest households in the municipality of Lisboa, under which the company signed agreements with 43 Parish Authorities not to cover its service charge to 6,800 families for a period of 18 months.

In the area of energy, an Integrated Energy Efficiency Plan was established, resulting from the strategic vision set out for a three-year period and under which the position of the AdP Energias company is enhanced as the AdP Group vehicle maximising energy use from local resources and the rationalization of energy consumption and the reduction or offsetting of its emissions.

On the international business unit, the year 2012 was marked by the acquisition of seven new technical assistance contracts, including five contracts in Angola, one in the Democratic Republic of Congo and one in Mozambique.

In the area of research and development (R&D), various projects were developed in several AdP Group companies in different areas, from new technologies to treat water and wastewater; to the optimization of the operational management of water and waste companies, sustainable use of water; the integration of new information systems and the implementation of innovative decision making support 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 Group's social responsibility work in 2012 included the conclusion of the project to support the Portuguese Selection for Disabled Swimming in preparation for the Paralympic Games in London, with delivery in May of the last portion of the financing under the initiative "Our Stars" that donated 50 cents for each electronic Christmas postcard sent by Group employees in the last three years.

The end of the year was marked by the launch of the AdP Corporate Volunteer Programme, an initiative within the framework of AdP's Social Responsibility Policy intended to stimulate the voluntary participation of its employees in activities on behalf of the community by contributing their time and expertise.



# Corporate Governance





# Corporate Governance

## I. Mission, objectives and policies

### Mission

AdP - Águas de Portugal, SGPS, S.A. 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 solid domestic and industrial 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 a 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 organizational 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 and wastewater sanitation sector, 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 tutelage.

## 2. Internal and external regulations

AdP SGPS is a public limited liability company required to comply with the Legal Regime for the State Business Sector (RJSEE) as set out in Decree Law No. 558/99 of 17 December, Decree Law no. 300/07 of 23 August, and also in Portugal's Commercial Companies Act.

As stipulated in the RJSEE, the Minister of Finance and the ministry responsible for the sector (Environment), in the role of shareholder, set out specific management guidelines. The AdP SGPS Board of Directors, elected on 2 February 2012, received a set of management guidelines from the Environment and Finance Ministries, as reported in the previous chapter, of note within which are the reorganization of the water supply and wastewater sanitation sector; prioritising the economic and financial sustainability of operations in these areas, and enabling the waste business unit to become autonomous with a view to its opening up to the private sector.

In 2012, AdP received a number of guidelines from the Environment and Finance Ministries including, among others, guidance on the Wage Policy in effect in the State Business Sector and instructions on Containing Staff Costs and External Supplies and Services Costs within the scope of Portugal's Stability and Growth Programme (PEC). AdP also received guidelines resulting from the commitments made by the Portuguese state under the terms of the country's Economic and Financial Assistance Programme.

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 Corruption and Related Risks**

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 administrating 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 AdP's Sustainability Report.

### **v) Access Procedures for the AdP Building and 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 different human resource 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 Evaluation Handbook**

This handbook sets out the principles, rules and procedures to be followed in regard to evaluating 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 UNA-PD business unit as well as the mobility rules and procedures applicable 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 AdP Group companies**

The Established Service Levels document sets out the rules governing the relationships between AdP's Shared Services Centre and other 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 - Águas de Portugal, SGPS, S.A. carries out various transactions with related entities, namely its subsidiaries.

The main amounts and the nature of relevant transactions with related entities in 2012 are set out in the following chart.

Unit: euros

	Administration and Management Services	Interest obtained	EIB service commissions	Participation in governing bodies	Total
Águas da Região de Aveiro	806,133	-	189,425	81,120	1,076,678
Águas de Portugal Internacional	-	577	3,931	-	4,508
Águas de Portugal Serviços	195,623	-	-	-	195,623
Águas de Santo André	502,679	-	-	36,877	539,556
Águas de Trás-os-Montes e Alto Douro	495,992	4,001,079	711,672	18,105	5,226,848
Águas do Algarve	799,822	4,065,175	1,533,052	33,206	6,431,255
Águas do Centro	211,816	-	389,546	31,942	633,305
Águas do Centro Alentejo	137,633	-	310,299	60,843	508,776
Águas do Douro e Paiva	543,942	-	391,891	53,278	989,111
Águas do Mondego	282,285	440,172	557,421	35,512	1,315,389
Águas do Norte Alentejano	126,140	245,281	321,976	15,783	709,181
Águas do Oeste	460,095	932,434	807,215	43,118	2,242,862
Águas do Zêzere e Côa	289,966	2,727,322	1,021,952	18,107	4,057,346
Águas do Noroeste	634,241	2,294,316	1,617,395	12,833	4,558,785
Águas Públicas do Alentejo	188,757	740,709	10,762	29,368	969,595
EGF	741,062	655,743	516,605	-	1,913,409
EPAL	2,525,214	-	-	34,937	2,560,151
Sanest	262,612	-	241,091	46,563	550,267
Simarsul	222,794	282,163	653,052	28,072	1,186,080
Simdouro	157,002	1,313,568	32,715	83,213	1,586,498
Simlis	119,041	-	300,822	37,712	457,575
Simria	258,056	1,844,949	315,956	30,472	2,449,433
Simtejo	704,267	1,439,009	1,024,785	64,292	3,232,354
Valorsul	-	743,301	-	-	743,301
AdP Energias	-	89,021	-	-	89,021
Aquasis	-	32,379	-	-	32,379
	<b>10,665,171</b>	<b>21,847,197</b>	<b>10,951,562</b>	<b>795,355</b>	<b>44,259,285</b>

Balances and transactions with municipal shareholders were not included.

In addition, dividends totalling €15,000,000.00 were distributed to shareholders.

### 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 it carried out with it in 2012 totalled 3,782,837.00 euros.

These transactions mainly related to the rental of office space, including related services and supplies, for a total amount of 1,582,336.00 euros (2,099,936.00 euros in 2011). 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. According to the Company Statutes, the current management of the company may be delegated to an Executive Board.

The supervision of the Company is overseen by a Supervisory Board 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 annual profits;
- b) elect governing bodies;
- c) approve the remuneration of members of 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 member.

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 according to the rules set out in the Articles of Association, along with any due adaptations, 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, executive budget and annual operational 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 core objective.

## **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 Acts 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 of Shareholders 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 end;
- 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 of Shareholders 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 and a reserve secretary are 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 for any number of mandates.

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 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, 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 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** Joaquim António Pais e Jorge, 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 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, 2012, 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.

## **Board of Directors' responsibilities for Operating Areas and Business Units**

### **Afonso José Marçal Grilo Lobato de Faria**

<b>Corporate Bodies</b>	Company Secretary Public Relations and Image Corporate Human Resources Research and Development
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<b>Business Units</b>	International EPAL Waste
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### **Álvaro António Magalhães Ferrão de Castello-Branco**

<b>Business Units</b>	International
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### **Gonçalo Ayala Martins Barata**

<b>Corporate Bodies</b>	Corporate Finance Internal Auditing and Risk Control Corporate Development and Regulation
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<b>Business Units</b>	Shared Services
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## **Manuel Joaquim Barata Frexes**

**Corporate Bodies** Sustainability and Social Responsibility

**Business Units** Other Business

## **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 Sequeira Rodrigues**

##### **Academic Qualifications**

- Law Degree, Universidade Lusíada de Lisboa (1990).
- Specialised Course for Auditors on the National System of QCA III Supervision, Instituto Superior de Economia e Gestão (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 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**

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 state-owned companies (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 financial management (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).
- Treasury Department - Ministry of Finance - section head, responsible for state credit operations (1993-1996).
- Treasury Department - 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 Board member of 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).
- 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).
- Vice-chairwoman of the Board of the Annual General Meeting of AdP - Águas de Portugal, SGPS, S.A. (2008-2010 and 2012-2014 mandates).

#### **Secretary - Manuel Bruno Rossi Ruano Gouveia Pereira**

Born: 18 August, 1978.

#### **Academic Qualifications**

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

#### **Professional Career**

- Real estate, urban planning and environmental lawyer with Vieira de Almeida & Associados, Sociedade de Advogados, RL (since August 2011).
- 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).
- Real estate, urban planning and environmental lawyer with Vieira de Almeida & Associados, Sociedade de Advogados, RL (September 2003/April 2007).
- Intern lawyer with Leónidas, Matos & Associados (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**

#### **Executive 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, Ecole 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.
- Postgraduate Management Programme in Renewable Energies, Universidade Católica Portuguesa.

#### **Professional Career**

- Since February 2012 - Chairman of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.
- June 2010 - January 2012 - Manager, 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; Oeinerge - 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 Sonofabil.
- October 1996 - July 2001 - Director; Waste department, Ecoserviços.
- April 1993 - September 1995 - Project manager; Ecoserviços.
- September 1991 - March 1993 - Design engineer; Procel.

#### **Member - Álvaro António Magalhães Ferrão de Castello-Branco**

Born: 16 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, AdP - Águas de Portugal, SGPS, SA.
- 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.
- 2006-2012 - 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 April, 1971

##### **Academic Qualifications**

- Degree in Economics, Universidade Nova de Lisboa.

##### **Professional Career**

- Since February 2012, Member of the Board of Directors, AdP - Águas de Portugal, SGPS, SA.
- 2002-2012 - Director; Fixed Income and Capital Markets Origination, Citigroup, 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, AdP - Águas de Portugal, SGPS, SA.
- In 2001, he was elected Mayor of Fundão Municipal Council. 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 Commission.
- In 1998 he was appointed a non-executive director at Talentum, S.A. as well as 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 the government left office.
- 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. In the following year, he was made Chairman of the Board of Directors.
- In 1989 he began working as an international consultant in the telecommunications sector, working for Portugal, 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 Commission 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 Lisboa 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).
- Managing Director, 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 University College of North Wales, Bangor, United Kingdom, through the ERASMUS programme, financed by the EU.

### **Professional Career**

- Since February 2012, Member of the Board of Directors, AdP - Águas de Portugal, SGPS, SA.
- 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 AdP Group.
- 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, by 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 the PHILIPS PORTUGUESA, S.A. industrial unit at Ovar 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 surface-mounted devices (SMDs).

#### **Other Posts**

- 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'Etudes 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 a 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 - Joaquim António Pais e Jorge**

Born: 11 February, 1963.

#### **Academic Qualifications**

- Degree (pre-Bologna) in Business Management, Universidade Católica Portuguesa.

#### **Professional Career**

- Since October 2012 Chairman of Parpública, SGPS, S.A.
- Since December 2012 Non-Executive Member, AdP - Águas de Portugal, SGPS, S.A.
- From 2009 to 2012, was the Director of EP - Estradas de Portugal, S.A., with responsibility for the "Economic and Financial Unit of the Concessions Department (DC)". He was also a member of the Negotiations Committees for the concessions contracts for the Interior Norte, Beira Interior, Algarve, Norte Litoral, Douro Litoral and Litoral Centro regions. He was also the EP representative in the Association Mondiale de la Route and Member of the Supervisory Board of SAGRES - Sociedade de Titularização de Créditos, S.A. (company owned by Citigroup) during the 2010-2012 period.
- From 1990 to 2009 he held various positions in the Corporate Banking area at Citibank in Portugal and Director since 1999, more specifically: Country Committee member (2003 - 2009), legal representative of the Branch (2004 - 2009), Market Manager (2005 - 2009), director of the branch "CIP - Citibank International plc" in the Funchal International Business Centre - "Offshore Madeira" (2003 and 2004) and a member of the credit committee since 1991, being awarded the designation SCO (senior credit officer) in 2005.
- From 1988 to 1990 he was deputy director of the banking operations department at SEFIS, an investment company (at the time) incorporated and owned by the Portuguese State, by the Indo Suez Bank (which today is part of the French Bank Credit Agricole Lyonnais) and various Portuguese private investors.
- From 1987 to 1988 he was an auditor at KPMG.

#### **Other Posts**

- Member of the Supervisory Board of SAGRES - Sociedade de Titularização de Créditos, S.A. (company owned by Citigroup) during the 2010-2012 period.

## Supervisory Board

### Chairman - Paulo Alexandre dos Santos Ferreira

Born: 23 May, 1977.

#### Academic Qualifications

- Degree and Master's Degree in Economics, Economics Faculty, Universidade do 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) and 2012/2014 mandates).

### Member - Mário José Alveirinho Carrega

Born: August 18, 1966.

#### Academic Qualifications

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

#### Professional Career

- Since May 1993, senior executive, Treasury and Finance Department (DGTF) - Ministry of Finance - advisory role in the area of the State Corporate 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 Data 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 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, AdP - Águas de Portugal, SGPS, SA (2012-2014 mandate).

### **Member – Ana Luís 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, Treasury and Finance Department, where she has worked in the State Holdings Services Department and Registry and Inventory Division since 2009.
- Assistant to the Secretary of State for the Treasury and Finances in the 18th Constitutional Government, 2011.
- Technical specialist, Directorate-General for the Budget, where she worked in the Public Finances and Analysis Services Department, September 2007 - October 2008.
- Technical specialist, Treasury and Finance Department, 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, Treasury and Finance Department, where she worked in the Direct External Debt Division, 1991-1996.
- Member of the Supervisory Board, AdP - Águas de Portugal, SGPS, SA (2012-2014 mandate).

### **Reserve Member - Graça Maria V. N. Montalvão Fernandes**

Born: 12 August, 1948.

#### **Academic Qualifications**

- Degree in Economics, Porto Economics Faculty (1971-72).

#### **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, Treasury and Finance Department 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, SA (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, the Extraordinary Aid Fund for Reconstructing Chiado (FEARC), 1998-2002.
- Member of the Supervisory Board, Cahora-Bassa Hydroelectric Dam, 1993-2000.
- Chairwoman of the 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 2012, the Board of Directors met 10 (ten) times and the Executive Committee 43 (forty three) times.

#### **Specialised Committees**

The following specialised committees for managing and supervising cross-company projects have been appointed by the Board of Directors as at 31 December, 2012:

- Monitoring group for the information system requirements of AdP Business Units
- Working Group for Corporate Responsibility System
- Working Group for monitoring the use of management information

- Working group for monitoring and negotiating the revision of Concession Contracts
- Working group for studying downstream water supply and wastewater sanitation
- Working Group for rainwater
- Working group for monitoring the implementation of PEAASAR III
- Working Group 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 BU comprises group 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 Lisboa region.

- **Water - Distribution and Collection (UNA-DR)**

This BU comprises group companies mainly engaged in retail operations in Portugal in the water supply and wastewater sanitation sectors.

- **International (UNI)**

This BU comprises group companies with operations based outside Portugal.

- **Waste (UNR)**

This BU contains those group 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 BU comprises companies that supply services to all other AdP Group companies and BUs in eight different support areas: i) Purchasing and General Support; ii) Information Services; iii) Human Resources; iv) Financial Services; v) Marketing and Communication; vi) Legal Services; vii) Planning and Operations; and viii) Engineering.

The Waste, International and the Shared Services BUs are managed, respectively, by 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. operates a number 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 evaluation and supervision of BUs and subsidiaries.

### • Corporate Finance

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

### • Corporate Development and Regulation

This department is responsible for planning, management control, relations with stakeholders and regulation. Its mission is to support strategic formulation both for the Group and its respective BUs, as well as analysis of the performance of the Group, the BUs and companies on the basis of indicators and management information. The department furthermore takes on 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.

### • Corporate Communication and Image

This department is responsible for defining the Group's corporate communication and corporate 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 sustainable development in an organised manner.

## • 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

### I - Fixed remuneration statute

#### Governing bodies

##### 1. Board of the General Meeting

###### Mandate I - 2008-2010

Chairwoman - Attendance voucher to the amount of €700;

Vice-Chairwoman - Attendance voucher to the amount of €520;

Secretary - Attendance voucher to the amount of €400.

###### Mandate II - 2012-2014

Chairwoman - Attendance voucher to the amount of €700;

Vice-Chairwoman - Attendance voucher to the amount of €520;

Secretary - Attendance voucher to the amount of €400.

#### 2. Supervisory Board

##### Mandate I - 2008-2010

###### Supervisory Board

Chairman - Monthly remuneration corresponding to 20% of the monthly remuneration awarded to the Chairman of the Board of Directors, 14 times a year.

Members - Monthly remuneration corresponding to 15% of the monthly remuneration awarded to the Chairman of the Board of Directors, 14 times a year.

###### Mandate II - 2012-2014

###### Supervisory Board

Chairman - Monthly remuneration corresponding to 20% of the monthly remuneration awarded to the Chairman of the Board of Directors, 14 times a year.

Members - Monthly remuneration corresponding to 15% of the monthly remuneration awarded to the Chairman of the Board of Directors, 14 times a year.

#### 3. Board of Directors

##### Mandate I - 2008-2010

###### Executive directors

Chairman - Remuneration of €9,592, 14 times per year.

Other benefits: Life/personal accident and health insurance; company car; meal subsidies; telephone - all these benefits being granted in accordance with the regulations in force within the Águas de Portugal Group.

Members - Remuneration of €8,952, 14 times per year.

Other benefits: Life/personal accident and health insurance; company car; meal subsidies; telephone - all these benefits being granted in accordance with the regulations in force within the Águas de Portugal Group.

## Non-executive directors

Non-executive directors - Remuneration of €2,111, 14 times per year.

### Mandate II - 2012-2014

#### Executive directors

Chairman - Basic salary of €5,722.75, 14 times a year plus representation expenses of €2,289.10, 12 times a year.

Other benefits: Life/personal accident and health insurance; company car; meal subsidies; telephone - all these benefits being granted in accordance with the regulations in force within the Águas de Portugal Group.

Members - Basic salary of €4,578.20, 14 times a year plus representation expenses of €1,831.28, 12 times a year.

Other benefits: Life/personal accident and health insurance; company car; meal subsidies; telephone - all these benefits being granted in accordance with the regulations in force within the Águas de Portugal Group.

#### Non-executive directors

Non-executive directors - Remuneration of €1,144.55, 14 times per year.

## II. Remuneration and other costs (annual amounts in euros)

### I. Board of the General Meeting

Board of the General Meeting - Mandate I	2012		
	Chairwoman	Vice-Chairwoman	Secretary
Fixed annual remuneration	700 €	520 €	400 €
Reduction in remuneration <sup>(I)</sup>	0 €	0 €	0 €
Actual annual remuneration	700 €	520 €	400 €

(I) As a result of Law 55-A/2010 or Law 64-B/2011, as applicable

Board of the General Meeting- Mandate II	2012		
	Chairwoman	Vice-Chairwoman	Secretary
Fixed annual remuneration	2,100 €	1,560 €	1,200 €
Reduction in remuneration <sup>(I)</sup>	0 €	0 €	0 €
Actual annual remuneration	2,100 €	1,560 €	1,200 €

(I) As a result of Law 55-A/2010 or Law 64-B/2011, as applicable

### 2. Supervisory Board

Supervisory Board - Mandate I	2012		
	Chairman	Member	Member
Fixed annual remuneration	2,009 €	1,507 €	0 €
Reduction resulting from Law 12-A/2010	96 €	75 €	0 €
Reduction resulting from Law 64-B/2011	274 €	143 €	0 €
Actual annual remuneration	1,640 €	1,289 €	0 €

Supervisory Board - Mandate II	2012		
	Chairman	Member	Member
Fixed annual remuneration	17,550 €	13,162 €	13,162 €
Reduction resulting from Law 12-A/2010	882 €	658 €	658 €
Reduction resulting from Law 64-B/2011	1,585 €	1,250 €	1,250 €
Actual annual remuneration	15,083 €	11,254 €	11,254 €

Statutory Auditor	2011 (*)	2012 (**)
Actual annual remuneration	72,000 €	18,495 €

(\*) In 2011 Article 22 of Law 55-A/2011 (Law OE/2011) was applied YES X NO

(\*\*) The fees of the Statutory Auditors, 2012, were based on guidance received from DGTF, the remuneration of the Statutory Auditor (ROC), is pegged to the remuneration of the Chairman of the Board of Directors of the Company, corresponding to 22.5% of that remuneration. This amount was only estimated given that it still has to be resolved in the minutes of the General Meeting or the Remuneration Committee, and this remuneration can be modified until then, depending on the final position that may be adopted in respect of the remuneration of the AdP SGPS governing bodies, including with retroactive effect.

### 3. Board of Directors

	Member José Martins Soares	Member João Lopes Fidalgo	Non-Executive Member Parpública
Mandate	I	I	I
Adapted to Public Manager Statute (PMS) (Yes/No)	N	N	N
Total Compensation (I.+2.+3.+4.)	8,059 €	8,059 €	1,754 €
Option for remuneration from the place of origin	N	N	N
Entity of origin (identify)			
Payer (origin/ destination)			
1.1 Annual remuneration	10,915 €	10,915 €	2,463 €
1.2 Representation expenses (annual)	0,00 €	0,00 €	0,00 €
1.3 Attendance voucher (annual value)	0,00 €	0,00 €	0,00 €
1.4 Reduction resulting from Law 12-A/2010	469 €	469 €	123 €
1.4 Reduction resulting from Law 64-B/2011	850 €	850 €	234 €
1.6 Suspension of holiday and Christmas pay	1,537 €	1,537 €	352 €
1.7 Reductions from previous years	0,00 €	0,00 €	0,00 €
1. Effective annual remuneration (1.1+1.2+1.3-1.4-1.5-1.6-1.7)	8,059 €	8,059 €	1,754 €
2. Variable remuneration	0,00 €	0,00 €	0,00 €
3. Exemption from Working Time (IHT)	0,00 €	0,00 €	0,00 €
4. Other (identify)	0,00 €	0,00 €	0,00 €
Travel allowance	0,00 €	0,00 €	0,00 €
Meal allowance	147 €	147 €	0,00 €
Social benefit charges			
Social protection scheme (ADSE/ Social Sec./ Other)	210 €	1,106 €	0,00 €
Health insurance	75 €	128 €	0,00 €
Life insurance	283 €	199 €	0,00 €
Personal accident insurance	0,00 €	0,00 €	0,00 €
Other (indicate)	NA	NA	NA
Accumulation of management responsibilities (Y/N)	Y	Y	Y
Entity (identify)	Águas do Noroeste S.A., Águas do Douro e Paiva S.A., Simdouro S.A.	EPAL S.A.	NA
Annual remuneration	0,00 €	0,00	0,00
Vehicle pool	Member	Member	Member
Mandate	I	I	I
Type of use	AOV	AOV	NA
Reference value of the new vehicle	-	-	-
Starting year	2009	2009	NA
End year	2012	2013	NA
No. payments (if applicable)	36	48	NA
Residual value	-	-	-
Income value/ annual payment of company car (including VAT)	1,010,61 €	2,164,50	NA
Fuel expenses for vehicle *(1)	749,80 €	659,58	NA
Annual fuel ceiling determined *(2)	248,33 €	248,33	NA
Other (tolls/ repairs/ insurance)	510,27 €	1,162,87	NA
Limit set in accordance with article 33 of the PMS (Yes/No)	Yes	Yes	NA

(\*) differential between (1) and (2) regarding professional travel

Other fringe benefits	Member	Member	Member
<b>Mandate</b>			
Annual mobile communication ceiling *(3)	175 €	175 €	NA
Annual mobile communication costs *(4)	446.16 €	312.45 €	NA
Other (indicate)	NA	NA	NA
Limit set in accordance with article 32 of the PMS (Yes/No)	Yes	Yes	NA

(\*) differential between (4) and (3) regarding professional use

Costs w/ travel	Member	Member	Member
<b>Mandate</b>			
Total annual cost with journeys			
Annual costs with accommodation			
Allowances and expenses			
Other (indicate)			

No other payments were made apart from those shown in the above chart (telephone, vehicle - leased without purchase option, fuel, life and health insurance), the same insurance cover being provided for all AdP Group employees).

Company cars, fuel and telephones are for company use and do not therefore constitute a complementary benefit.

	Chairman Afonso Lobato de Faria	Member Manuel Fernandes Thomaz	Member Manuel Barata Frexes	Member Álvaro Castello-Branco	Member Gonçalo Martins Barata
Mandate	II	II	II	II	II
Adapted to PMS (Yes/No)	Y	Y	Y	Y	Y
Total remuneration (1.+2.+3.+4.)	75,025 €	60,020 €	60,020 €	60,020 €	60,020 €
Option for remuneration from the place of origin	N	N	N	N	N
Entity of origin (identify)					
Payer (origin/destination)					
1.1 Annual remuneration	72,906 €	58,325 €	58,325 €	58,325 €	58,325 €
1.2. Representation expenses (annual)	25,071 €	20,057 €	20,057 €	20,057 €	20,057 €
1.3.Attendance voucher (annual value)	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €
1.4.Reduction resulting from Law 12-A/2010	4,388 €	3,510 €	3,510 €	3,510 €	3,510 €
1.4.Reduction resulting from Law 64-B/2011	8,336 €	6,669 €	6,669 €	6,669 €	6,669 €
1.6.Suspension of holiday and Christmas pay	10,229 €	8,183 €	8,183 €	8,183 €	8,183 €
1.7.Reductions from previous years	0,00 €	0,00 €	0,00	0,00 €	0,00 €
1. Effective annual remuneration (1.1+1.2+1.3-1.4-1.5-1.6-1.7)	75,025 €	60,020 €	60,020 €	60,020 €	60,020 €
2.Variable remuneration	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €
3.Exemption from Working Time (IHT)	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €
4.Other (identify)	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €
Travel allowance	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €
Meal allowance	897 €	1,314 €	769 €	892 €	944 €
Social benefit charges					
Social protection scheme (ADSE/Social Sec./Other)	11,233 €	11,233 €	11,233 €	11,233 €	11,233 €
Health insurance	1,259	1,534 €	985 €	1,259 €	355 €
Life insurance	2,135 €	2,117 €	1,708 €	1,708 €	1,708 €
Personal accident insurance	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €
Other (indicate)	NA	NA	NA €	NA	NA
Accumulation of management responsibilities (Y/N)	Y	Y	Y	Y	Y
Entity (identify)	AdP Internacional S.A.	AdRA – Águas da Região de Aveiro S.A.	Águas do Centro S.A., AdP Energias S.A.	Águas do Douro e Paiva S.A., AdP Internacional	AdP Serviços S.A., AdP Energias S.A.
Annual remuneration	0,00 €	0,00 €	0,00 €	0,00 €	0,00 €
Vehicle pool	Chairman	Member	Member	Member	Member
Mandate	II	II	II	II	II
Type of use	AOV	AOV	AOV	AOV	AOV
Reference value of the new vehicle	-	-	-	-	-
Starting year	2009	2009	2009	2009	2009
End year	2012	2012	2013	2012	2012
No. payments (if applicable)	36	36	48	36	36
Residual value	-	-	-	-	-
Income value/annual payment of company car (including VAT)	15,839.26	10,988.64 €	10,310.97 €	10,562.57 €	10,816.68 €
Fuel and toll charges spent on the vehicle *(1)	3,394.34	7,985.03 €	8,311.12 €	7,913.94 €	1,751.34 €
Annual fuel and toll ceiling determined *(2)	5,654.31	4,624.26 €	4,624.26 €	4,624.26 €	4,624.26 €
Others (repairs / insurance)	3,303.68	2,889.57 €	1,626.56 €	2,454.91 €	2,017.10 €
Limit set in accordance with Article 33 of the PMS (Yes/No)	Yes	Yes	Yes	Yes	Yes

(\*) differential between (1) and (2) regarding professional travel

Other fringe benefits	Chairman	Member	Member	Member	Member
Mandate	II	II	II	II	II
Annual mobile communication ceiling *(3)	1,070 €	1,070 €	1,070 €	1,070 €	1,070 €
Annual mobile communication costs *(4)	1,321.13 €	916.97 €	2,119.58 €	3,832.52 €	907.93 €
Others (indicate)	NA	NA	NA	NA	NA
Limit set in accordance with Article 32 of the PMS (Yes/No)	Yes	Yes	Yes	Yes	Yes

(\*) differential between (4) and (3) regarding professional use

Costs with travel	Chairman	Member	Member	Member	Member
Mandate	II	II	II	II	II
Total annual cost with journeys	3,419.00 €		3,785.05 €	15,070.03 €	
Annual costs with accommodation	451.00 €	125.00 €	441.49 €	2,211.46 €	
Allowances and expenses	559.92 €		524.18 €	1,179.41 €	
Others (indicate)	1,499.62 €	261.88 €	3,194.09 €		189.97 €

No other payments were made apart from those shown in the above chart (telephone, vehicle - leased without purchase option, fuel, life and health insurance), the same insurance cover being provided for all AdP Group employees).

Company cars, fuel and telephones are for company use and do not therefore constitute a complementary benefit.

#### 4. External Auditor

External Auditor	2011	2012
Annual remuneration earned	128,000 €	108,800 €
Reduction in remuneration*	0 €	0 €
Actual annual remuneration	128,000 €	108,800 €

\* As a result of Law 55-A/2010 or Law 64-B/2011, as applicable

## 6. Sustainability analysis

For the AdP Group, sustainability is a core value and a strategic choice of the highest importance for achieving the major challenge of ensuring universal and continuous service provision. Creating value for the community, the sustainability strategy of the Group is based on a concept of symbiosis with the environment, shareholders, employees and the community and other stakeholders with whom it has a close interdependent relationship.

The AdP Group annually publishes a Sustainability Report, reporting its performance and demonstrating the strategies it has adopted and the extent to which it has achieved its targets. In 2012, for the fourth consecutive year, the annual economic, environmental and social report was produced for the Group, encompassing the holding company and the 39 companies directly or indirectly owned by AdP SGPS (operating in the fields of water supply, wastewater sanitation and waste treatment and recovery) and based on the GRI - Global Reporting Initiative and ERSAR references, in line with previous editions. The Report, with a self-declared application level of A in the GRI index, is available on the website of AdP at [www.adp.pt](http://www.adp.pt) and provides a clear account of the performance of the companies, reaffirming our commitment to the Global Compact, a United Nations initiative aimed at aligning business and civil society strategies and policies with the 10 universal principles concerning Human Rights, Work, Environmental Protection and Anti-corruption Mechanisms adopted by more than 8,000 organisations in about 135 countries. The annual progress report of Global Compact has also been published, and is available for consultation at <http://www.unglobalcompact.org>.

The year 2012 was marked by the consolidation of the certifications/ renewals of the Corporate Responsibility Management System (CRS) in the AdP Group companies, enhancing the fulfilment of our mission to provide a public service involving water supply, wastewater sanitation and municipal solid waste, in accordance with the most demanding requirements in terms of sustainable development. Currently, 34 companies are certified for ISO 9001 standard - Quality, 34 for ISO 14001 standard - Environment, 32 for OHSAS 18001 standard - Safety and 15 for SA 8000 standard - Social Responsibility.

The Group maintains its focus on corporate policies in terms of social responsibility. In 2012 we continued the initiative associated with sending electronic Christmas cards, instead of paper cards, an initiative that began with the economic and environmental aspects of this in mind and which since 2009 has been linked to a social responsibility component through the donation of 50 cents for each electronic Christmas card sent to support social causes. The first project developed within this framework was to support disabled sports. The participation of athletes at the Paralympic Games in London in 2012 marked the success of the project "Our Stars" which, over a three-year period, involved approximately 5,300 employees of the Group. With mission accomplished in supporting the Portuguese Adapted

Swimming Team, the funds raised at Christmas 2012 started a new phase which focuses on supporting institutions that, from the north to the south of the Country, provide on the ground help for those experiencing particularly difficult times. Responding also to our internal social responsibility strategy, part of the funds will be directed to awarding higher education scholarships to the children of employees of the AdP Group companies who show financial hardship and who have an excellent academic record.

The end of the year was also marked by the launch of the AdP Corporate Volunteer Scheme, an initiative forming part of the Social Responsibility Policy of AdP intended to stimulate the voluntary participation of its employees in activities performed on behalf of the community, through contributing their time and expertise.

## 7. Human capital management

Our employees play a decisive role in the success of the Group. We are committed to human resource policies and management practices that foster the acquisition of the skills required to achieve our strategic goals and for the personal and professional development of our employees.

### Performance management

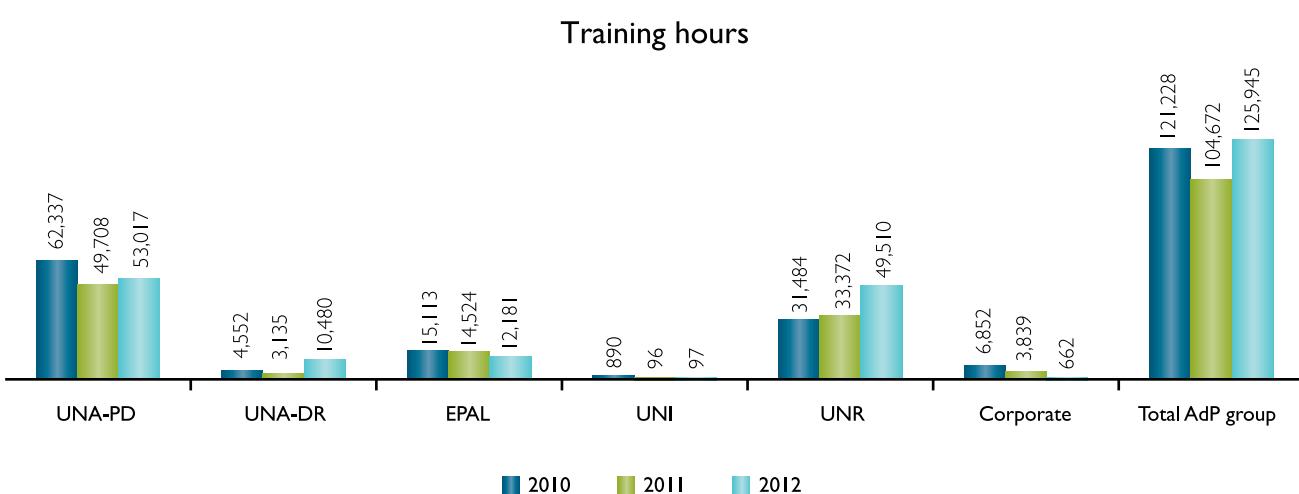
The Performance Evaluation Process is applicable to all AdP Group employees and is designed to manage and develop individual performance to ensure that it is aligned with the company's strategy and objectives.

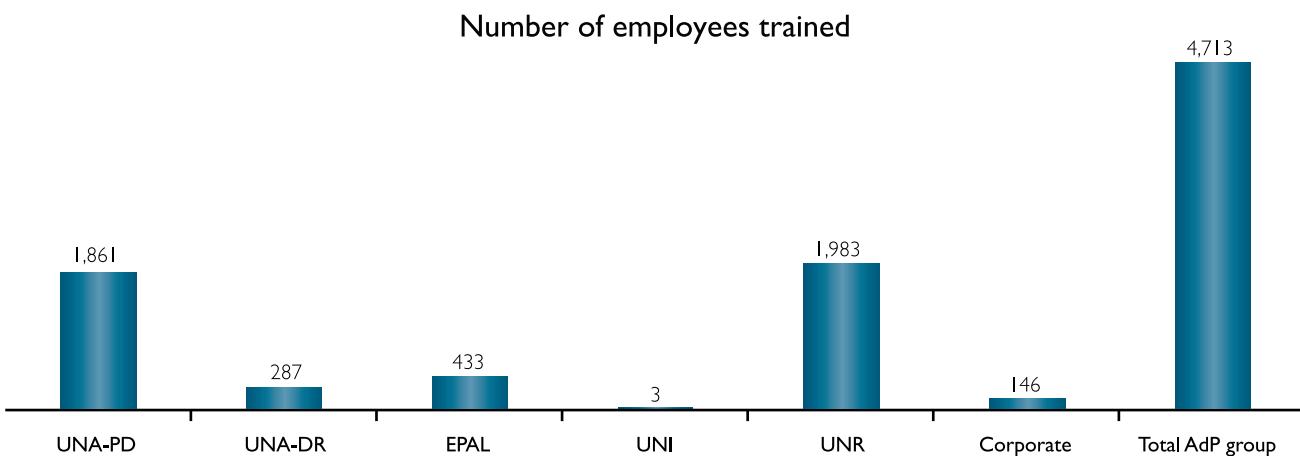
### Training and development

As an embodiment of the continuous improvement culture that is central to the Group's strategy, AdP believes in the fundamental importance of equipping its employees with the necessary skills to realise their full potential, contributing in this way to increased efficiency and improved results.

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

This emphasis on employee skill acquisition and development can be illustrated by the data on the implementation of AdP training plans. The number of training hours carried out increased by 20% compared to 2011, and the number of employees attending training activities also increased by 17%.





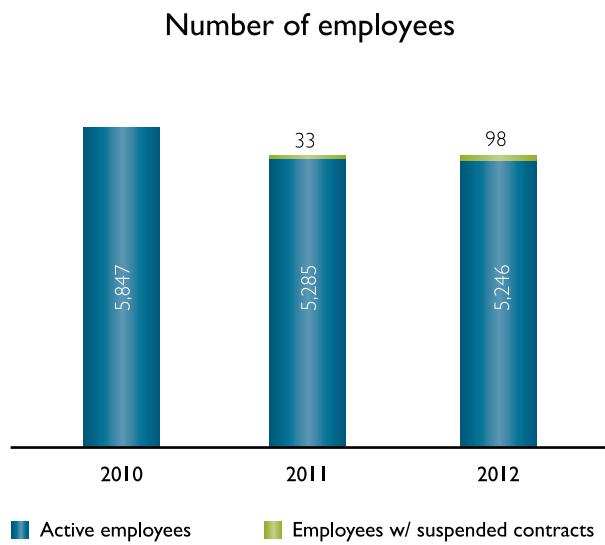
## Career management

The internal mobility of employees is a policy that AdP continues to support as a positive contribution to their professional evolution. We see internal recruitments as a tool for fostering the personal and professional development of our employees, offering them the opportunity to experience new environments and challenges from which they can acquire new knowledge and skills.

In 2012, most vacancies in the Group were filled through internal recruitment.

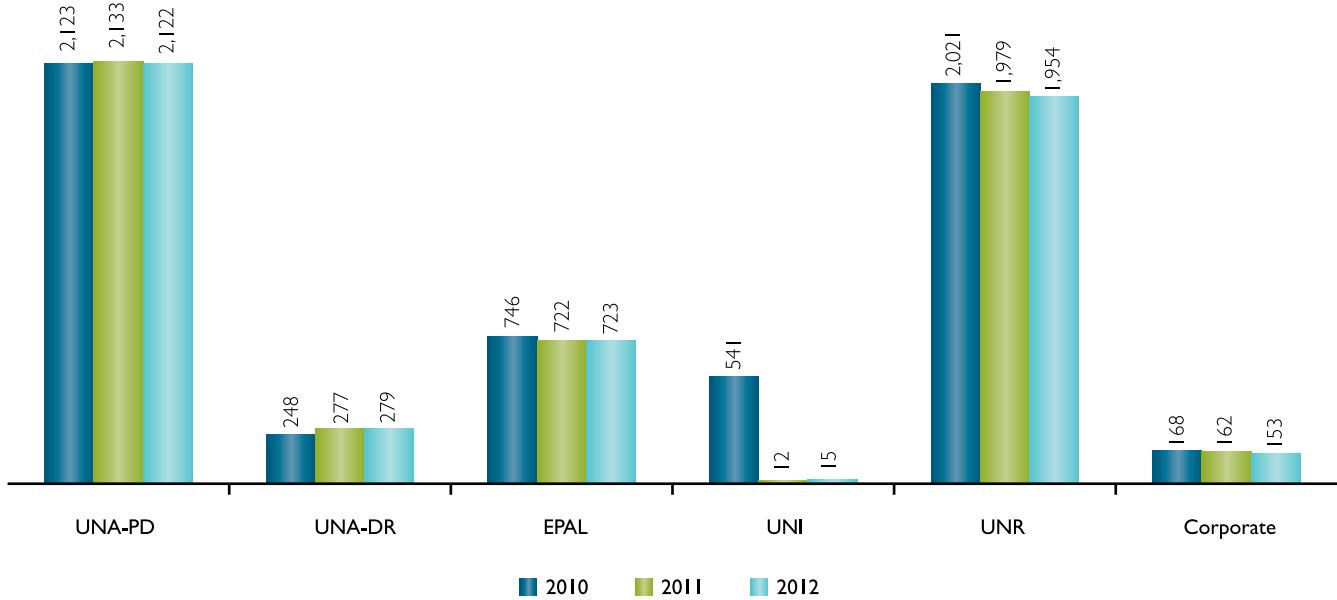
## Description of the Group's human resources on 31 December 2012

Compared to 2011, the number of employees in the Group remained stable.



Contracts suspended = includes employees on unpaid leave, employees on sick leave and/or occupational accident who have been absent for greater than 30 days by 31 December; employees appointed to positions on the Board and this excludes trainees.

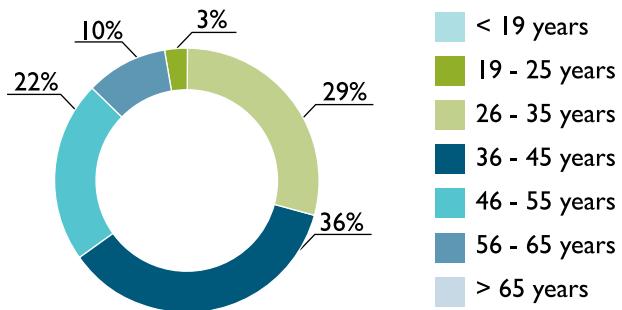
### No. of active employees per BU



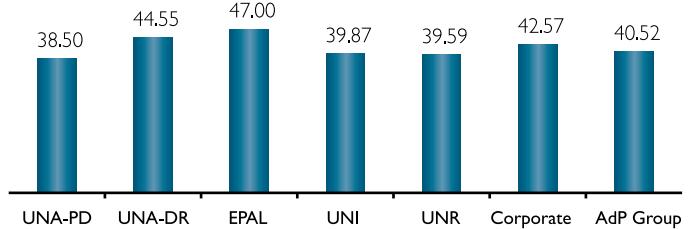
The average age of Group employees was 40.52, UNA-PD being the business area with the lowest average age, at 38.50 years of age. Conversely, EPAL is the business unit with highest average age at 47.00 years of age.

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

#### Age structure of active employees

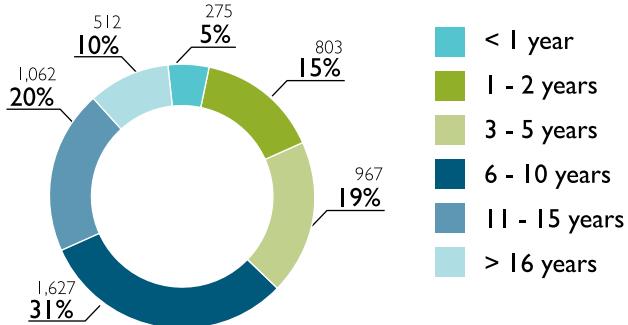


#### Average age of employees

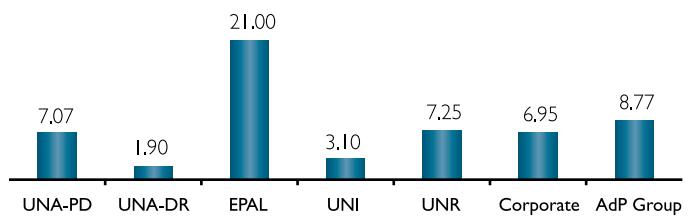


The average length of service of employees within the companies of the Group is 8.77 years. Employees with a length of service between 6 and 10 years represent 31% of total employees. EPAL has the highest average seniority among the various business units.

### Length of service of active employees

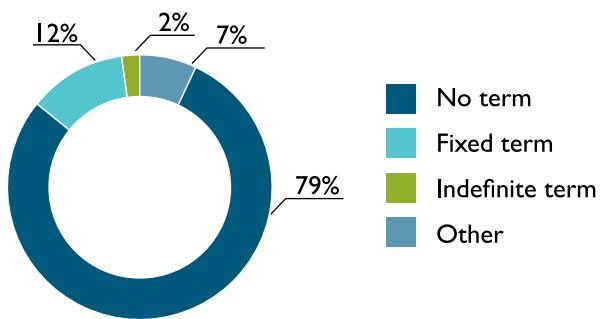


### Average employee length of service

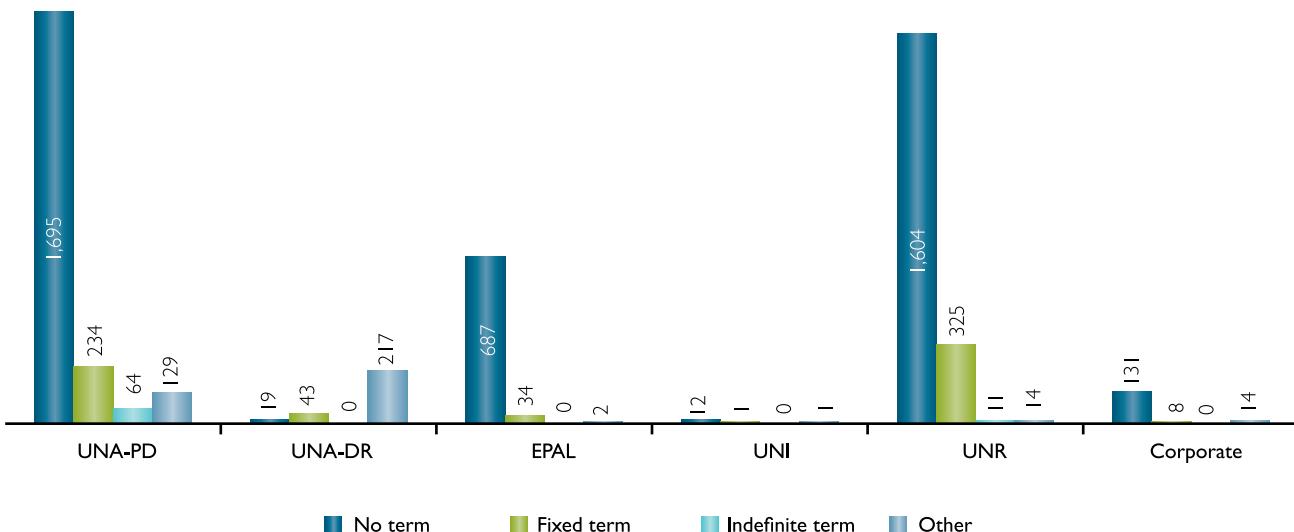


As regards contractual relations, the indefinite duration contract is the most representative form in AdP, representing 79% of all existing contracts.

### Contractual situation active employees

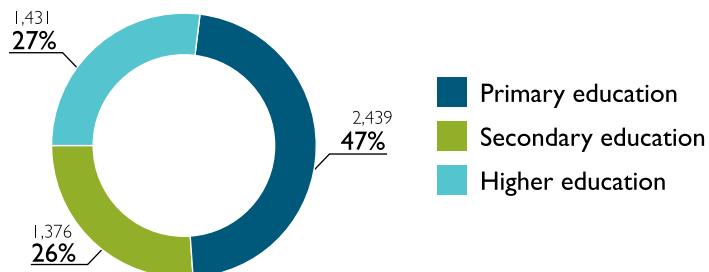


### Contractual situation of active employees per BU

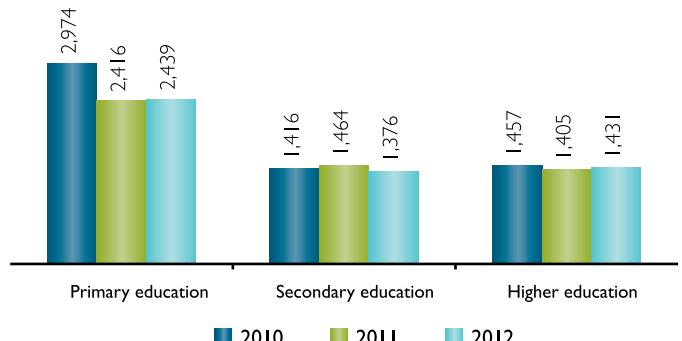


In terms of academic qualifications, the percentage of employees with higher education qualifications increased slightly on the previous year, to represent 27% of the Group's employees.

### Educational qualifications of employees

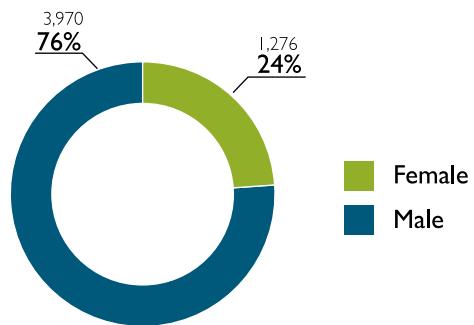


### Educational qualifications of employees

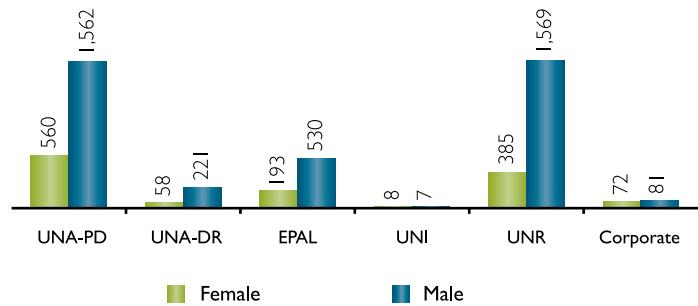


As for distribution of employees by gender; it can be seen that the more operational activities have more males, in contrast to support activities where the distribution is balanced.

### Gender distribution of employees

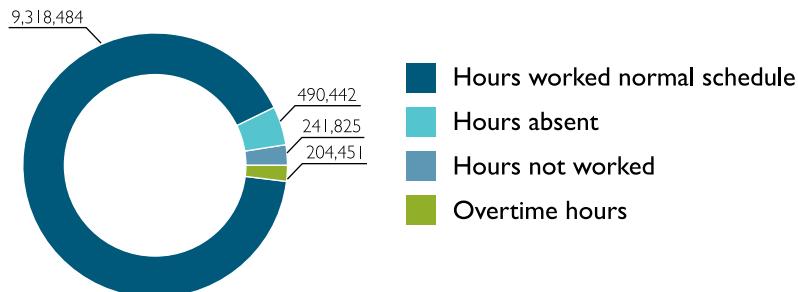


### Distribution of employees by gender and by BU

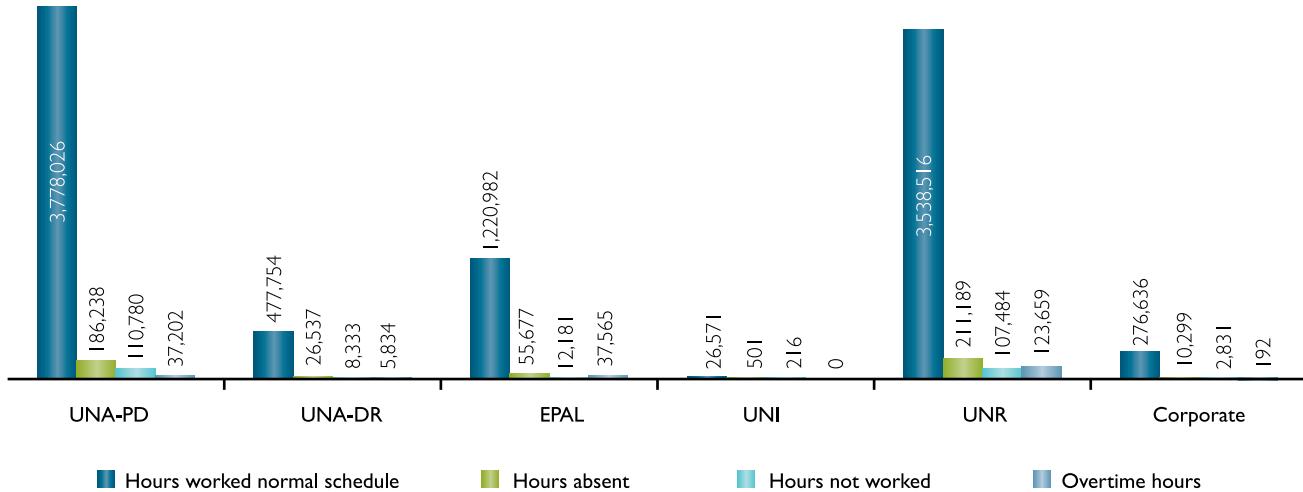


The distribution of productive and non-productive hours in the Group lies within the normal range for their respective areas of activity, and the absence hours in 2012 accounted for 4.88% of the potential workable hours.

### Hours worked



### Hours worked per BU



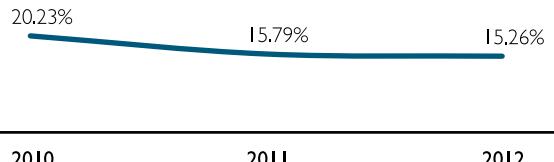
In 2012, personnel expenses decreased by 8.33% over the previous year.

Staff costs	2010	2011	2012
Staff costs (€ million)	146.6	131.7	120.8
Average annual cost per employee (€)	24,745	24,612	22,722
Average monthly cost per employee (€)	1,767	1,758	1,623
Staff costs/ turnover	20.23%	15.79%	15.26%
Staff costs/ EBITDA	52.90%	38.10%	33.81%

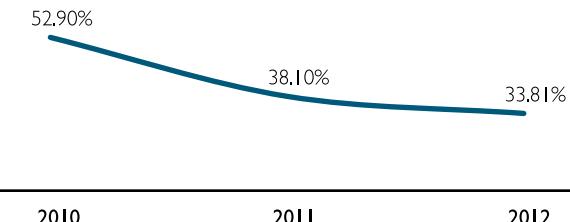
Note 1: the amounts set out above include, in addition to all remuneration, all associated social charges (single social tax, health insurance, life insurance, etc.).

Note 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.

### Staff costs/ turnover



### Staff costs/ EBITDA



## 8. Research & Development and innovation

### Framework

The operation of water and wastewater sanitation systems has been facing increasingly complex challenges, arising not only from the political, economic, social and technological changes within present-day society, but also the growing demands of users. At the policy framework level, and taking into national, European and global guidelines, mention should be made concerning the publication of increasingly demanding legislation on the quality of water for human consumption and the ecological status of bodies of water. All these factors result in continuous and growing pressure on management bodies, which give rise to intervention strategies increasingly based on innovative and effective solutions. In this context, it is important to highlight the classification of the AdP group in the official ranking of the 100 companies with the highest investment in R&D in the last three years.

The following section highlights a number of projects in various AdP Group companies in different areas, from new technologies for water and wastewater treatment, to the optimization of the operational management of water and waste companies, to sustainable use of water, integrating new information systems and the implementation of innovative decision support systems.

## Main events

In 2012 AdP SGPS formalized its participation in the European project EUPORIAS (European Regional Provision Of Impact Assessment On A Seasonal-to decadal timescale).The EUPORIAS project began on 1 November 2012 and is concerned with improving seasonal and decadal weather forecasts for the European economy, providing management companies with access to these products and looking to develop, in collaboration with management bodies, methodologies to improve these forecasts in ways which are appropriate to each sector.

In terms of managing public services and carrying out a smart cities (SMART CITIES) project on a national scale, a working group was created to design an innovative project for the implementation of a SMART WATER system.The aim of the working group, consisting of EPAL, Simtejo, Águas da Região de Aveiro and Aquasis, is to define the objectives in implementing a SMART WATER system, assess synergies with energy, gas and communications management companies and draw up a business plan for project implementation.

During 2012 the innovation projects being carried out in companies were also identified, which will serve as the basis for the roadmap to be achieved. Below are listed some AdP Group projects in a large variety of operational areas, from the north to the south of the country.

The theme of climate change provided continuity to the development of national and international projects, and the following can be highlighted:

- Prepared - Enabling Change (EPAL, Águas do Algarve and Simtejo): Study co-funded multiannually by the 7<sup>th</sup> Framework Programme (7<sup>th</sup> FP) of the European Community, with a strong research component to evaluate the impact of climate change on the Urban Water Cycle, Climate Change Scenarios and which adaptation measures are necessary;
- Trust - Transitions to the Urban Water Services of Tomorrow (AdP Serviços, Águas do Algarve, Simtejo and AdP Internacional): Study co-funded by the 7<sup>th</sup> FP, the goal of which is the creation of solutions and tools that enable management companies to deal with future challenges for the sector (e.g. climate change, demographics, urbanization and the ageing of infrastructure), covering aspects as diverse as governance, technologies, resource management and energy efficiency;
- AdaptaClima Project - A project that aims to provide EPAL with a medium and long-term strategy to adapt to climate change, scientifically coordinated by the Faculty of Science, University of Lisboa and monitored by EPAL's Climate Change Group.

Mention should be made of the conclusion of the Infrastructure Asset Management (GPI) project, the aim of which was to develop a GPI (AWARE based) methodology in the companies Águas do Algarve and Águas do Douro e Paiva, including the participation of EPAL and AdP Serviços.

As regards innovation projects related to the water supply quality, the partnership between the University of Aveiro and Águas da Região de Aveiro on the development of "Artificial Intelligence Computerized Systems to Predict Water Quality" can be highlighted. The aim of this project is to enable the prediction and classification of water quality for human consumption in real time, by monitoring a subset of the parameters measured online, thus anticipating the results of the laboratory analysis, allowing for optimization in operational management in terms of corrective actions as well as controlling and reducing associated costs. EPAL has also been involved in several innovative projects in this area, particularly the project "Fungi Watch: Benefits and hurdles associated with the presence of fungi in drinking water sources", in collaboration with IBET - Technological Institute for Experimental Biology, and the Faculty of Pharmacy of Lisboa, funded by the Foundation for Science and Technology and the projects "LDmicrobiota - The microbiota of sediment distribution systems and water quality for human consumption" and "ChloriDec - Technology for real-time monitoring of the decay rates of chlorine in Water supply systems", in partnership with LNEC - National Laboratory of Civil Engineering and IST - Instituto Superior Técnico.

As far as treating the water supply, mention should be made of the innovation projects being carried out by the Águas do Norte Alentejano, in particular treatment using membranes in the Water Treatment Plant of Vale Vilão, trials in removing manganese, using a new type of filtration media (DMI 65) in the Water Treatment Plant in Caia, and the study and removal of cyanobacteria by microfiltration and activated carbon filters in the water treatment plant in Póvoa. A doctoral thesis is underway, under a cooperation agreement between the Faculty of Pharmacy, University of Lisboa and EPAL, entitled "Emerging Environmental Contaminants: Pharmaceutical Products" which involves the study, implementation and validation of analytical methods for describing and evaluating the quality of water extracted, treated and distributed by EPAL in terms of the presence of pharmaceutical drugs.

Innovative projects to be mentioned concerning wastewater treatment are the partnership between Simtejo and DHV in the research project "Application of Nereda™ Technology in the Frielas Wastewater Treatment Plant" which has been underway since 2007. This project involves the intermittent application of granular activated sludge, with the key principle being the natural selection of the biomass due to the sedimentation velocity, which forms the basis of the NEREDA™ technology patent. In 2012 the R&D project met its goals, including obtaining flakes of granular activated sludge flocs based on a stabilized biological process adapted to changes in affluent load and flow to the WWTP while complying with the respective discharge parameters. Given that there are few international references for the NEREDA™ treatment process, we can say that the AdP Group has contributed to the development of a significant upgrade of conventional activated sludge systems.

Mention should also be made of the participation of Simarsul and Simtejo in the ENVITEJO Project, funded by the Lisboa Operational Programme (POR Lisboa), involving Environmental Enhancement and Improvement Activities, also in consortium with the ARH do Tejo - Administração da Região Hidrográfica do Tejo, I.P. ENVITEJO is an integrated project involving knowledge, information and tools relevant for the management and monitoring of the Tagus estuary, with a view to updating the monitoring system of this estuary and its adjacent water courses and the development of tools to enhance existing information, support management and risk minimization and support environmental education and interaction with the public.

Simarsul's participation in the "Oil to Recycle, Biodiesel to Flow", project promoted by the Municipality of Seixal, which seeks to promote the collection of used cooking oil and transform it into biodegradable fuel – Biodiesel, using the state school schools and people of Seixal, - is an excellent example of the innovative ability of the AdP Group, and is also in line with one of the guidelines of future EU funding, namely the recovery of by-products from Wastewater Treatment Plants.

In the area of implementing support systems for decision making, the Aquasafe project should be mentioned, which has been implemented by Simtejo in partnership with Hidromod and Bentley. The aim of Aquasafe is the integration of information systems, sensors and existing mathematical models in an automatic operational management tool. In May 2012 the Aquasafe project was given an Honour Award from the International Water Association (IWA) Project Innovation Awards Europe & West Asia Regional Awards 2012 in the Operations & Management category and in September 2012, as part of the IWA International Conference in Busan, Simtejo and Hidromod were honoured at a worldwide level with the Honour Award of the IWA Project Innovation Awards Global Awards 2012 in the Operations & Management category.

In the area of waste the following projects can be highlighted:

- PROFORBIOMED (Algar): European project involving 18 organizations from Portugal, Spain, France, Italy, Greece and Slovenia, which aims to develop an integrated strategy for the use of forest biomass as a renewable energy source;
- Integrated Management System for Selective Collection (Amarsul and Aquasis): this aims at the implementation of an advanced selective collection management system, based on measuring the now full glass containers are, optimizing collection routes and monitoring of the quantities of waste collected. This innovative project is funded by NSRF and involves as partners the School of Technology/ Setúbal Polytechnic (EST/IPS) and the Institute of Mechanical Engineering – IST Branch (IDMEC);
- VALORGAS - Valorisation of food waste to biogas (Valorsul): study co-funded by the 7<sup>th</sup> FP, which aims to study various systems involving anaerobic digestion of organic waste from selective collection, with a view to maximising the optimal stability conditions for biological processes, and maximizing the production of biogas and the respective energy recovery.

In addition, and with regard to the efficient use of water; mention should be made of the PhD carried out by an employee of Águas de Trás-os-Montes e Alto Douro, entitled of "Pressures on the Water Basins of the Sôrdo, Pinhão and Ribeira de Vila Chã rivers: Causes, Consequences and Answers", which seeks to develop sustainable water use scenarios in the aforementioned basin by studying the pressure coming from the agricultural, industrial and domestic sectors.

Innovation projects in the area of information systems which can be highlighted include the partnership of Aquasis with Algar to develop a georeferenced solution to optimising MSW collection routes, which includes a Backoffice component for optimising routes, producing reports, inventories, performance indicators and a mobility component for recycling points (recording recycling container data and navigation support). Also of note is the development of the new version of the Geographic Information System (GIS G/InterAqua) - Version 7 by Aquasis, which enables georeferenced recording of company assets, as a support for planning, operational and maintenance processes, in monitoring losses and leakages and the mathematical modelling of the managing bodies.

With regard to risk management in supply systems the "Strategic Risk Management Project - Development and application of a methodology for integrated risk management at the strategic level" should be highlighted, which is taking place as a doctoral thesis at the University of Cranfield.

## New challenges

As regards participation in and financing of innovation projects, it is worth highlighting the conclusion of the 7<sup>th</sup> FP and the transition to the new Community support framework entitled *Horizon 2020*. In this context, the European Commission published in late 2012 the Strategic Implementation Plan (SIP) of the European Innovation Partnership on Water; which sets down the innovation areas and priority investment until 2020, namely:

- reuse;
- treatment of water and wastewater, including recovery of by-products;
- water-energy nexuses;
- managing the risk of floods and droughts;
- ecosystem services;
- water governance;
- decision and monitoring support systems;
- smart technologies.

In this context, the AdP Group should base its innovation strategy on a logic of leveraging funding applications for national and international research and development projects based on:

- i) encouraging the search for knowledge and enhancing innovation solutions using the knowledge of the AdP Group;
- ii) identifying potential cross-sectional areas for optimisation;
- iii) identifying, disseminating and transferring good practices between companies;
- iv) developing and implementing innovative solutions, with special emphasis on optimizing the operational management of the AdP Group water and wastewater sanitation systems;
- v) implementing innovation projects with an institutional dimension;
- vi) strengthening links with national research institutions and the AdP Group;
- vii) fostering PhDs carried out within the business environment.

## 9. Business ethics and preventing corruption

The AdP Group as a business group of public companies is convinced that its daily concerns with efficiency or economic growth cannot be dissociated from ethical and responsible behaviour, believing 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 Group makes various prevention, implementation and monitoring tools available to ensure that its performance is in accordance with its principles and values, particularly the Code of Conduct and Ethics, the Social Responsibility Management Systems and the Plan for Controlling Corruption and Related Risks.

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 of Conduct and Ethics is signed by all employees of the Group and is available for consultation at the website [www.adp.pt](http://www.adp.pt).

The Ethics Committee of the AdP Group was set up in 2010 and monitors, impartially and independently of the Company's corporate bodies, disclosure and compliance with the Code of Conduct and Ethics in all group companies. The Committee is made up of 5 members and can be contacted through email at [eticaadp@adp.pt](mailto:eticaadp@adp.pt).

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. These plans identify 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.

In April 2012, the annual report on compliance with these Plans for Controlling Corruption and Related Risks covering all AdP Group companies was submitted to the Prevention of Corruption Council.

## 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*
- *Contributing to sustainable development*

## 10. Risk control

The AdP Group and the Board of Directors of AdP SGPS in particular devotes 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 2012 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. These risks are presented below:



Risks are evaluated on the basis of their probability and impact, taking into consideration both the inherent risk and the residual risk. Evaluation 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 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, whenever circumstances require, submitted to the AdP SGPS Board of Directors for appreciation. This approach to operational and infrastructure risks, besides the coverage provided by each company and its 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:

- financial sustainability;
- bad debt liabilities;
- integration of multi-municipal systems;
- management of shareholdings;
- legislative and regulatory changes;
- credit and financing.

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.

## **II. Preventing conflicts of interest**

The members of the AdP - Águas de Portugal, SGPS, S.A. Board of Directors are fully aware of the conflict of interests system as set out in Law No. 64/93, of 26 August, 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), which establish rules regarding the cumulative holding of positions and non-participation requirements for decisions involving interests specific to members of this governing body. The Board also takes into consideration Law No. 4/83, of 2 February, transposed into Law No. 25/95, of 18 August.

To this end, the members of the AdP - Águas de Portugal, SGPS, S.A. Board of Directors undertake to comply with the following obligations:

- (i) deliver to the General Inspectorate of Finances, a declaration listing all shareholdings and assets held directly or in directly in the company, as well as all positions, roles and professional activities undertaken (Article 22, No. 9 of Decree Law No. 71/2007, of 27 March);
- (ii) deliver a Declaration of Assets and Earnings to the Constitutional Court (Law No. 4/83 of 2 February, as transposed into Law No. 25/95, of 18 August, Regulatory Decree No. 1/2000, of 9 March in addition to Law No. 28/82, of 15 November);
- (iii) 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);
- (iv) 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);
- (v) 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 of Good Governance regarding the disclosure of information, namely the principles set out in Council of Ministers Resolution No. 49/2007, of 28 March, as shown 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			
Government 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 entities	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			
State Financing	X			

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

Information available on the Company Website	Published			Comments
	Y	N	NA	
Existence of site	X			www.adp.pt
Company history, vision, mission and strategy	X			
Company structure chart	X			
Governing bodies and governance model:				
Identification of governing bodies	X			
Identification of the board's areas of responsibility	X			
Identification of company commissions	X			
Identification of risk control systems	X			
Remuneration of governing bodies	X			
Internal and external regulations	X			
Off-market transactions	X			
Relevant transactions with related entities	X			
Analysis of economic, social and environmental sustainability	X			
Code of Ethical Conduct	X			
Annual Report and Financial Statements	X			
Client purveyor				X

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

## Compliance with special reporting requirements

AdP - Águas de Portugal, SGPS, S.A. complies with special information duties under the terms of Ministerial Order No. 14277/2008, of 23 May, specifically in its reporting to the Treasury and Finance Department (DGTF) and the General Inspectorate of Finances (IGF) of:

- annual activity plans;
- annual budgets, including estimates of financial operations with the state;
- annual investment plans and their respective sources of financing as included in annual budgets;
- documents to provide annual accounts and consolidated reports of the external auditors and annual audit report of the Auditor;
- quarterly reports on budgetary implementation together with the reports of the supervisory board;
- copies of the minutes of General Meetings (GM).

## I3. Compliance with instructions, ministerial orders and other legislation

### I3.1. Compliance with the shareholder guidelines

No guidelines were issued by the shareholders when approving the 2011 accounts.

### I3.2. Compliance with the guideline on public procurement standards

The AdP Group companies observed the standards set out in the Public Contracts Code in all contractual procedures undertaken in 2012 covered by the Public Contracts Code, as approved by Decree Law No. 18/2008, of 29 January, and transposed in Law No. 59/2008, of 11 September; by Decree Law No. 278/2009, of 2 October; by Law No. 3/2010, of 27 April, and by Law No. 149/2012, of 12 July.

### I3.3. Rationalization measures for the goods and services procurement policy

The AdP Group has a Shared Services Unit - AdP Serviços Ambientais, S.A. - that fulfils a centralising function, optimising and rationalising the acquisition of goods and services in the areas in which Group companies operate. 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 wastewater treatment units to the equipment and containers used by the Waste Business Unit, among others. These special features also apply to the vehicle pool, given that the Group requires operational vehicles with specific features suited to its activities, including, for example, specialised pickup lorries and lorries to transport waste, lorries to unblock cesspits, mobile mud dehydration units, etc. In 2012, in this context, operational vehicles were only contracted in exceptional situations of an urgent and pressing need in order not to compromise the operation performance of systems, in accordance with the Joint Ministerial Dispatch of the MEF and MAOT of 24 September 2010.

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 and Normal) 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.

### I3.4. Measures adopted with regard to the Principle of Gender Equality

The AdP Group is governed by a set of principles that promote gender equality by adopting clear non-discriminatory practices, whether on the grounds of race, ethnicity, gender, age, physical disability, religious belief, political opinion or membership. The promotion of equal treatment and opportunities for men and women, as well as the adoption of measures to enhance the balance between personal and professional life, are strategic objectives for the Group's companies.

The AdP Group has 38% of its companies certified in terms of social responsibility, in accordance with the requirements of SA8000, and is committed to the United Nations Global Compact which, in principle No. 6 establishes the "elimination of discrimination in employment and occupation". These commitments are an additional guarantor of respect for the Principle of Gender Equality.

The AdP Group also invests in internal mobility as a way to provide employees with a better balance between their personal and professional lives. The opportunities available at any moment are disclosed throughout the Group allowing applications from employees, who, as a result of their motivation, wish to take on another function in the same or another company.

The possibility of working in a flexi-time schedule or even working part-time allows employees to better adjust their working hours to the needs of their family life.

### 13.5. Compliance with the Cost Reduction Plan established for 2012

The plan to reduce spending costs in the AdP Group is assessed from the consolidated standpoint. The companies with positive EBITDA presented a reduction in the weight of the sum of the cost of merchandise sold, supplies and external services and personnel expenses, less compensation, on turnover.

The amount recorded in 2012 was 51.7%, representing a reduction of 0.9 percentage points over the previous year.

### 13.6. Reducing the number of permanent staff and managerial positions

In 2012, the number of governing body members decreased by 3.44% compared to 2011. In the same period, the number of managers was reduced by 7.11%. The number of permanent staff, excluding governing and management bodies, reduced 1.31% in 2012 compared to 2011. It should be mentioned that, on 31 December 2012, there were 98 employees in the AdP group with suspended employment contracts due to sickness, unpaid leave or transfer to companies outside the Group.

(Amounts in euros)

Designation	Execution 2010	Execution 2011	Execution <b>2012</b>
<b>Personnel expenses</b>	146,586,559	131,745,428	120,765,161
Governing body expenses (G.B.)	7,670,314	6,564,549	5,024,412
Reductions resulting from legislative changes	407,176	1,314,417	2,046,791
Increases resulting from legislative changes	0	0	0
<b>Non GB manager expenses</b>	16,021,476	13,451,177	11,103,816
Reductions resulting from legislative changes (*)	19,837	1,939,419	3,409,138
Increases resulting from legislative changes	0	0	0
<b>Non GB and non-manager permanent staff expenses</b>	122,062,988	110,789,793	104,226,146
Reductions resulting from legislative changes (*)	17,003	7,308,335	19,034,864
Increases resulting from legislative changes	0	0	0
<b>Terminations/ compensations</b>	831,781	939,908	410,788

(\*) The reductions reported include the respective savings on payroll taxes and insurance, as well as non-payment of bonuses.

(units)

Designation	Execution 2010	Execution 2011	Execution <b>2012</b>
Total N° HR (GB + Managers + Permanent Staff)	6,196	5,634	5,581
N° governing bodies (GB)	349	349	337
N° Managers non GB	230	225	209
N° Permanent Staff non GB and non-Managers (*)	5,617	5,060	5,035

(\*) In 2011 and 2012 this related only to employees without a suspended contract on 31/12 (employees with a suspended contact on this date were 33 in 2011 and 98 in 2012).

Note: Here two employees are reported as GB (company secretaries) listed in the total number of employees reported in the chapter "7. Human capital management".

### 13.7. Compliance with Law No. 64-B/2011 on the Principle of 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 having the responsibility to coordinate and obtain the necessary financing to meet the respective 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 companies.

Permanent treasury cash surpluses were transferred to the Treasury and Public Credit Management Institute (IGTCP), in compliance with instructions received, keeping the temporary surpluses as surety for short-term bank financing, with AdP SGPS having requested Government Authorisation for a partial waiver of compliance with the principle of state treasury unity, as pursuant to the Law.

### 13.8. Evolution of the Average Payments Periods to suppliers and disclosure of payment delays

Average Payment Period (APP)	1 <sup>st</sup> Quarter 2011	2 <sup>nd</sup> Quarter 2011	3 <sup>rd</sup> Quarter 2011	4 <sup>th</sup> Quarter 2011	1 <sup>st</sup> Quarter 2012	2 <sup>nd</sup> Quarter 2012	3 <sup>rd</sup> Quarter 2012	4 <sup>th</sup> Quarter 2012
APP - suppliers (days)	65	59	59	60	61	65	61	63

Type of cost and commitment under the terms of article 2 DL no. 65-A/2011	December 2012 Overdue payments according to the terms of article I DL no. 65-A/2011			
	More than 90 days	More than 120 days	More than 240 days	More than 360 days
Goods and services purchases	3,525.49	1,310.42	1,250	0.00
Capital acquisitions				
<b>Outstanding debt (total)</b>	<b>3,525.49</b>	<b>1,310.42</b>	<b>1,250</b>	<b>0.00</b>

Note: Data on AdP SGPS separate accounts.

The increase in municipal credits and the limitation to the growth of indebtedness that municipal systems face has led to a reduction in terms of the reimbursement period for supplies and cash support, as well as an increase in the payment period of the respective interest to AdP SGPS, which has led to a slight increase in the average payment period to suppliers in the holding company.

### 13.9. Audits by the Court of Auditors

On June 12, 2008, the Court of Auditors approved Report No. 23/2008-2nd Section relating to the audit carried out on the equity management company AdP - Águas de Portugal, SGPS, S.A.

The performance audit, which concerned the financial years 2003 to 2006 and 2007 occasionally, had the overall objectives of evaluating the effectiveness of the organizational structure of AdP SGPS, analysing the state financing of the AdP Group and analysing the evolution of the economic and financial situation of the Group in general and some of its companies in particular.

Of the 15 recommendations made in this audit, 9 were addressed to the Board of Directors of AdP SGPS, with none of these, in accordance with the Court of Auditors, deemed as "not welcome".

Later, in 2012, the Court of Auditors carried out a follow-up audit in order to assess compliance with the recommendations made in Audit Report No. 23/2008.

This audit made the following recommendation to the Board of Directors of AdP SGPS: "Ensure that the payment of financial bonuses to Group employees is based on the development of the economic and financial indicators of the corresponding companies, and provide advance and formal knowledge of the criteria used for such awards to the responsible ministries".

This recommendation received the following reply: "The awarding of performance bonuses to AdP Group employees was suspended in accordance with Law No. 55-A/2010 which envisages that bonuses or other cash benefits of a similar nature are not to be awarded during the 2010-2013 Stability and Growth Programme (PEC) period. This matter will be reconsidered when conditions exist for awarding bonuses, at a time when we will take due account of the recommendations given by the Court of Auditors".

Compliance with Legal Guidelines	Compliance			Quantification	Justification
	Y	N	NA		
<b>Management Goals:</b>					
Cost reduction plan	X			51.7%	As reported in Section 13.5 of this chapter.
Overdue commercial debt			X	Not evaluated	The evaluation of these three goals was put into effect during the 2012 Local Economy Support Programme (PAEL), i.e., that group companies would under this programme receive a portion of the overdue debt.
Average Payment Period - customers			X	Not evaluated	
Average Payment Period - suppliers			X	Not evaluated	
PEC debt	X			3.97%	This indicator was evaluated from a consolidated point of view. The AdP Group's consolidated debt grew 3.97%, compared with the maximum authorised limit of 5%.
ROCE	X			4.4%	A target of 4% was set for the 2012 ROCE.
EBITDA Margin	X			1.3 p.p.	The 2012 objective established was that the EBITDA margin would not fall compared to 2011. The 2012 EBITDA margin (49.2%) was 1.3 percentage points above the 2011 EBITDA margin (47.9%).
Information provision	X			7.9%	In 2012 it was decided that the % of reopening of cycles of information provision should not exceed 10%.
Submission of Budget to the Concession Granter	X			I	In 2012 it was decided that a maximum of 1 budget and tariff project could be submitted after 30 September. Since 30 September 2012 was a non-working day, the evaluation was carried out the next working day. Of the 25 budget and tariff proposals (OPT) that should have been delivered, 24 were sent on the date.
Financial Risk Management	X				As reported in Chapter 5. Economic and Financial Analysis of Section B - AdP Group Operations.
Debt Growth Limits	X			3.97%	This indicator was evaluated from a consolidated point of view. The AdP Group's consolidated debt grew 3.97%, compared with the maximum authorised limit of 5%.
Evolution of APP to suppliers		X			As reported in section 13.8 of this chapter.
Arrears	X				As reported in section 13.8 of this chapter.
Special Reporting Requirements	X				As reported in Chapter 12. Disclosure of Information Section A - Corporate Governance.

Compliance with Legal Guidelines	Compliance			Quantification	Justification
	Y	N	NA		
Shareholder recommendations in approving the accounts			X		No recommendations were made by the shareholder on the date of the approval of the 2011 accounts
<b>Remuneration:</b>					
No awarding of management bonuses, pursuant to Article 29 of Law 64-B/2011	X			Not applicable	
Governing bodies - reduction in remuneration pursuant to Article 20 of Law 64-B/2011	X			41,215 €	SGPS SA
Governing bodies - 5% reduction pursuant to Article 12 of Law No. 12-A/2010	X			21,564 €	SGPS SA
Governing bodies - suspension of Christmas and holiday sub., pursuant to Article 21 of Law 64-B/2011	X			53,396 €	SGPS SA
External Auditor - reduction in remuneration pursuant to Article 26 of Law 64-B/2011	X			19,200 €	SGPS SA
Other employees – reduction in remuneration, pursuant to Article 20 of Law 64-B/2011	X			220,270 €	SGPS SA
Other employees - suspension of Christmas and holiday sub., pursuant to Article 21 of Law 64-B/2011	X			433,024 €	SGPS SA
<b>Article 32 of the Public Manager Statute</b>					
Use of credit cards	X			Not applicable	
Reimbursement of personal representation expenses	X			Not applicable	
<b>Public Procurement</b>					
Public procurement standards	X			Not applicable	
Public procurement standards by subsidiaries	X			Not applicable	
Contracts subject to prior approval by the Court of Auditors			X	Not applicable	
<b>Membership of the National Public Purchasing System</b>			X		As reported in section 13.3 of this chapter.
<b>Vehicle Fleet</b>	X				As reported in section 13.3 of this chapter.
<b>Principle of Gender Equality</b>	X				As reported in section 13.3 of this chapter.
<b>Cost Reduction Plan</b>					
Personnel expenses	X			51.7%	As reported in sections 13.5 and 13.6 of this chapter.
External services and supplies	X				
<b>Reduction in no. of Permanent Staff and Managerial Positions</b>					
Nº of permanent staff	X				As reported in section 13.6 of this chapter.
Nº of managerial positions	X				
<b>Principle of Treasury Unity</b>	X				As reported in section 13.7 of this chapter

## 14. Compliance with the Principles of Good Governance

Corporate governance at AdP SGPS respects the Principles of Good Governance for companies in the State Business Sector as set out in Council of Ministers Resolution (RCM) no. 49/2007 of 28 March.

Principles	Mission, objectives and general principles Compliance	Explanation
<b>State-owned companies should:</b>		
<ul style="list-style-type: none"> <li>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.</li> </ul>	Total	<ul style="list-style-type: none"> <li>AdP complies with the mission and the objectives that have been determined for the company in an economically, financially, socially and environmentally efficient manner. The Group publishes an evaluation of the activities it undertakes in its Annual Report and Financial Statements.</li> </ul>
<ul style="list-style-type: none"> <li>Promote and disseminate the mission, objectives and policies of both the company and the holdings it controls.</li> </ul>	Total	<ul style="list-style-type: none"> <li>AdP disseminates its mission, its objectives and the policies it carries through its Annual Report and Financial Statements, on the company and State Business Sector websites and its Employee Intranet.</li> </ul>
<ul style="list-style-type: none"> <li>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.</li> </ul>	Total	<ul style="list-style-type: none"> <li>AdP annually drafts its activity plan and budget in accordance with the available resources and sources of finance taking into consideration the mission and objectives defined.</li> </ul>
<ul style="list-style-type: none"> <li>Define sustainable economic, social and environmental strategies, establishing the objectives to be attained and the respective instruments for planning, implementation and control.</li> </ul>	Total	<ul style="list-style-type: none"> <li>The AdP Group has defined in an organized manner the strategy and tactics that led to it being a major actor on the sustainability stage. The Group's sustainability strategy is available for consultation in its Sustainability Report and on the company and State Business Sector websites.</li> </ul>
<ul style="list-style-type: none"> <li>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.</li> </ul>	Total	<ul style="list-style-type: none"> <li>One of the AdP Group commitments, and reflecting its sustainable strategy, is to "guarantee equality of opportunity" and detailing its performance in the Group Sustainability Report.</li> </ul>
<ul style="list-style-type: none"> <li>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.</li> </ul>	Total	<ul style="list-style-type: none"> <li>AdP fully complies 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 Annual Report and Financial Statements.</li> </ul>
<ul style="list-style-type: none"> <li>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.</li> </ul>	Total	<ul style="list-style-type: none"> <li>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.</li> </ul>

Principles	Mission, objectives and general principles	
	Compliance	Explanation
• Treat their workers with respect and integrity, contributing to their professional development.	Total	<ul style="list-style-type: none"> <li>The AdP Group is committed to training its employees, developing their skills and providing them with new internal, professional challenges and opportunities. Recently, the Group signed up to the New Opportunities Programme as part of its Professional Improvement plan. In 2008, the company consolidated its Performance Management System, which is aimed at developing a developmental and positive approach. AdP also has Professional Development Regulations which enables employee to expand their portfolios of knowledge and skills through attending advanced training programmes.</li> </ul>
• 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"> <li>AdP respects all current legislation relating to the procurement of goods and services and has implemented good internal practices based on economy, efficiency and equality of opportunity for all interested parties and in compliance with all due requirements.</li> </ul>
• 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"> <li>AdP 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 Annual Report and Financial Statements and on the company and State Business Sector websites.</li> </ul>
• 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"> <li>The AdP Group carries out its business with the greatest integrity, vehemently refuting any less than ethical practices. The AdP Group Code of Conduct and Ethics expresses the company's commitment to ethical and transparent behaviour in its internal and external relations with the aim of strengthening the ethical standards of all those involved and contributing to consolidated sustainable development. In addition, a Risk Management Plan for Controlling Corruption and Related Risks has been put into effect to strengthen the individual commitment of each employee to best practices in third party relationships. There is no confidential or non-documented expenditure at the AdP Group.</li> </ul>
• 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"> <li>The Code of Conduct and Ethics of the AdP Group is available on the company and State Business Sector websites and the Employee Portal.</li> </ul>

Principles	Administrative and supervisory structures	
	Compliance	Explanation
<b>State-owned companies should:</b>		
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	Total	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<ul style="list-style-type: none"> <li>• 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. 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.</li> </ul>	Total	<ul style="list-style-type: none"> <li>• The AdP Corporate Governance Structure, which ensures the effective segregation of management and supervisory functions, is made up of, in accordance with Company Statutes, the following governing bodies: the General Meeting; the Board of Directors; the Audit Committee; the Statutory Auditor.</li> <li>• 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.</li> </ul>
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	Total	<ul style="list-style-type: none"> <li>• The annual audit of the AdP accounts 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, given that, in accordance with the stipulations of Council of Ministers Resolution no. 49/2007, the selection and contracting of an external auditor is the responsibility of the non-executive members of the Board of Directors, thus ensuring independence requirements are met.</li> </ul>
<ul style="list-style-type: none"> <li>• Promote rotation and limiting terms of members of their supervisory boards.</li> </ul>	Total	<ul style="list-style-type: none"> <li>• Members of AdP governing bodies 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.</li> </ul>
<ul style="list-style-type: none"> <li>• Management should create and maintain an appropriate control system to protect the company's investments and assets.</li> </ul>	Total	<ul style="list-style-type: none"> <li>• 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 its implementation.</li> </ul>

Principles	Remuneration and other rights		Explanation
	Compliance	Total	
<b>State-owned companies should:</b>			
• 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	• Total remuneration, variable and fixed, paid to each member of the governing and supervisory bodies, is published annually in the Annual Report and Financial Statements available on the AdP and State Business Sector websites.
• Annually publish all subsidies and fringe benefits, specifically in regard to healthcare plans, vehicles and other benefits granted by the company.		Total	• All the benefits and bonuses received by each member of AdP's governing bodies are published in the Annual Report and Financial Statements and on the AdP and State Business Sector websites.

Principles	Prevention of conflicts of interest		Explanation
	Compliance	Total	
<b>Members of the governing bodies of state-owned companies should:</b>			
• Refrain from intervening in decisions involving their own interests, namely the approval of expenditures they have made.		Total	• Members of the AdP Board of Directors 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.
• 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	• 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 Public Manager Statute, notify the General Inspectorate of Finance of all their shareholdings and ownership interests, whether direct or indirect, in companies where they hold management positions.

## I5. Report of the non-executive Director

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

#### I. Introduction

Under the terms of line m) of article 13-A of Decree Law N° 558/99 of 17 December, as transposed in Decree Law N° 300/2007 of 23 August, it falls to me as the non-executive Director, to present a report on the performance of the executive Directors in 2012.

#### 2. Activity

In accordance with the law and the competences stipulated under the Public Manager Statute, in addition to the others attributed by decision of the Board of Directors, I monitored the management of the company and the performance of its executive Directors and its Executive Board.

I carried out my duties independently and my opinion in relation to the executive Directors is wholly independent and impartial.

#### 3. Opinion

In the light of the above, I have formed a positive opinion of the overall performance of the executive Directors and note their concern to seek out opinions and value judgements on acts of management, on many occasions adopting my ideas and suggestions on important aspects designed to ensure greater rigour in the management of the company.

Lisboa, 26 March 2013

The non-executive Director

A handwritten signature in blue ink, appearing to read "Joaquim António Pais e Jorge".

Joaquim António Pais e Jorge

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# AdP Group Operations





# AdP Group Operations

## I. Macroeconomic framework

### Global

As in 2011, in 2012 the world economy showed moderate levels of growth (3.2% in 2012; 3.9% in 2011). The sovereign debt crises in recent years in most advanced economies, which led to the stagnation of economic growth, and which all began in the distant year of 2007 in the United States of America with the subprime financial crisis, are important factors that have greatly influenced this *status quo*, recovery from which has been slow. Once again if it were not for the growth of emerging economies (China, India, Brazil, Russia, Mexico, Indonesia, Malaysia, the Philippines, African countries, etc.), then the global economic slowdown would have been more pronounced. What was surprising was the economic performance of the United States, with a growth rate higher than expected (2.3%), driven largely by a favourable environment in the financial markets and a housing market recovery. A slight economic recovery is expected in 2013, although the risks of the Eurozone and Japan's recession may undo this forecast.

### European Union

The European Union economy in 2012 registered a significant recession and Gross Domestic Product (GDP) contraction of around 0.5%. The decline in domestic demand, the fall in investment, the decline in industrial production and rising unemployment are indicators that underpin the serious economic crisis in Europe, with particular incidence in the Eurozone. On the other hand, market distrust in the ability of European governments and the European Central Bank to definitively resolve the sovereign debt crisis has also not helped to reverse this negative cycle. Although initially this crisis primarily affected peripheral countries, during 2012 the crisis also hit Spain and Italy, economies carrying significant weight in the Eurozone. This instability put additional pressure on European institutions to adopt measures to protect the integrity of the euro as a single currency.

Thus, the European Central Bank took measures considered crucial in recovering a degree of confidence in the Eurozone. In early 2012 it carried out a second round of providing liquidity to the banks, which, together with the first round in December 2011, amounted to one billion euros. Later it presented a programme purchasing government bonds on the secondary market with no upper limit. These measures are considered powerful tools, together with some steps by national governments towards consolidating their commitment and political coordination regarding the stabilization and strengthening of monetary union, and had a positive effect in late 2012 on the reduction of systemic risks in the Eurozone and the recovery of some market confidence, which contributed significantly to the sharp reduction in the public debt interest rates in the countries where intervention had occurred.

### Portugal

In 2012 there was a continuation of the adjustment measures resulting from the application of Economic and Financial Assistance from the European Union and the International Monetary Fund. The performance of the Portuguese economy in 2012 continued to be strongly influenced by the structural adjustment process regarding macroeconomic imbalances, and particularly the immediate impact of fiscal consolidation measures, as well as tight financing conditions, as part of the process of the gradual and orderly deleveraging of the banking sector and the persistence of tensions associated with the sovereign debt crisis in the euro area. In 2012 GDP fell by about 3% to confirm a recessionist scenario that has not been seen in the Portuguese economy since 1975. This reflects a significant and widespread drop in domestic demand, mitigated by the substantial growth in exports throughout the year. In 2012, private consumption is expected to record a contraction of 5.5%, while investment is expected to fall by about 14%, reflecting generalised reductions, with particular emphasis on public and residential investment. Public consumption will have reduced by approximately 4.5% for the second consecutive year. The contraction in global demand, despite a significant increase in exports, contributed to a fall in imports of about 7.0%, reflecting the significant reduction of demand components with high import content - the consumption of durable goods and business investment.

Changes in the composition of aggregate expenditure have been positive, resulting in a rapid adjustment of the external financing needs of the Portuguese economy. The current account and capital balance went from a deficit of 9.4% of GDP in 2010 to a position close to equilibrium in 2012. The current outlook points to continued improvement in the balance of goods and services, with forecast surpluses of 3.1% and 4.1% of GDP in 2013 and 2014, respectively.

The national public accounts deficit is expected to reach a value close to 5% of GDP in 2012, despite the significant shift in revenue compared to budgeted amounts (about 880 million euros in the case of Central Government and Social Security). This will have contributed to a more pronounced decline in spending than initially expected (of around 1622 million euros), partly as a result of additional savings associated with expenses for salaries, purchase of goods and services, capital expenditure and net interest expense. At the level of extraordinary measures, but on the revenue side, the 2012 budgetary implementation benefited mainly from non-recurring revenue associated with the granting of the public services airport management concession to the company ANA (€800 million received in 2012, or close to 0.5% of GDP).

The unemployment rate in Portugal is expected to be 15.6% in 2012, higher than the 10.7% average for all 27 European Union countries. The rate in Portugal is the third highest in Europe, behind Greece and Spain, where unemployment is already more than 26% of the active population.

The great challenge that Portugal is faced with is promoting economic growth and development within a new institutional framework. The coherent implementation of reforms and redefining the role of the State are fundamental to stimulating investment, innovation and technical progress, without which there will be no economic development. The challenge of economic development requires the involvement of stakeholders to achieve the needed reform benefits to ensure levels of well-being compatible with the maintenance of social cohesion.

Source: AdP Group; IMF World Economic Outlook; ES Research; Economic Bulletin of the Bank of Portugal; Eurostat.

## 2. Sectorial environment

In 2012 the AdP Group provided the public services of water supply, wastewater sanitation and urban solid waste treatment and recovery, in a context of increased restrictions imposed on the State Business Sector under the Economic and Financial Adjustment Programme, both in terms of the evolution of costs and in terms of debt growth.

In the context of resource constraints, the Group continued its efforts to adapt its various internal processes so as not to compromise its respect for the principles of universal access, quality of service and efficiency, and pricing equity in the provision of services of a general economic interest, essential to the well-being of the population, public health, the development of economic activities and protection of the environment.

At the same time, during 2012 it began the process of implementing the measures outlined by the Government for the water and waste sector that have of course decisively influenced the AdP Group as the main actor in the sector.

The Government Programme imposed three restructuring guidelines:

- reorganize the water supply and wastewater sanitation sector, with priority given to its economic and financial sustainability;
- identify and resolve the tariff deficit, revise the tariff system, be open to the participation of state or municipal public entities (as well as private entities in the management system), promote efficiency, vertical integration and the grouping of demanding existing systems, the suitable maintenance of networks and old equipment and avoid the construction of unnecessary capacity;
- make the waste subsector within the Águas de Portugal Group autonomous and implement the necessary measures to open it up to the private sector.

In this context, the Government ordered the AdP Group to carry out studies to determine the appropriate territorial aggregation for the water sector in order to promote the economic and financial sustainability of multi-municipal systems by achieving economies of scale generated by larger systems and reducing inequalities between different regions of the country, to promote tariff convergence. The gradual creation of a vertical integration structure downstream was identified as a way to achieve the maximization of operational synergies as well as to convey to the population the aforementioned tariff balance for upstream systems.

Studies on the aggregation of multi-municipal systems, as well as the vertical integration of multi-municipal systems through partnerships pursuant to Decree-Law No. 90/2009, have been presented to the relevant municipalities, and all stakeholders have been involved in this restructuring process. Through these processes, the studies needed for the vertical integration of upstream and downstream systems are being carried out to provide solutions that will lead to improved levels of service provided to the population as well as the goal of tariff accessibility and the resolution of the tariff deficits, in a context of respecting the principle, which is widely envisaged in current legislation, of the full recovery of costs incurred in providing this service with a general economic interest.

The restructuring of the sector will be accompanied by a review of various legislative acts which are key to the aforementioned national goals of universal service in respect of economic and financial sustainability. Of note among the legal measures to be adopted are:

- the reform of the basic laws of the supply and wastewater sanitation sectors;
- the adoption of measures to reduce the impact of non-compliance on the part of municipal clients, in addition to the measures already adopted in the 2013 State Budget (Law 66-B/2012, of 31 December), to ensure continuity of service;
- the adoption of measures to provide for tariff recognition and reintegration of tariff deficit amounts, as well as specific measures to promote economic efficiency in service delivery;
- the strengthening of the powers of the sectorial regulator, with the new proposed organic law for ERSAR having been submitted to Parliament. This measure forms part of the proposed government programme that aims to transform entities with regulatory functions dependent on the Government, and where the importance of the regulated markets so justifies, into Independent Administrative Authorities, with the others being reintegrated into traditional management.

The development of these materials meets the recommendations of the Resolution of the Portuguese Parliament No. 113/2012, of 10 August, which recommended that the Government promote accessibility, sustainability and quality of services of water supply and wastewater sanitation, highlighting the aggregation of upstream systems, their vertical integration with downstream systems and tariff harmonization and balance with full recovery of the costs incurred in providing these services and resolution of the tariff deficit.

With regard to making the waste business unit within the AdP Group autonomous, work is more advanced, with the diagnostic study of the bases of the new regulatory model already having been carried out which, by order of the Minister for Agriculture, the Sea, Environment and Spatial Planning, will be subject to development by the Regulator. The process to review the statutes that structure the sector has also started, in order to create the necessary bases to open this to private enterprise, creating the necessary conditions so that public interest is assured and that the aforementioned involvement of private enterprise ensures increased economic efficiency in service provision, with gains for the user; and the attraction of capital to enable the development of national and European environmental objectives.

Simultaneously revisions of the PEAASAR II (2007-2013) and PERSU II (2007-2016) strategic plans are also underway, which will define the goals and objectives of the State for each of these sectors. These two plans will determine investment plans to be undertaken in the coming years.

### **3. Regulation**

The AdP Group is principally engaged in the provision of general economic services that are vital to the public well-being, the development of business activities and the protection of the environment. These activities are developed with a view to continuous improvements in the provision of public water supply, wastewater sanitation and waste treatment and recovery services as well as increasing efficiency gains in terms of both production and environmental protection, benefiting users and consumers through the tariffs practised, which are also subject to strict restrictions determined by the State-owned Business Sector.

The activities of the AdP Group economically regulated by the Water and Waste Services Regulator (ERSAR) are the services it provides on a concession basis in the form of upstream multi-municipal water supply and waste treatment and recovery systems. The activities carried out are defined by legislation (Decree-Laws No. 379/93, of 5 November; No. 294/94, of 16 November; No. 319/94, of 24 December; and 162/96, of 4 September; as transposed by Decree-Law No. 195/2009, of 20 August) and regulations in force, the provisions of the public service concession contracts with the State and their respective annexes, as well as the provisions and recommendations issued by ERSAR.

In accordance with the provisions of Decree-Law 230/91, of 21 June, the price regime applicable to the sale of water by EPAL, as well as the respective application principles are fixed by agreement between the State, represented by the Directorate General of Economic Activities (DGAE) and EPAL, subject to joint ratification by the Ministries of Agriculture, the Sea, Environment and Spatial Planning and that of the Economy and Employment.

The regulation of State-Municipality partnerships is carried out in accordance with applicable legislation, particularly Decree-Laws No. 90/2009, of 9 April, and No. 194/2009 of 20 August, the provisions in the partnership and management contracts entered into, as well as the provisions and recommendations applicable to systems under State responsibility issued by ERSAR.

In 2009, the publication of Decree-Law No. 277/2009, of 2 October, strengthened ERSAR's powers and broadened its scope to cover services provided to end-users (downstream services). The new ERSAR statute created the conditions to reduce resulting distortions in tariffs to end users that are not optimized since they have not been scrutinized by the Regulator.

In this context, ERSAR issued a 2009 recommendation on the configuration of tariffs for the public water supply for human consumption, urban wastewater sanitation and urban waste management (IRAR Recommendation No. 1/2009 - Tariff Recommendation), which was supplemented in 2010 with a recommendation seeking to establish guidelines for ascertaining costs and setting tariffs.

One aspect of sector restructuring, widely supported and promoted by the current Government, involves strengthening the powers of ERSAR and increasing its independence, which was identified as a critical reformulation of the respective organic law, the proposed bill of which was received by Parliament in January 2013. In 2012 the Government considered the foundations for a new regulatory model for the waste sector, which foresees the possibility of majority shareholding by private economic agents.

In November 2012, by order of the Minister of Agriculture, the Sea, Environment and Spatial Planning, ERSAR was mandated by the Government to use its diagnostic study to provide more details of the new regulatory framework for the sector, particularly for the waste sector in the context of the future strengthening of the shareholding by the private sector, and for ERSAR to develop a costing model and tariff regulation.

#### **Economic regulation subject to ERSAR**

In accordance with the stipulations of the concession contracts, the annual regulatory cycle begins on 30 September with the presentation of budget and tariff plan proposals for the following year/years to the Concession Granter and the Regulator. The publication of Decree-Law 195/2009, of 20 August, standardised the period for assessing proposals for all multi-municipal systems to a maximum of 60 days.

The proposed budget and tariff for 2012 were submitted under Ministerial Order 1275/2003, of 7 November, since Ministerial Order 269/2011, of 19 September, was not implemented in time to enable the submission of budget and tariff proposals within the contractual period. This year three budget processes and a multiannual tariff project for 2012-2014 were presented.

The year 2012 saw the last budget and multi-annual tariff for Águas do Douro e Paiva, S.A., with the tariff trajectory having been approved in February 2010.

For 2013 the proposals were introduced for the first time pursuant to Ministerial Order 269/2011, of 19 September.

The 2012 budget cycle, which began in September 2011, was extended until the end of March 2012, when the last tariff was approved. On average, the budget cycle of a multi-municipal system water lasted about 94 days (minimum 81 and maximum of 110 days) and the multi-municipal waste system about 88 days (minimum of 72 and maximum of 187 days).

Decree-Law 195/2009, of 20 August, determines that the tariffs applied to the users take effect from the beginning of the financial year to which they relate, regardless of their date of approval, which enables a more adequate recovery of service provision charges, against a backdrop of increased pressure on available financial resources.

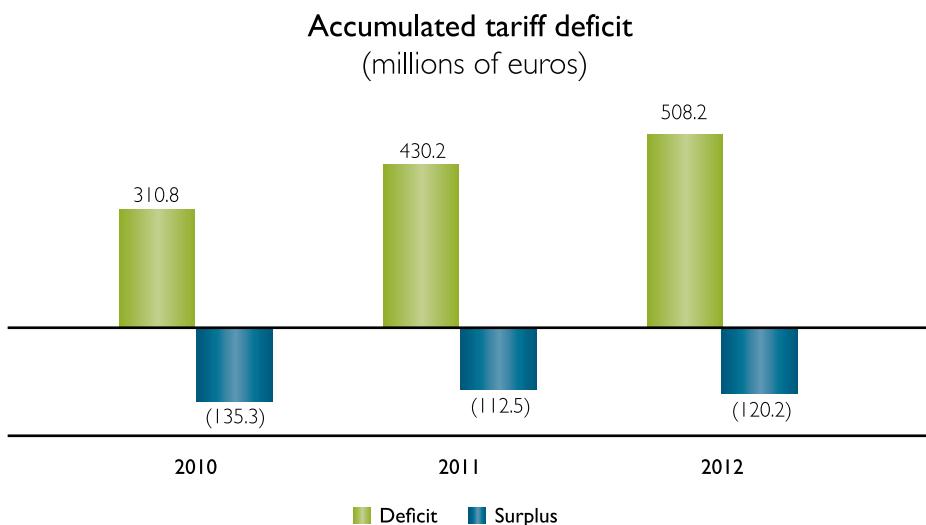
In September 2012, the budget cycle for 2013 began without any budget or tariff proposal having been approved by 31 December 2012. The adversarial proceeding involving the Regulator stating its opinion on the proposed budget and tariffs project presented in September 2012 was completed by mid-January 2013.

According to the regulatory model in effect (cost of service) and under the terms of the concession contracts, differences in the level of gains necessary to cover the total of charges incurred by the management company, including the taxes levied on company earnings and remuneration on company equity, may be offset against the level of earnings actually generated in each financial year. These differences are called tariff imbalances or cost recovery imbalances.

These imbalances may show either a deficit, when the earnings generated are below those necessary, or a surplus when earnings are in excess of those necessary, excepting amounts related to the gains in productivity and efficiency stipulated in concession contracts.

The Group's consolidated financial statements for 2012 show tariff deficits totalling €388.0 million (gross of tax and excluding minority interests), €508.2 million relating to deficits and €120.2 million relating to tariff surpluses.

The following chart sets out the trends in these tariff adjustments (gross of taxation and excluding minority interests) in the AdP Group consolidated accounts from 2010 to 2012.



In 2010 the Regulator submitted a legislative proposal for the recognition and retrieval of tariff deficits and surpluses and the recovery of costs for each multi-municipal system, as well as procedures for the distribution of contractual productivity gains, since these were not sufficiently detailed in the concession contracts and applicable law.

Ensuring the sustainability of the management companies and of the sector, in strict compliance with the law and contracts, requires that no further delays be experienced in recognising and applying the regulatory models for recovering the costs laid down in the concession contracts, specifically in determining the amount of tariff adjustments, as well as recovering costs from concession holders, the rules for restitution of which also need urgent clarification.

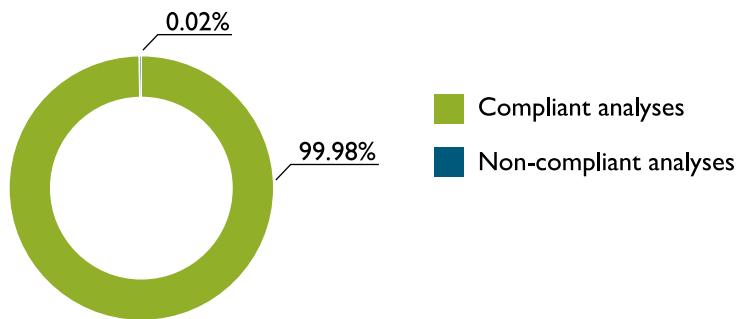
## Regulation on quality of service

ERSAR activity also covers the monitoring and evaluation of service quality, through a set of indicators, and performing a benchmarking exercise between the various management companies in the water and waste sectors, annually publishing the results in the report that it draws up on the sector. Since 2004, when ERSAR started evaluating service quality, as published in the Annual Report of the Water and Waste Sector in Portugal, the Group companies have been positively evaluated in terms of their quality of service and have shown favourable developments.

## Quality of water for human consumption

ERSAR is the authority responsible for the quality of water for human consumption, and it is required to approve and monitor plans for the quality of water for human consumption.

### Quality of water supplied 2012 (UNA-PD, EPAL and AdRA)



## 4. Economic and financial analysis

### Net profit

The AdP Group recorded a net profit of approximately €93.8 million, representing an increase of €4.2 million compared to 2011 financial year.

The improvement in net profit was mainly due to improved operating income of about €8.2 million, less tariff adjustments, and a financial result of €14.3 million.

The improvement in operating income stems from the improvement in turnover, less tariff adjustments, and the reduction of operating costs.

Two effects contributed to reducing the contribution of tariff adjustments to net income: firstly, a lower allocation of productivity gains on the consolidated results in 2012 over the previous year and, secondly, the establishment of a ceiling on shareholder remuneration between 2012 and the end of the Economic and Financial Adjustment Programme (EFAP)<sup>1</sup>.

<sup>1</sup> See note 5.3 and note 35 of the consolidated financial statements.

The financial results improved mainly due to the reduction in the financial costs associated with EIB loans (€3.0 million), a decrease in financial losses associated with the fair value of derivative financial instruments (€11.1 million) – with part of this evolution due to two instruments considered cash flow derivative instruments and, therefore, the respective change in fair value is accounted for directly in equity as of 1 January 2012 (€6.5 million) - and the reduction in other financial expenses (€6.7 million). In the opposite direction there was a lowering of financial expenses associated with loans from commercial banking (€10.3 million) and lower capitalized costs through lower yearly investment (€2.9 million).

## Turnover

Turnover amounted to €791.4 million, a decrease of 5% compared to 2011. This reduction is mainly related to the reduction of tariff adjustments, which was 42% lower than the previous year. This reduction results from the lower allocation of productivity gains in the consolidated results of 2012 as well as the reduction of the main indexation for contractual shareholder remuneration used in water supply and wastewater sanitation companies, from 10.24% to 7.46%.

Deducting the effect of tariff adjustments, turnover increased by €4.2 million compared to 2011.

The evolution of turnover was as follows:



## EBITDA

Operational cash flow (EBITDA) amounted to €357.2 million, up €11.6 million on 2011, representing a growth of 3.4%.

	2009	2010	2011	2012
Turnover	657.9	724.5	834.2	791.4
Tariff deficit	32.5	37.3	112.3	65.2
Operating income <sup>1</sup>	122.7	176.6	287.6	248.7
EBITDA <sup>2</sup>	251.5	277.1	345.6	357.2
Financial result	(18.9)	(50.5)	(90.6)	(76.2)
Net income for the year	65.3	79.5	89.6	93.8

<sup>1</sup> Results before interest and taxes

<sup>2</sup> OI + Amortisations + Provisions + Depreciation and reverse adjustments - Tariff deficits - Investment grants

This improvement in EBITDA primarily stemmed from the increase in turnover (€4.2 million), the reduction in personnel costs, primarily as a result of the elimination of holiday and Christmas subsidies in 2012 (€11.0 million). On the other hand there was an increase in external supplies and services (€6.1 million, mainly due to higher energy costs).

## Financial result

The group registered a negative financial result of approximately €76.3 million, with an improvement of €14.3 million compared to 2011 assisted by the reduction in financial expenses and increased financial income.

Worthy of mention in 2012 was the increase in financial charges related to short-term debt as a result of the reduction of the normal indexing value for short-term operations (three-month Euribor rate, with an average for the year of 0.57%, compared to 1.38% in the previous year), which would have been more than offset by the increase in average bank spreads and commissions charged to the Group, especially during the second half of 2012.

In contrast, the financial charges for medium and long term debt with the EIB were reduced as a result of the decrease in the average interest rate (resulting from the variable interest rate component). It should be noted that the average interest rate for this type of financing is lower than short term values, attaining an average value of 2.8% in 2012.

The financial results improved mainly due to a decrease in financial losses associated with the fair value of derivative financial instruments (€ 11.1 million), with part of this evolution due to two instruments considered cash flow derivative instruments and, therefore, the respective change in fair value being accounted for directly in equity as of 1 January 2012 (€6.5 million).

The interest rates supported represented at a cost of approximately 3.7% of total Group debt.

In keeping with the prudential financial management policy adopted by the AdP Group, about two thirds of its medium- and long-term debt is at fixed rates. The average spread on long-term debt is below 50 base points, whether it is applied to the variable reference rate or to the fixed rate at the moment the loan was contracted.

The financial structure for investment set up in recent years led to a reduction in the volatility of financial costs, due both to the weight of long-term debt in total Group debt and the high proportion of fixed-rate debt. In this sense the fixed rate component of total bank debt reflects the maintenance of a conservative financing structure.

With regard to financial income, there was a significant increase in interest for late payment regarding the debts of municipalities, through the lowering of the average payment times of services provided to these customers.

## Investment

The Group's investment totalled €229.0 million, which represents a reduction of 53% in investment volume compared to the previous year. This investment was concentrated mainly on the operational business units Water - Distribution and Collection (€163.1 million), Waste (€46.0 million) and EPAL (€13.1 million), which together were responsible for 97% of the year's investment.

Given the limitations imposed on the State-owned Business Sector regarding the evolution of the level of debt and considering the increase in the average collection period of municipal debt, the AdP Group started a program of investment containment in 2011, which involves the rationalization and rescheduling of contractual investments.

## Working capital

In 2012 there was an increased need for working capital of just 1%, after the significant increase in 2011 of 82% compared to 2010, due primarily to an increase in customer debt. This containment of the increased financing needs in 2012 is a result of prudential financial management which, despite the reduction in short-term bank ceilings, has been achieved through company cash management.

	2012 <sup>1</sup>	2011 <sup>1</sup>	2010 <sup>1</sup>	Δ 12/11	Δ 11/10
<b>Current Assets</b>					
Inventories	7,577	7,715	8,101	(2%)	(5%)
Customers	474,811	408,814	296,434	16%	38%
State	9,962	14,205	12,385	(30%)	15%
Other current assets	175,352	235,737	227,815	(26%)	3%
	<b>667,702</b>	<b>666,471</b>	<b>544,735</b>	<b>0%</b>	<b>22%</b>
<b>Current Liabilities</b>					
Suppliers	108,866	125,189	158,785	(13%)	(21%)
Other current liabilities	161,035	137,660	119,158	17%	16%
Tax on income	11,622	20,850	43,219	(44%)	(52%)
State	28,579	29,200	29,045	(2%)	1%
	<b>310,102</b>	<b>312,899</b>	<b>350,207</b>	<b>(1%)</b>	<b>(11%)</b>
<b>Total</b>	<b>357,600</b>	<b>353,572</b>	<b>194,528</b>	<b>1%</b>	<b>82%</b>

<sup>1</sup> Unit: thousand euros.

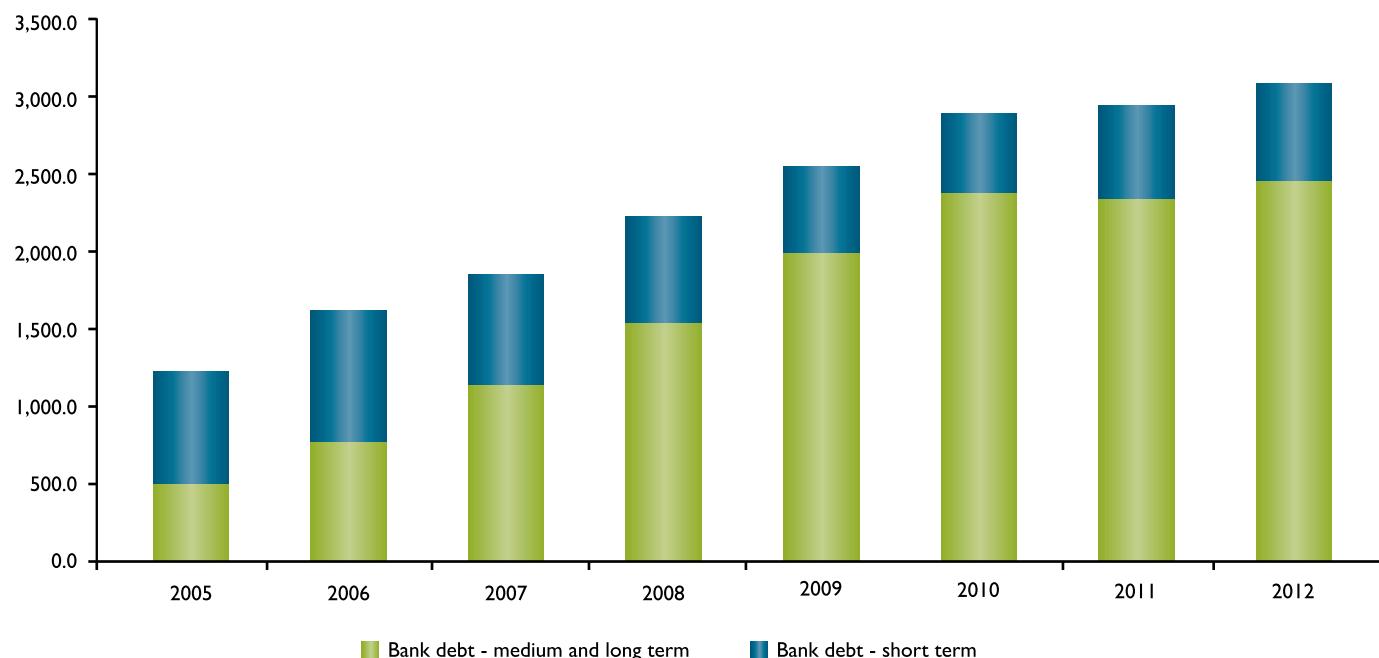
In 2012 a slight increase in the working capital requirements of the Group occurred due to the reduction in current liabilities, with the increase from customers offset by the reduction in other current assets.

## Financial structure

The investments made which are defined in the multi-municipal system concession contracts, resulting from the objectives set out in the strategic plans for the water and waste sectors, has led to a slight increase in bank debt, amounting to 40.7% of AdP Group assets.

Total AdP Group debt was €3,096 million in 2012, an increase of 3.97% compared with the value of €2,977.9 million registered in 2011. This evolution reflects compliance with the evolution in bank debt that State-owned Business Sector companies are bound by (the limit stood at 5%).

Worthy of mention is the weight of the long-term financing component, which has reached 80% of the Group's debt.



Medium and long term debt (€2,476.1 million) is based mainly on loans contracted with the European Investment Bank (EIB) and loans obtained through issuing bonds and private placements. It should be noted that the increased needs caused by customer debts didn't allow a decrease in short-term bank debt, registering, instead, an increase of 1.2% compared to 2011.

## Financial risk

AdP Group activities are exposed to a diverse range of financial risk, in particular, market risk, credit risk, counterparty risk and liquidity risk.

The Group's financial risk management policy seeks to minimise potential adverse effects resulting from financial market unpredictability and is implemented centrally by the Group's holding company.

The Group's interest-rate risk management policy focuses on reducing the exposure of debt cash-flows to market fluctuations through the use of structured financial instruments, seeking to obtain a corresponding reduction in financial costs.

Adopting a conservative position and taking into account the types of long term assets in which the Group invests, the Group has opted in favour of long-term financing, particularly in regard to the European Investment Bank (EIB). Additionally, as part of the process of obtaining external financing begun by AdP SGPS in 2004, a private debt placement was made in 2005 followed by three private bond issues in 2007.

Most of AdP's long-term credit lines were negotiated prior to 2008 on terms that were favourable at the time and which now represent a significant advantage for the Group in terms of debt servicing.

As regards interest rate structure and taking into account the profile of investment reintegration, priority has been given to taking out loans at a fixed interest rate (directly or through the use of derivative financial instruments). This strategy enabled about two-thirds of long-term debt to be contracted under a fixed rate and therefore immune to future fluctuations in interest rates.

## Principles of treasury management

AdP SGPS, within the scope of its founding social objective, functions as a flexible and efficient instrument enabling the centralised and specialist management of the subsidiary holdings that make up its shareholdings portfolio. Correspondingly, in addition to the strategic guidelines provided to their management directors, the provision of technical administrative and management services also constitutes a crucial element in the financial operations of the subsidiaries owned by the holding company (total shareholdings).

The AdP Group is made up of a group of subsidiary companies operating in the environment sector and in different phases of maturity, with AdP SGPS having the responsibility to coordinate and obtain the necessary financing to meet the respective needs of these companies, bearing always in mind the objective of maintaining balance in the financing structure within a consolidated perspective. In this regard it:

- monitored its companies and their relationships with the Cohesion Fund to facilitate access to European Union support programmes;
- engaged in negotiations with the EIB as early as 1997 with the objective of financing first-stage projects, achieving a €167 million credit line;
- in 2000, new negotiations began with the EIB for second-stage investments, resulting in three credit lines (contracted between 2005 and 2009) totalling €1,472 billion;
- assisted in negotiating with the EIB a credit line for the solid waste sector totalling €145 million, designed to partially finance the final stage of investments;
- given that EIB credit lines and Cohesion Fund support was not sufficient to finance all the project portfolio, AdP SGPS began a process of accessing financial markets in 2003, placing a 10-year private debt in Japan in 2005 followed by three further private bond issues in 2007, at maturities of 15 and 20 years, raising a total of €600 million;

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- began contacts with external entities for the placement of long-term debt with the objective of preparing the market for future placements of this type to finance the Group's requirements.

All funding resulting from these long-term operations goes towards financing the investments and working capital of multi-municipal systems during their first years of operation.

The emphasis placed on water supply and wastewater sanitation systems reflects the scale of the investments involved and the need to proceed with them as rapidly as possible.

The centralisation of a significant proportion of funds in AdP SGPS has enabled the cohesive and coherent management of Group financial needs, preventing treasury shortfalls and other insolvency related problems, despite serious problems with internal systems. Complementing this medium- and long-term framework, AdP SGPS has also centralised its negotiations with the banking system for obtaining short-term loans, thereby reducing the capacity for banks to individually penalise a Group subsidiary, whether in terms of costs or credit.

The fact that AdP SGPS manages the negotiation of credit lines centrally and periodically verifies the existence of temporary surpluses has enabled the Group to maintain a satisfactory level of financial health with a low level of impact on its operations.

In accordance with Government instructions, permanent Group surpluses were transferred to the Treasury and Public Debt Management Institute (IGCP) and temporary surpluses withheld as surety for short-term credit lines obtained from the financial system, to serve as a surety for continuing support from the banks, having obtained authorisation to do so, and pursuant to the law, from the ministries responsible for the partial dispensation of the obligation regarding these temporary surpluses.

## 5. Shareholdings portfolio

Business Unit	Company	Shareholding	Head Office	Activity
"Parent Company"	AdP - Águas de Portugal, SGPS, S.A.	-	Lisboa	Holding
EPAL	EPAL, S.A.	100.00%	Lisboa	Upstream water and downstream water distribution
UNA-PD	Águas do Noroeste, S.A.	56.66%	Barcelos	Upstream water and wastewater sanitation
UNA-PD	Águas de Trás-os-Montes e Alto Douro, S.A.	70.08%	Vila Real	Upstream water and wastewater sanitation
UNA-PD	Águas do Douro e Paiva, S.A.	51.00%	Porto	Upstream water
UNA-PD	Simdouro, S.A.	51.00%	V.N. Gaia	Upstream wastewater sanitation
UNA-PD	Simria, S.A.	67.72%	Aveiro	Upstream wastewater sanitation
UNA-PD	AdRA - Águas da Região de Aveiro, S.A.	51.00%	Aveiro	Downstream water and wastewater sanitation
UNA-PD	Águas do Mondego, S.A.	51.00%	Coimbra	Upstream water and wastewater sanitation
UNA-PD	Águas do Zêzere e Côa, S.A.	87.46%	Guarda	Upstream water and wastewater sanitation
UNA-PD	Águas do Centro, S.A.	70.00%	Castelo Branco	Upstream water and wastewater sanitation
UNA-PD	Simlis, S.A.	70.16%	Leiria	Upstream wastewater sanitation
UNA-PD	Águas do Oeste, S.A.	51.00%	Óbidos	Upstream water and wastewater sanitation
UNA-PD	Sanest, S.A.	51.00%	Cascais	Upstream wastewater sanitation
UNA-PD	Simtejo, S.A.	50.50%	Lisboa	Upstream wastewater sanitation
UNA-PD	Simarsul, S.A.	51.00%	Setúbal	Upstream wastewater sanitation
UNA-PD	Águas do Norte Alentejano, S.A.	51.00%	Portalegre	Upstream water and wastewater sanitation
UNA-PD	Águas do Centro Alentejo, S.A.	51.00%	Évora	Upstream water and wastewater sanitation
UNA-PD	Águas de Santo André, S.A.	100.00%	V.N. Sto André	Water; wastewater sanitation and waste
UNA-PD	AgdA - Águas Públicas do Alentejo, S.A.	51.00%	Beja	Upstream water and wastewater sanitation
UNA-PD	Águas do Algarve, S.A.	54.44%	Faro	Upstream water and wastewater sanitation
UNR	Empresa Geral de Fomento, S.A.	100.00%	Lisboa	Sub-holding
UNR	Valorminho, S.A.	51.00%	Valença	Municipal solid waste treatment and recovery
UNR	Resulima, S.A.	51.00%	Vila Nova de Anha	Municipal solid waste treatment and recovery
UNR	Resinorte, S.A.	51.00%	Celorico de Basto	Municipal solid waste treatment and recovery
UNR	Resiestrela, S.A.	62.95%	Fundão	Municipal solid waste treatment and recovery
UNR	Suldouro, S.A.	60.00%	Sermonde	Municipal solid waste treatment and recovery
UNR	Ersuc, S.A.	51.46%	Coimbra	Municipal solid waste treatment and recovery
UNR	Valorlis, S.A.	51.00%	Leiria	Municipal solid waste treatment and recovery
UNR	Valnor, S.A.	53.33%	Alter-do-Chão	Municipal solid waste treatment and recovery
UNR	Valorsul, S.A.	56.17%	S. João da Talha	Municipal solid waste treatment and recovery
UNR	Amarsul, S.A.	51.00%	Moita	Municipal solid waste treatment and recovery
UNR	Algar, S.A.	56.00%	Faro	Municipal solid waste treatment and recovery
International	AdP Internacional, S.A.	100.00%	Lisboa	Sub-holding
International	Aquatec, Lda.	100.00%	Maputo - Mozambique	Provision of technical services
International	Águas do Brasil, S.A.	100.00%	Cabo Frio - Brazil	Sub-holding for Brazil - undergoing closure
International	AdP Timor-leste, Lda.	100.00%	Timor-leste	Provision of technical services
Services	AdP Serviços, S.A.	100.00%	Lisboa	Instrumental - shared services
Services	Aquasis, S.A.	55.00%	Lisboa	Development/ implementation of Geographic Information Systems for Basic Sanitation
Others	AdP Energias, S.A.	100.00%	Lisboa	Environment management activities
Others	AdP Imobiliária, S.A.	100.00%	Lisboa	Company with activity suspended
Others	Clube de Golf das Amoreiras	100.00%	Lisboa	Due for closure
Others	Trevo Oeste, S.A.	43.24%	Alcobaça	Handling and recovery of livestock effluent
Others	Miese	40.00%	Vila Real	In the process of being sold

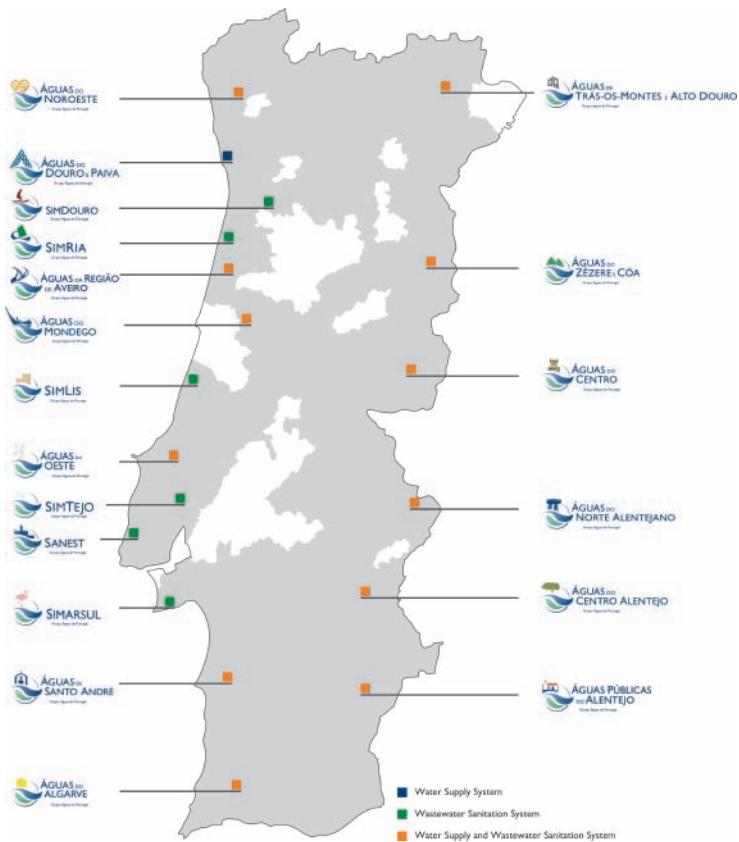
## 6. Business units

### 6.1 Water and Wastewater

#### Water Business Unit - Production and Purification (UNA-PD)

##### Background

Created in 2001, the Water – Production and Purification Business Unit (UNA-PD) groups together AdP companies that manage the multi-municipal systems, the integrated multi-municipal partnership systems and other systems. Its mission is to ensure the provision of water supply (collection, treatment, supply and storage) and wastewater sanitation (collection, treatment and disposal) services to the municipalities served by these multi-municipal systems. It furthermore incorporates, due to the complementariness, the State-Municipalities partnership for the Aveiro Region.



The unit's strategic guidelines are based on the implementing the objectives set out in PEAASAR II - Strategic Plan for Water Supply and Wastewater Sanitation - for 2007-2013, involving the construction of the infrastructure required to improve public service coverage both qualitatively and quantitatively, and to offer a reliable water supply service to 95% of the population and a wastewater drainage and treatment service to 90% and thus actively contribute to underlying social and economic development, improving living standards and a significant improvement in environmental quality. This strategic plan has also created important challenges for the companies that manage multi-municipal water supply and wastewater sanitation systems, setting out the three major strategic objectives to be fulfilled over this period, namely:

- I. The universality, continuity and quality of service taking into consideration the operational objectives of serving 95% of the total population of the country through public water supply systems, covering at least 90% of each system's area, and serving 90% of the total population with drainage and urban wastewater treatment systems, covering at least 85% of each system's area, and furthermore obtaining appropriate levels of service quality, measurable in conformity with service quality indicators, while at the same time establishing national level end consumer tariffs and evolving towards a range compatible with the household earnings across the country.

- 
- 2. Sector sustainability, guaranteeing the full recovery of costs incurred, optimising operational management and eliminating the costs of inefficiencies and also contributing towards creating sustainable employment through the greater dynamism of the business sector.
  - 3. Protecting environmental values, complying with objectives deriving from the national and European normative frameworks, and guaranteeing an integrated approach towards the prevention and control of pollution caused by human and productive sector activities within the scope of boosting the productivity and competitiveness of the sector through solutions which enhance eco-efficiency.

In this context, it falls to Águas de Portugal, as a wholly state-owned business group, to advance and leverage public policies in the area of water supply and wastewater sanitation, and, in partnership with the respective municipalities, to assume responsibility for the design, construction, financing and operation of the upstream infrastructures planned for Portugal's various systems. The total infrastructure investment of municipal systems and partnerships already established with a view to solving the structural problems of the country in the areas of activity mentioned is estimated at €5.3 billion.

### Key developments

Of particular note during 2012 was a range of initiatives and the considerable work carried out by the UNA-PD to restructure the water and wastewater sanitation sector as stipulated by the Portuguese Government. This very wide range of activities was focused on the first and second stages of the restructuring generally designated as, respectively, "aggregation" and "vertical integration".

In fact, the main restructuring objectives of the sector in Portugal involve ensuring the economic and financial sustainability of the sector through the adoption of the principle of "full-cost recovery" to ensure the economic and financial sustainability of operations, the viability of the investments necessary for the sector and the definition of a plan to resolve tariff deficits, as well as the creation of sectors which are socially fairer and balanced, through respect for the principles of universal service through tariff convergence to balanced values, taking into account socio-economic criteria (e.g. purchasing power asymmetries between different locations or levels of income).

The critical factors for the success of the model include, in particular, an increase in territorial aggregation, particularly through the aggregation of management companies' upstream systems to obtain gains in operational efficiencies through economies of scale (geographic aggregation) and range (supply and wastewater sanitation), thus enabling more uniform upstream tariffs in each region, from coastal to rural regions, as well as the promotion of the integrated management of the urban water cycle, including upstream and downstream water supply and wastewater sanitation to foster process economies and create greater technical efficiency, with direct and immediate consequences in the fight against water loss and infiltration, i.e., "vertical integration".

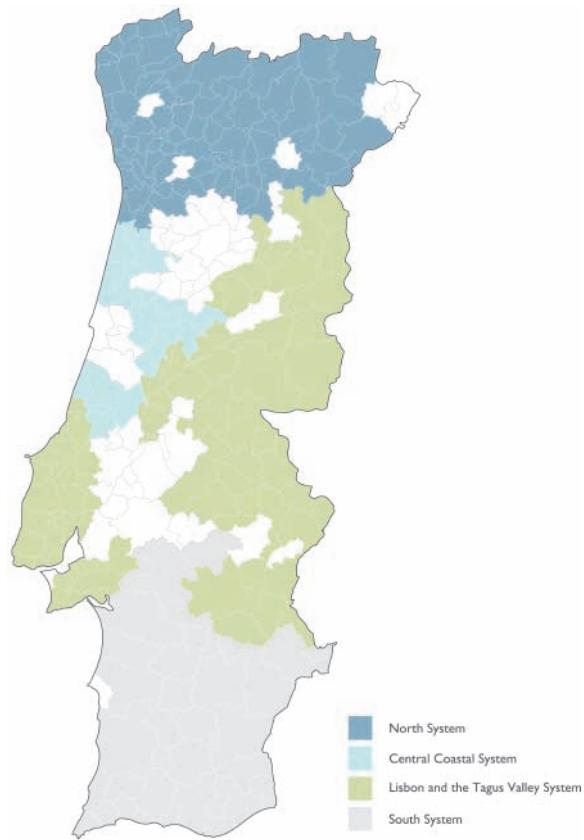
Phase I - "aggregation" - has begun by outlining the boundaries of the new systems resulting from joining together existing upstream systems managed by the Group's subsidiary companies, to form four major systems at the national level:

North System - grouping systems currently managed by Águas do Noroeste, Águas de Trás-os-Montes e Alto Douro (supply and wastewater sanitation), Águas do Douro e Paiva (water supply) and Simdouro (wastewater sanitation) to provide a water supply service for 2.6 million inhabitants and a wastewater sanitation service for 1.6 million inhabitants.

Central Coastal System - systems managed by Simria and Simlis (wastewater sanitation) and Águas do Mondego (supply and wastewater sanitation) to provide a water supply service for 0.4 million inhabitants and a wastewater sanitation service for 1.6 million inhabitants.

Lisboa and the Tagus Valley System - water systems managed by Águas do Zêzere e Côa, Águas do Centro, Águas do Oeste, Águas do Norte Alentejano and Águas do Centro Alentejo (water and wastewater sanitation) and Sanest, Simtejo and Simarsul (wastewater sanitation) to provide a water supply for 1.1 million inhabitants and a wastewater sanitation service for 3.3 million inhabitants, which will be associated to the EPAL supply system (another 2.5 million inhabitants).

South System - systems managed by Águas Públcas do Alentejo (which has the particularity of constituting a state-municipalities partnership), Águas de Santo André in the urban area and Águas do Algarve (supply and wastewater sanitation), to provide a water supply service for 0.6 million inhabitants and a sanitation service for 0.6 million inhabitants



There was some delay in starting work on each of the four major systems and associated management companies, and a North-South sequence was noted. For this reason, the stage of development as of 31 December was less advanced in the case of the South project, with some studies needing to be carried out in early 2013.

The studies began in March 2012 and resulted in each case in a very thorough review of the overall technical model and the subsequent economic and financial model, in comparison with the previous models of the individual companies involved. This was indeed a work starting from scratch, which took due account of the historical data but which took a "ground zero" approach, incorporating all the latest information available, particularly with regard to expectations to be considered, and undertaking a thorough analysis of the synergies to be obtained through aggregation.

Of note, in a context of great restraint, was the identification of investments not considered strictly necessary, to be excluded from the planning. Also, the human resource estimates made in the analysis were extremely cautious, in companies that currently and generally have limited means and which still have a lot of infrastructure to be built and brought into operation. This containment approach, in terms of costs but also flow estimates, pervaded all the work carried out.

Also worthy of mention is the legal documentation that was created, understood as a proposal to form a working basis and a contribution to expediting the process as quickly as possible.

Once the studies and economic and financial model for each of the major systems was complete, these were then presented to the respective municipalities, who are customers and shareholders in the current companies managing the multi-municipal systems. Successive meetings with municipalities and the subsequent discussion of proposed solutions took place in 2012 except for the South system, as mentioned above.

At the end of 2012 it was still too early to point to the conclusion of any of the processes, and there were various on-going contacts and negotiations, but what must be emphasized is the great effort and very significant informative steps taken which have contributed towards the first stage of this sector restructuring process having been achieved.

In the same way, as far as stage 2 is concerned - "vertical integration" - which envisages the integrated management and operation of municipal systems within the companies managing multi-municipal systems, to foster synergies (process gains) and access to the cash flow generated, extremely important steps were taken.

In May 2012 the AdP Group carried out presentations to a considerable number of local authorities and showed its willingness to prepare technical and financial proposals towards the setting up of State-Municipalities partnerships, taking into account the financial constraints facing the country and the limitations of the Thematic Territorial Enhancement Operational Programme (POVT) for the 2007-2013 period, under the following terms:

- operation and management by the company managing the multi-municipal system;
- tariff convergence to values already practised in the region and projects promoted by the AdP Group, thus achieving the goal of "low" tariff harmonization, i.e., at the final end users of the services;
- from the outset, limit the investment plan for infrastructures to be taken on board by the partnership only to works that ensure the continuity or mitigation of risks to public health in the provision of these services, besides those associated with any process of updating and replacing.

The strategy of the AdP Group to expand its activities continues, as was made possible by Decree-Law No. 90/2009, of 9 April, which establishes a partnership regime between the State and the local authorities for the management and operation of the public water supply, urban wastewater sanitation and municipal solid waste municipal systems, by taking advantage of the important political consensus as an alternative means of resolving an important set of constraints within the sector. The model underwent developments following the comments of the Water and Waste Services Regulator (ERSAR) and to avoid issues relating to competition arising from the EU legal framework, in addition to the developments which took place with the Multi-municipal System.

The approach taken so far has thus enabled the reconciliation of a proposed management model with an important consensus, and was already tested, with a number of contacts and some developments already having taken place in some regions, with the work having led to the preparation of 7 technical and financial proposals, of which 6 were presented to the local authorities between October 2012 and January 2013.

Title of the proposal	N.º Municipalities		Resident population	Status as at 31 December <b>2012</b>
	WS	WWS		
Noroeste	7	10	456,488	Favourably assessed in 8 municipalities
Minho e Lima	10	10	244,947	<i>Preparation stage</i>
Trás-os-Montes e Alto Douro	30	30	397,605	Proposal presented on 30 October 2012
Zêzere e Côa	16	16	228,805	Proposal presented on 28 January 2013
Aveiro (2 <sup>nd</sup> enlargement)	1	1	31,796	<i>Preparation stage</i>
Centro Interior	18	18	215,946	<i>Finalisation stage, after extension of the scope</i>
Oeste	11	11	288,358	Proposal presented on 10 December 2012
Norte Alentejano	10	10	74,565	Proposal completed
Centro Alentejo	6	6	91,040	Proposal presented on 6 November 2012
Algarve	4	4	131,529	Proposal presented on 22 October 2012
<b>Total</b>	<b>113</b>	<b>116</b>	<b>2,161,079</b>	

The timetable for preparing the proposals, although partially observed, did not turn out to have the necessary planning since the underlying commitment required the creation of the necessary political consensus, both at the municipal level and at the regional level.

The AdP Group once more learnt important lessons from this stage of contacts which, it should be noted, included for the first time the presentation of a specific technical and financial proposal in less densely populated continental territories, thus fulfilling a commitment of,

in some cases, around 10 years. From the outset, it was clear that the restructuring of the sector was on the agenda, particularly as nowadays there are added reasons to consider concrete proposals, with existing knowledge, stemming from the vast experience of initiatives, partially external to the sector, providing to be important. This cycle of contacts also helped deepen knowledge through more precise studies of some of the regions, such as the possibility of carrying out additional diagnostic activities, in particular in relation to the functional state of infrastructures.

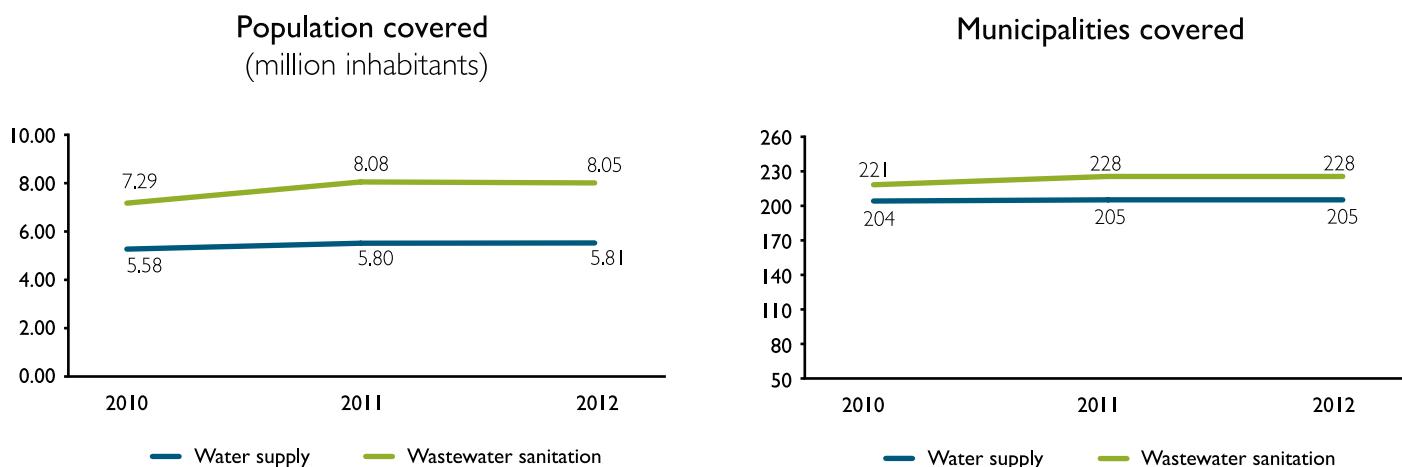
Thus, in addition to the broad consensus that the moment was not conducive to have an enlightened and informed discussion, it was also clear that the discussion would be resumed after local elections had taken place, as indeed has proved to be the case with the new requests that the AdP Group has received, from the north to the south of the country, to prepare new technical and financial proposals.

### Key indicators

At the end of December 2012, there were a total of 19 water supply and wastewater sanitation management companies, with their locations and coverage set out in the Figure shown at the beginning of section 6.1.

At the end of 2012 these companies had established partnerships with 230 of the 308 municipalities in Portugal.

Of those partnerships, 205 are for water supply - corresponding to around 67% of the total - and 228 involve wastewater sanitation systems - around 74% of the total -, covering populations of around 5.809 million inhabitants and 8.046 million inhabitants, respectively.



As regards the population actually served, 2012 saw totals of 4.843 million and 6.547 million inhabitants receiving water supply and wastewater sanitation services, respectively, which represents a year-on-year increase of around 1.5% and 2.5%, respectively.

Thus at the end of 2012, the entities managing the UNA-PD aggregated systems would take on responsibility for public service provision to (an estimated) 91.9% of the population in terms of water supply and 91.5% in terms of wastewater sanitation.

	2010	2011	2012
<b>Municipalities covered</b>			
Water supply	204	205	205
Wastewater sanitation	221	228	228
<b>Municipalities served</b>			
Water supply	174	188	192
Wastewater sanitation	189	210	212

<b>Population covered (million inhabitants)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Water supply	5.58	5.80	5.81
Wastewater sanitation	7.29	8.08	8.05

<b>Population served (million inhabitants)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Water supply	4.42	4.77	4.84
Wastewater sanitation	5.75	6.39	6.55

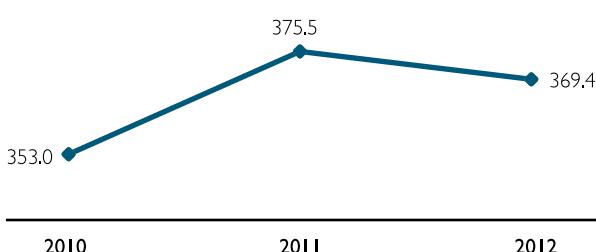
These systems, as a whole, produced 369.4 million m<sup>3</sup> of water for human consumption and collected and treated approximately 450.2 million m<sup>3</sup> of urban wastewater.

<b>Public service provided (million m<sup>3</sup>)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Volume of water produced	353.0	375.5	369.4
Volume of wastewater treated	472.1	486.3	450.2
Volume of water invoiced	354.9	375.3	368.1
Volume of wastewater invoiced	386.0	432.6	420.2

In 2012 there was a decrease of 1.6% in the volume of water produced for human consumption, and the situation was similar in the area of wastewater sanitation with a decrease of around 7.4% in the volume of wastewater collected and treated by UNA-PD's aggregated systems.

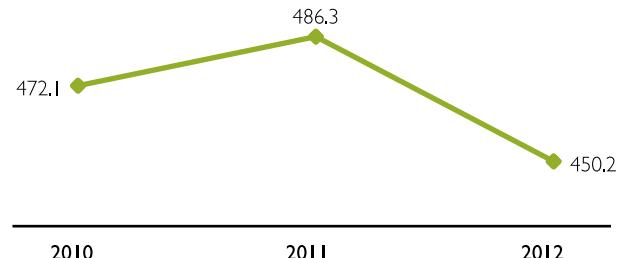
**Volume of water produced**

(millions of m<sup>3</sup>)



**Volume of wastewater treated**

(millions of m<sup>3</sup>)



In the case of wastewater, the 2012 figures include industrial effluent received and effectively treated. Changes in the amount of water supplied and effluent treated over the past three years are shown in the charts above.

The values shown enable the estimation of a per capita average in the 192 municipalities served of around 209 litres/day/inhabitant served for water supply for human consumption, while the per capita average in relation to wastewater for the 212 municipalities served stands at 188 litres/day/inhabitant, which represents a reduction of about 3% and 4% over 2011, respectively.

Figures on operational performance for each company managing a multi-municipal and partnership system are shown below:

Operational indicators per company	Flow (10 <sup>3</sup> m <sup>3</sup> /year)		Population served		Municipalities served	
	WS	WWS	WS	WWS	WS	WWS
Águas do Noroeste	35,034	56,538	890,762	1,476,000	19	27
Águas de Trás-os-Montes e Alto Douro	17,550	16,207	313,400	212,374	28	29
Águas do Douro e Paiva	102,835	-	1,553,217	-	22	-
Simdouro	-	17,433	-	318,048	-	4
Simria	-	34,042	-	466,662	-	13
Águas da Região de Aveiro	12,962	410	294,136	200,901	10	10
Águas do Mondego	23,011	17,277	294,243	247,768	10	11
Águas do Zêzere e Côa	17,329	12,922	182,894	148,907	16	16
Águas do Centro	16,655	11,615	190,945	151,496	17	17
Simlis	-	9,961	-	198,170	-	5
Águas do Oeste	27,201	16,901	327,558	341,350	15	14
Sanest	-	53,239	-	629,986	-	4
Simtejo	-	111,763	-	1,247,280	-	7
Simarsul	-	22,530	-	380,761	-	7
Águas de Santo André	17,472	7,341	28,921	26,170	2	2
Águas do Norte Alentejano	9,168	6,679	104,082	95,972	13	15
Águas do Centro Alentejo	7,558	7,298	82,769	88,591	6	6
Águas Públicas do Alentejo	19,705	7,856	170,793	142,361	18	18
Águas do Algarve	62,890	40,553	408,849	363,460	16	16
<b>Total UNA-PD</b>	<b>369,369</b>	<b>450,563</b>	<b>4,842,568</b>	<b>6,736,257</b>	<b>192</b>	<b>221</b>

WS - Water supply / WWS - Wastewater sanitation

The change in the amounts of drinking water supplied and wastewater collected in 2012 was largely attributable to the recession through which the Portugal is clearly passing and also the operational start-up of new and integrated infrastructures, as shown in the following table:

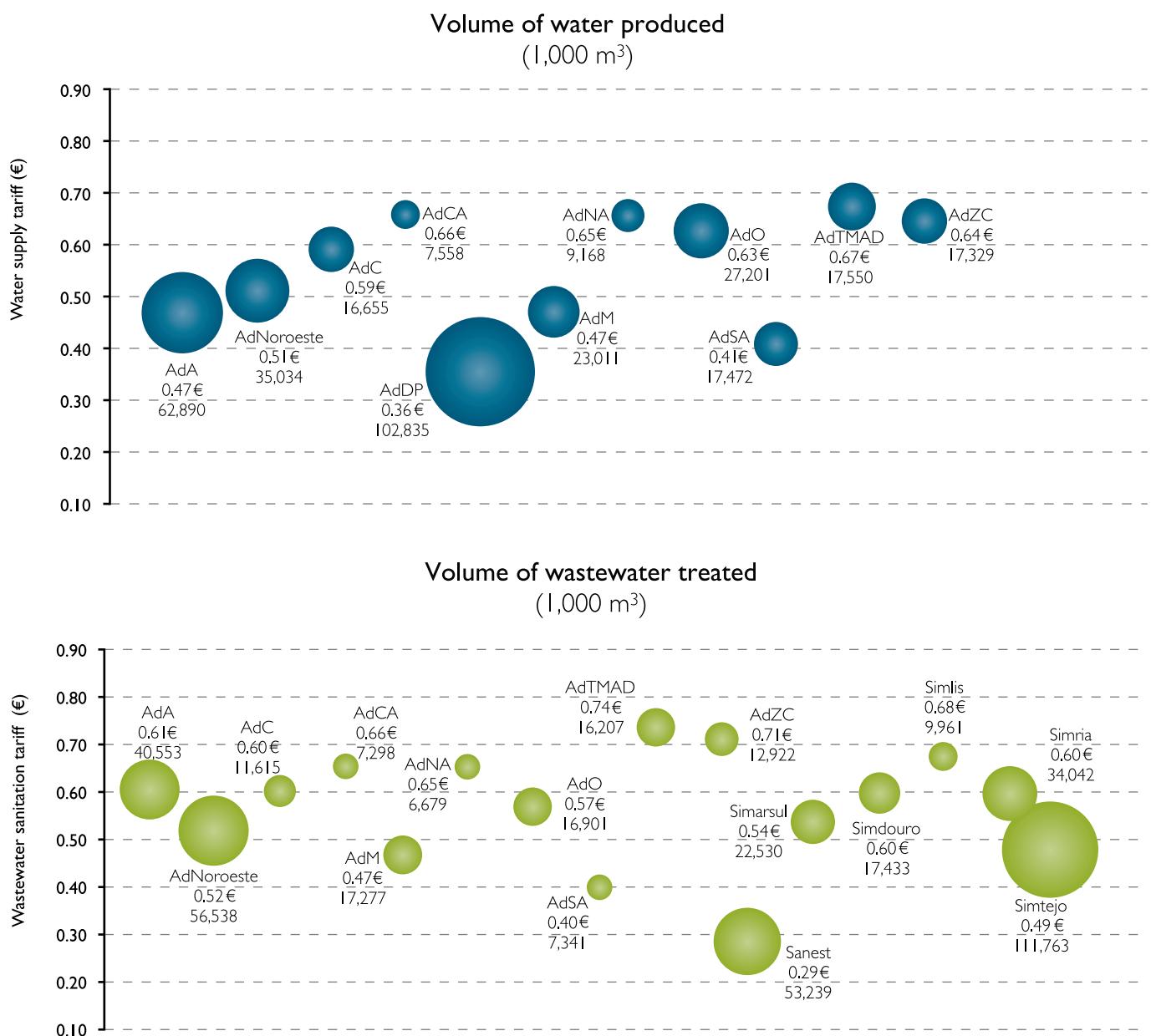
Infrastructures operated by UNA-PD companies	2010	2011	<b>2012</b>	Δ 2012 / 2011	
				Amount	%
<b>Water supply systems</b>					
• Volume of water produced (10 <sup>3</sup> m <sup>3</sup> /year)	353,034	375,457	369,369	(6,088)	(1.6%)
• Number of water intakes	678	845	843	(2)	(0.2%)
• Number of Water Treatment Plants	148	194	173	(21)	(10.8%)
• Mains (km)	9,804	11,262	11,693	431	3.8%
• Number of pumping stations	1,857	2,062	2,167	105	5.1%
• Number of storage facilities	1,152	1,314	1,312	(2)	(0.2%)
<b>Wastewater sanitation systems</b>					
• Volume of effluent treated (10 <sup>3</sup> m <sup>3</sup> /year)	472,057	486,299	450,154	(36,145)	(7.4%)
• Sewers (km)	3,918	4,418	4,900	482	10.9%
• Number of Water Treatment Plants	737	884	953	69	7.8%

Of note was the reduction in Water Treatment Plants, mainly due to Águas do Noroeste e Águas da Região de Aveiro (AdRA) and the increased number of Wastewater Treatment Plants in almost all the Systems.

## Tariffs

The UNA-PD companies charged significantly different tariffs, due mainly to the amount of investment involved and the size of the population served (population density and orography have a significant impact), as well as in the amount of grants conceded by the European Union. Thus, in terms of water supply, tariffs varied in 2012 from a minimum of €0.3593 per cubic metre to a maximum of €0.6722. Tariffs for wastewater sanitation ranged from a minimum of €0.2902 to a maximum of €0.7378 per cubic metre.

The following charts display a comparison of the tariffs charged by the managing companies of the multi-municipal systems together with the volumes of water supplied and effluent treated. Águas Públicas do Alentejo has not been included due to its particular tariff structure, which is composed of a fixed component, corresponding to an annual amount, applied in line with the potentially served population, and a variable component, corresponding to a unit amount, applied according to the level of use of the service.



## Investment

Investment in 2012 on infrastructure for water supply and wastewater sanitation totalled €134 million, with €27 million and €107 million allocated to water supply and wastewater sanitation, respectively.

The 90 construction tenders launched in 2012 corresponded to total investment of €55 million, with 52 tenders worth €22 million for water supply and 38 tenders amounting to €33 million for wastewater sanitation.

With regard to commitments relating to water supply or wastewater sanitation infrastructure construction work, there were 79 public works contracts awarded following the respective tendering processes involving a total of €62 million, of which 40 contracts and €7 million were for water supply and 39 contracts and €55 million were for wastewater sanitation systems.

The aforementioned figures, as compared with previous years, for the aggregate UNA-PD companies managing multi-municipal systems, are set out in the following table.

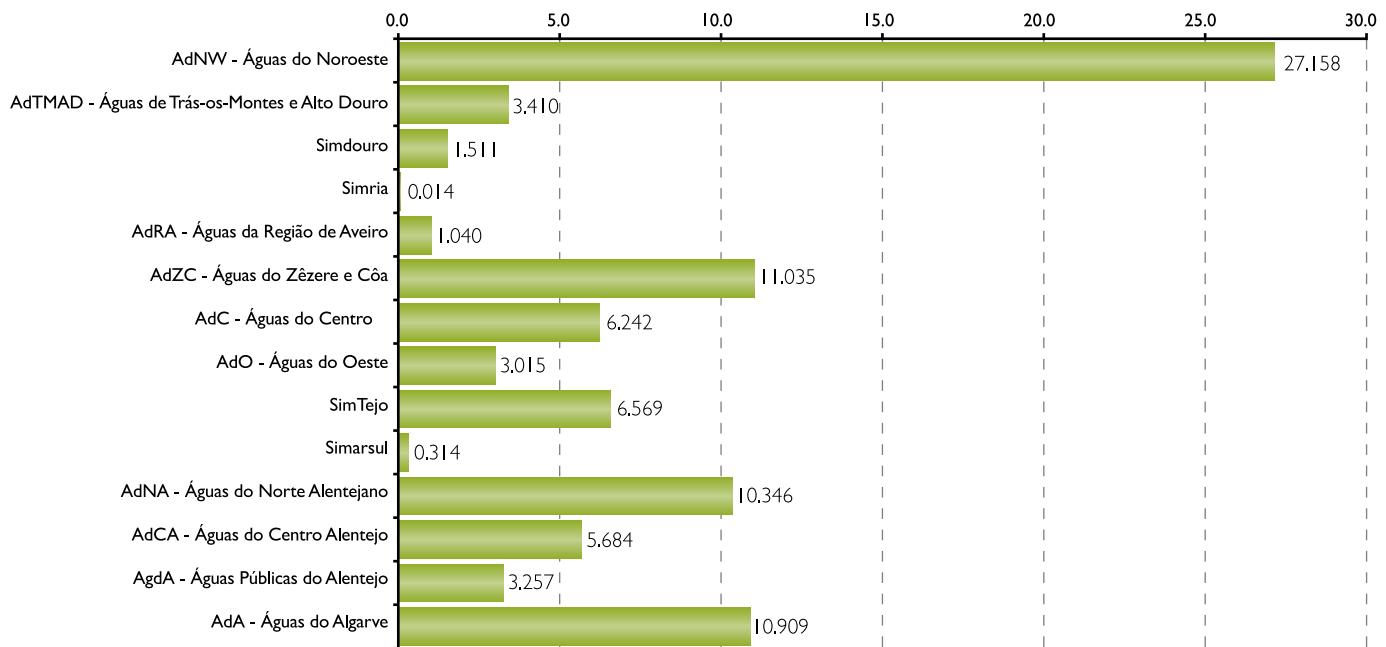
### Investment in infrastructures, public tenders and public works contracts

UNA-PD infrastructure investment	2010	2011	<b>2012</b>	Δ 2012 / 2011	
				Amount	%
Infrastructure investment (€ million)	303	217	134	(83)	(38.2%)
• Water supply	79	68	27	(41)	(60.3%)
• Wastewater sanitation	224	149	107	(42)	(28.2%)
Number of tenders launched	110	115	90	(25)	(21.7%)
• Water supply	38	43	52	9	20.9%
• Wastewater sanitation	72	72	38	(34)	(47.2%)
Value of tender processes (€ million)	171	146	55	(91)	(62.3%)
• Water supply	34	31	22	(9)	(29.0%)
• Wastewater sanitation	137	115	33	(82)	(71.3%)
Number of contracts	100	106	79	(27)	(25.5%)
• Water supply	46	38	40	2	5.3%
• Wastewater sanitation	54	68	39	(29)	(42.6%)
Value of contracts (€ million)	149	90	62	(28)	(31.1%)
• Water supply	57	23	7	(16)	(69.6%)
• Wastewater sanitation	92	67	55	(12)	(17.9%)

More than has been customary in previous years, due to the scarcity of the financial resources of the Group's companies, the majority of investments made by the water supply and wastewater sanitation multi-municipal system and partnership managing companies was co-funded by European Union financial instruments, in particular the Cohesion Fund under the 2007-2013 NSRF (National Strategic Reference Framework).

In 2012 applications for EU co-funding were made for a total of €126.7 million of expenses incurred and paid. Financial support from the European Union received in 2012 under the Cohesion Fund totalled €90.5 million and the National Strategic Reference Framework (QREN) totalled €90.5 million, divided among the different UNA-PD companies as follows:

**Receipts from cohesion fund during 2012**  
(millions of euros)



Because of budgetary and funding constraints, the Group's planned investment schedule had to be revised. With the time shift in part of the investments included in applications submitted to NSRF 2007-2013, 24 rescheduled programmes were submitted out of the 27 applications that had been approved in late 2011 by the Thematic Territorial Enhancement Operational Programme (POVT) and which totalled an investment of around €695 million, with anticipated EU co-funding of around €458.8 million. Following this reprogramming there was a reduction in the number and the amount of investment tendered for. Thus, in late 2012 and as a result of the proposed amendments, we will have 24 applications for Axis II (Urban Water Cycle) from POVT/NSRF, representing a total investment of around €584.8 million and community support of around €394 million.

It should also be mentioned that at the end of 2012 there were 28 applications to the Cohesion Fund II to be closed, with an expected income of €93.1 million in respect of the same.

There were 4 new application submitted in new POVT Notices, corresponding to €118.6 million of investments already made by Águas do Algarve and Simtejo, with anticipated EU co-funding of around €45 million. An application involving €996 thousand of investments made by AdRA was also submitted.

In 2012 the administrative procedure involving the 15 loan applications to the European Investment Bank (EQ EIB/NSRF) continued, which together are expected to reach a value of about €55.5 million.

### Economic and financial analysis

The group of companies that comprise UNA-PD closed 2012 with a consolidated net profit of €38.9 million, down by €7.9 million (-17.03%) on the previous financial year. This was in part due to the negative trend in operating results, which stood at €157.9 million (-€11.2 million compared to 2011).

The decrease in UNA-PD operating results, falling by 6.6% compared to 2011, is explained, in addition to the observed decrease in gross margin for the reason given above, by the increase in spending on supplies and external services, which contradicted the downward trend of other operating costs, and by a smaller amount of investment grants received (-€10.7 million). It should be noted that the companies Águas do Douro e Paiva, Águas de Trás-os-Montes e Alto Douro, Sanest e Simtejo were those that registered the largest falls in operating results.

The negative contribution made by investment grants, now included in the operational results in accordance with the new international norms of financial reporting (IFRS), took effect across the majority of the companies following the notable fall in investment, a trend that was only reversed by Simdouro.

Another factor that negatively affected the net income of the UNA-PD companies was the negative behaviour of the financial results that showed a value of - €74.3 million (a worsening of €9 million compared to 2011).

The negative value in financial results in 2012 and its worsening compared to 2011, with an increase of around 14%, was reflected in the strong growth of financial costs, which were €15.6 million. Added to this situation, also with financial repercussions, was the large increase in moneys owed by municipal clients, which had reached a total of €420 million by 31 December 2012, €346 million of which being due debt.

The unfavourable evolution of the financial structure indicator revealed an increase in the debts of the UNA-PD companies (non-current liabilities) in relation to previous years.

An assessment of the economic and financial situation of the managing companies of the multi-municipal systems, as well as their evolution over the past 3 years, is shown in the table below.

#### **UNA-PD aggregated systems - Economic and financial indicators**

Unit: thousands of euros

	2010	2011	2012	Amount	△ 2012 / 2011 %
Turnover	351,982	388,324	404,057	15,733	4.05%
Operating cash flow (EBITDA)	231,569	330,265	309,807	(20,458)	(6.19%)
Net income for the year	24,109	46,832	38,856	(7,977)	(17.03%)
Active	4,655,918	4,839,020	5,364,418	525,398	10.86%
Current liabilities	736,894	848,012	794,410	(53,602)	(6.32%)
Non-current liabilities	3,610,665	3,673,455	3,926,030	252,575	6.88%
Financial result	(40,734)	(65,343)	(74,329)	(8,986)	13.75%

As regards the operating cash flow indicator, its evolution needs to be interpreted by taking into consideration the effect of investment subsidies on operating income.

The key economic and financial indicators, in line with the new IFRS accountancy standards, are as follows:

Economic and financial indicators	2010	2011	2012
EBITDA margin	65.79%	85.05%	76.67%
Overall liquidity	0.69	0.68	0.71
Financial structure	6.25	6.05	5.63
Solvency	0.86	0.84	0.87

## Main events

In terms of activities taking place in 2012, the management companies completed certain infrastructures with their subsequent entry into operation, enabling the launch of water supply and provision of services to the various subsystems, improvement in service attendance and significant advances in operating performance standards. This progress and the associated performance were indeed confirmed by the rising levels in the quality of drinking water, as published annually by ERSAR.

On 31 December 2012, the commercial credit situation of the multi-municipal systems concession companies in relation to the municipalities, and their outstanding debt, stood at €345.6 million, marking an increase on the previous year of about €99.0 million. At that time, the outstanding debt represented about 82.4% of the total debt for the group of companies making up UNA-PD. The companies Águas de Trás-os-Montes e Alto Douro, Águas do Zêzere e Coa, Simtejo, Simarsul, Águas de Santo André, Águas do Centro Alentejo and Águas do Algarve had an outstanding debt greater than total invoices in the previous year.

In order to ensure compliance with their responsibilities and observe the provisions of Law No. 12/2008, of 26 February, and later also Law No. 24/2008, the management companies continued with the systematic lodging of injunctions. The number of debt recovery agreements signed in 2012 rose to 57, corresponding to €95.5 million of debt bound by agreements, with injunctive orders totalling approximately €61.6 million. Compared to the same period the previous year, these figures reflect a variation of 107% and -19% respectively.

Decree Law No. 195/2009, of 20 August, which altered the legal regime for public water supply and wastewater sanitation multi-municipal systems, establishes the time limit for debt settlement following the issuance of an invoice. As such, the procedure already implemented was continued with so as to avoid this restraint.

On 28 August Law No. 43/2012 established a Local Economy Support Programme (PAEL), which aimed to regularize the debt payments of municipalities to suppliers which were more than 90 days overdue provided these were registered in the Directorate General for Local Authorities (DGAL) by 31 March 2012. Several municipalities have subscribed to this debt settlement instrument, but in 2012 no income was received as a result of this.

## Shareholding Portfolio

Company	Management Model and Object	Duration	Municipalities Participating	Subscribed Equity Capital (€)	Equity Capital Attained (€)	AdP Stake
Águas do Noroeste, S.A.	Multi-municipal Water Supply and Wastewater Sanitation System Concession	50 Years 2010-2060	Arcos de Valdevez, Amarante, Amares, Barcelos, Cabeceiras de Basto, Caminha, Celorico de Basto, Espoende, 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 System 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 Côa, 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 System Concession	30 years 1996-2026	Amarante, Arouca, Baião, Castelo de Paiva, Cinfaes, 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 System Concession	50 years 2009-2059	Arouca, Baião, Castelo de Paiva, Cinfaes, Paredes, Penafiel and Vila Nova de Gaia.	20,046,075	13,062,228	51.00%
Simria, S.A.	Multi-municipal Wastewater Sanitation System 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%
Águas da Região de Aveiro, S.A.	State/Municipality 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 System 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 Poiares.	18,513,586	18,262,743	51.00%
Águas do Zêzere e Côa, S.A.	Multi-municipal Water Supply and Wastewater Sanitation System 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 System Concession	30 years 2001-2031	Alvaiázere, Castanheira de Pêra, 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%

Company	Management Model and Object	Duration	Municipalities Participating	Subscribed Equity Capital (€)	Equity Capital Attained (€)	AdP Stake
Simlis, S.A.	Multi-municipal Wastewater Sanitation System Concession	30 years 2000-2029	Batalha, Leiria, Marinha Grande, Ourém and Porto de Mós.	5,000,000	5,000,000	70.16%
Águas do Oeste, S.A.	Multi-municipal Water Supply and Wastewater Sanitation System Concession	35 years 2001-2035	Alcobaça, Alenquer; Arruda dos Vinhos, Azambuja, Bombarral, Cadaval, Caldas da Rainha, Lourinhã, Mafra, Nazaré, Óbidos, Peniche, Rio Maior, Sobral de Monte Agraço and Torres Vedras.	30,000,000	30,000,000	51.00%
Sanest, S.A.	Multi-municipal Wastewater Sanitation System 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 System 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 System 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 System Concession	30 years 2001-2030	Alter do Chão, Arronches, Avis, Campo Maior, Castelo de Vide, Crato, Elvas, Fronteira, Gavião, Marvão, Monforte, Nisa, Ponte de São João, Portalegre and Sousel.	7,500,000	7,500,000	51.00%
Águas do Centro Alentejo, S.A.	Multi-municipal Water Supply and Wastewater Sanitation System 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 of the System for the Collection, Treatment and Distribution of Water; the Collection, Treatment and Disposal of Effluents and the Collection, Treatment and Final Disposal of Solid Waste	30 years 2001-2030	Santiago do Cacém and Sines.	1,000,000	1,000,000	100.0%
Águas Públicas do Alentejo, S.A.	State/Municipality partnership for integrated municipal systems	50 years 2009-2059	Alcácer do Sal, Aljustrel, Almodôvar, 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 System Concession	30 years 2001-2031	Albufeira, Alcoutim, Aljezur, Castro Marim, Faro, Lagoa, Lagos, Loulé, Monchique, Olhão, Portimão, São Brás de Alportel, Silves, Tavira, V. R. Sto. António and Vila do Bispo.	29,825,000	29,825,000	54.44%

# EPAL – Empresa Portuguesa das Águas Livres, S.A.

## Background

EPAL is a public, limited liability company that was founded in 1868 and has been 100% owned by AdP - Águas de Portugal, SGPS, S.A. since 1993. Today, its mission is to provide water services and ensure the sustainable management of the urban water cycle in all of its activities and businesses.

EPAL is responsible for the upstream water supply, directly or indirectly, to 34 municipalities on the northern bank of the Tejo River and for home delivery across the Lisboa municipality, where it directly services around 350,000 customers and reaches a global population in the region of 2.9 million people.

Outside the Lisboa municipality, EPAL supplies water to municipal and multi-municipal management companies which distribute it to end-users.

**Region Supplied by EPAL**

## Brief description of the water supply system

### Production and Transport:

- 1,110,000 m<sup>3</sup>/day of collection capacity
- 2 Water Treatment Plants
- 710 km of water mains
- 31 pumping stations
- 28 storage facilities

### Distribution:

- 4 altimetric zones
- 84,000 branch connections
- 1,430 km of distribution network
- 10 pumping stations
- 14 storage facilities



## Activity Summary

Activity	2010	2011	2012
Volume of water collected (m <sup>3</sup> )	245,505,220	234,505,083	224,490,035
Volume of water sold (m <sup>3</sup> )	213,799,910	210,286,101	205,210,051
Non-invoiced water in the Lisboa distribution network	11.8%	10%	8.7%
No. of direct clients	349,413	348,79	346,121
No. municipalities supplied upstream (including Lisboa)	34	35	35
No. of consumers <sup>(1)</sup>	2,825,444	2,870,314	2,870,507
Total area supplied (km <sup>2</sup> ) <sup>(2)</sup>	6,681	7,090	7,090
N. <sup>o</sup> of employees at 31 December	746	739	736

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

(2) Area in km<sup>2</sup> (2012 data referenced to 2011)

## Main events

EPAL has sought to address new challenges by always seeking to increase the efficiency and quality of its service to the customer, to ensure a sustainable financial profile and an adequate return to the shareholder.

From the main activities carried out in 2012, the following can be highlighted:

- contacts and negotiations with the Lisboa municipality to transfer the management and operation of the City of Lisboa's wastewater sanitation and rainwater collection system (downstream) to EPAL;
- concerning water quality protection:
  - repairs and renovation work of the Valada Tejo water intake;
  - modelling water quality in the Lisboa water distribution network, using solid-state technology multiparametric probes;
  - revision of the Water Safety Plan (WSP) for the EPAL water supply system, from source to the consumer's tap. This work includes, in addition to the review of documentation, the preparation of new employee awareness activities. Continuing its contacts with its stakeholders, several visits were also made to hotels and hospitals in the city of Lisboa;
  - publication and implementation of the Code of Best Hygiene Practices in the EPAL water supply system;
  - study on "Methodologies for Defining Protection Perimeters for EPAL Surface Water Intakes", in cooperation with the Faculty of Science and Technology of the Universidade Nova de Lisboa.
- in terms of management systems, the following projects should be mentioned:
  - obtaining certification for the Quality Management System, NP EN ISO 9001:2008 and the on-going project to join the Management System (SGLAB) of the three EPAL laboratories (ISO/EN/NP 17025);
  - installing and setting up a new document management system, in order to optimise and standardise document procedures and processes, thus reducing costs and streamlining use by creating a single repository for all company documents;
  - installing and setting up the NAVIA IT platform to support operations, which allows processes to be set up for the collect of *in situ* values and thus obtain a better understanding of the overall system;
  - purchase of the WeMake tool to support the Corporate Responsibility Integrated System;
  - development of a cost model for complementary activities;
  - development of consolidation work on SAP purchasing processes and finance-related processes;
  - Internal development of the collaborative EPAL portal (1st stage). This new version of the EPAL intranet aims to increase and facilitate information sharing among employees, making it the primary vehicle for internal communication.
- the international launch of the "WONE" product for network management and loss reduction, involving the provision of services and software support. This was one of the initiatives that EPAL developed in 2012 in the area of asset management, and others of note include the following:
  - building inspection and maintenance - creation of a database describing the type of works and unit prices, with the aim of standardising/systematising inspection and maintenance activities;
  - project to check metering facilities - visiting various sites to evaluate these facilities;
  - reformulation of the Aquamatrix Meter Module - adapting to new guidelines concerning water meters and the interaction needs of this system with other IT management systems;
  - performance tests on the electric pump groups - the routine testing of the performance of the Group's electric pumps was reinitiated, so as to detect any deteriorations in the performance of any of the electric pump groups used in a pumping station;
  - remote maintenance project - implementation of the remote maintenance project for the electric pump groups, consisting of online monitoring of the electric pump groups covered by this condition-based maintenance;
  - consolidation of support information for asset management - initiatives were developed to consolidate information concerning operating assets, in order to facilitate analysis and reporting;
  - project to redesign the G/Interaqua data model;
  - calibration of the mathematical model - EPANET mathematical modelling project for the distribution network, carrying out the stage involving the calibration of the model.

- the development of contingency plans, procedures and the carrying out of drills and exercises for business continuity in response to crises that may affect the operation of the Company's water supply system, reinforcing security in the critical facilities and infrastructures and reviewing prevention plans, emergency plans and evacuation plans, and the holding of drills at the ETA in Asseiceira, were some of the measures implemented in 2012 in the area of infrastructure safety, security and reliability;
- it should be noted that EPAL, jointly with EDP, REFER, PT Comunicações, EDP Renováveis and REN, is a founding member of the Association for the Protection and Safety of Technical Assets (PSAT). This association aims to contribute to the improvement of mechanisms to preserve the infrastructure of its members, particularly its technical assets (facilities and metallic material) by preventing and combating theft and damage to these;
- innovation is an aspect that is always part of EPAL's activities, and most notably in this regard in 2012 was a series of projects and activities, as reported in no. 8 - Investigation & Development and innovation of Corporate Governance chapter. Mention should also be made of the preparation and submission of an application to the Entrepreneurial R&D Tax Relief System (SIFIDE) for the years 2007-2011;
- finally we would highlight aspects related to customer management, and the following initiatives:
  - commissioning of the new management platform for the Contact Centre, which has improved performance and activity, particularly through automation and alarm systems. It has also led to an improvement in the processing and management of emails received, through managing waiting queues;
  - to promote confidence in tap water and, under the Cooperation Protocol between EPAL and the Hotel Association of Portugal, technical visits were undertaken and "tap water" leaflets placed in hotels and "EPAL Bottles" supplied to provide EPAL water in their public spaces;
  - launch of the social responsibility campaign "Let's give a Litre in the fight against Hunger". For every customer who opted to receive their invoice by email, EPAL donated 4 euros of food to those most in need, the equivalent of a month's service charge;
  - furthermore, as part of its policy of Social Responsibility, and taking into account the particularly difficult situation the country is facing, an initiative to support the poorest households in the municipality of Lisboa was developed, in close cooperation with the parish councils. Protocols were signed with 43 parish councils, under which EPAL agreed not to cover the service charge to 6,800 needy families for a period of 18 months;
  - continuation of tariff reformulation as per Recommendation N° 1/2009 of ERSAR with the introduction in 2012 of a 4<sup>th</sup> Scale for domestic consumption over 25m<sup>3</sup>/month;
  - signing of a protocol between EPAL, Parque Expo 98 and Parque Expo - Gestão Urbana, relating to the integration within EPAL of the Parque das Nações water distribution network, formerly belonging to the municipality of Loures;
  - development of a methodology for the automatic implementation of lodging injunctions.

## Investment

Total investment in 2012 was €13.1 million, a significant reduction compared to that forecast (€22.8 million).

Investment (euros)	2012
Guaranteeing capacity	2,844,273
Guaranteeing reliability and security	6,083,344
Guaranteeing quality	543,576
Sustainability and innovation	651,000
Information and communication technology	456,503
Other investments	2,493,288
<b>Total</b>	<b>13,071,983</b>

Of the investments carried out, we would highlight the following:

- replacement of water mains installed on the Reguengo Bridge: raw water mains in the Tagus River and underground water intakes at Valada, at a cost of €2.4 million;
- change in the Circunvalação Main at the new Hospital de Vila Franca de Xira zone at a cost of €2.0 million;
- renovation of 12.4 km of distribution network (distribution pipelines and mains), at a cost of €1.4 million;
- expansion of the distribution network by 4.9 km, in particular works on Avenida Carolina Michaelis de Vasconcelos (€1.4 million);
- the purchase of the Parque Expo supply network (ex-Loures) for €1 million;
- repairs to the raw water mains located at Pontão I, between Valada Tejo and the Vale da Pedra Water Treatment Plant, at a cost of €0.9 million;
- information and communication Technologies at a total cost of €0.5 million, of which €0.1 million was spent on infrastructure and remote management, €0.1 million on the implementation of NAVIA and €0.1 million on the new document management system.

### Economic and financial analysis

EPAL's economic performance in 2012 was very positive, with net profit of €43.9 million, registering a growth of 3% over the previous year; despite a reduction of 1.9% in turnover. With the exception of 2010, when net income was extraordinarily influenced by a one-time annulment of yearly provisions amounting to €11 million, the company recorded its best ever result.

Economic and financial indicators (euros)	2010	2011	2012
Turnover	147,454,719	147,038,145	144,205,268
Financial result	(2,887,345)	(2,174,841)	(1,572,398)
Net income for the year	45,887,092	42,555,550	43,852,247
EBITDA	86,950,732	86,509,312	87,924,102
Investment	23,574,412	11,957,901	13,071,983
Total assets	916,852,189	902,162,860	885,085,923
Current assets	112,865,809	110,627,349	107,874,064
Non-current assets	803,986,380	791,535,511	777,211,859
Total equity	506,107,841	524,414,751	532,963,376
Total liabilities	410,744,347	377,748,109	352,122,548
Current liabilities	76,137,565	64,524,487	60,747,728
Non-current liabilities	334,606,783	313,223,621	291,374,820
Total customer debt	23,584,367	22,952,292	23,500,439

This result was achieved in an adverse conjuncture in terms of demand, with turnover dropping sharply by €2.8 million (-1.9%) compared to 2011, primarily due to a decrease of 5.1 million m<sup>3</sup> in sales volume (-2.4%). Income from the service charge (fixed component of the tariff) and the provision of services also followed this trend, with reductions of €0.3 million (-1%) and €0.2 million (-11%), respectively. The 2011 tariff updating only took effect from 1 June, with a nominal average increase of 2.42% for direct customers and 2.00% for municipal clients.

The amount of water sold was 205.2 million m<sup>3</sup>, of which 150.1 million m<sup>3</sup> were sold to other management entities (municipal and multi-municipal customers) and 54.7 million m<sup>3</sup> to end users (direct customers). There was a decrease of 3.5 million m<sup>3</sup> (-2.3%) for municipal and multi-municipal customers, mainly resulting from a fall in consumption in the neighbouring municipalities of Lisboa, especially Cascais (-9.2%), Mafra (-8.7%), Vila Franca de Xira (-4.1%) and Sintra (-2.7%). This decrease was minimized, albeit very partially, by growth of 1.5% (+0.4 million m<sup>3</sup>) from Águas do Oeste. There was a reduction of 1.6 million m<sup>3</sup> (-2.8%) in sales to direct customers, with the State/Embassies and Trade/Industry segments recording falls of above 7%.

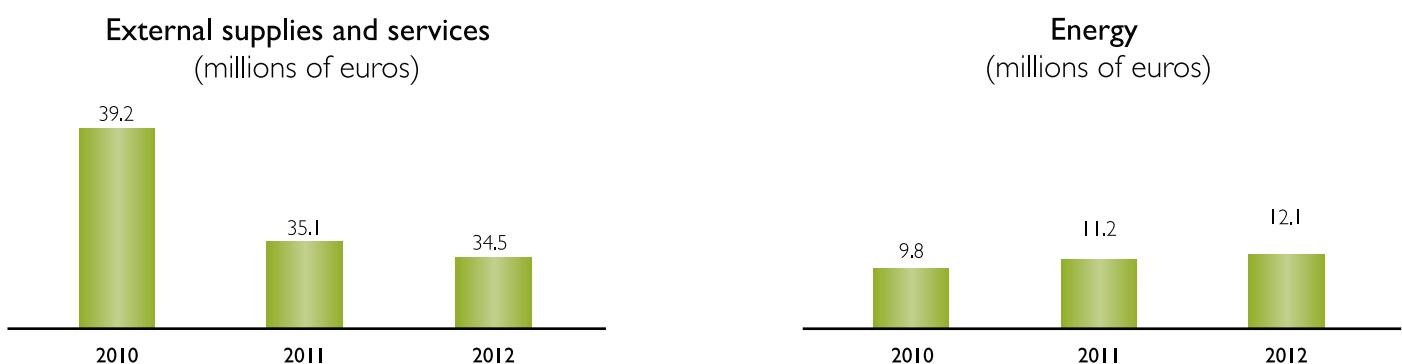
The economic results in 2012 thus resulted from a reduction of operating costs, in particular a significant reduction in personnel expenses of €2.8 million (-11%), external supplies and services of €0.6 million (-2%), and a reduction in financial expenses of €1.0 million (-16%).

The reduction in personnel expenses was due to:

- no subsidies in 2012 (only 12 months' salary), while the year 2011 also included spending on the Christmas subsidy (-€1.1 million);
- decrease in the remuneration of governing bodies of €0.2 million (-35%), as a result of there being no expenditure on subsidies and a reduction in the number of members from 4 to 3;
- decrease of €0.2 million (-30%) in overtime;
- reduction in the average number of employees by 10 (€0.1 million);
- €0.3 million less spent on social security costs as a result of these reductions in remuneration;
- decrease of €1.0 million in spending on retirement benefits as no new pre-retirement awards were made during the year.

It should be noted that, as of April, the remuneration of managers were fixed in accordance with the provisions of the Public Manager Statute, approved by Decree-Law No. 71/2007, of 27 March, as transposed by Decree-Law No. 8/2012, of 18 January, rectified by Statement of Rectification No. 2/2012, of 25 January and the provisions of the Resolution of the Council of Ministers No. 16/2012, of 14 February, and the Resolution of the Council of Ministers No. 36/2012, of 26 March.

There was also a positive performance in the external supplies and services, which was not more pronounced due to the rise in electricity costs. Despite the efforts of EPAL to improve efficiency and rationalise consumption, it was not possible to nullify the adverse effect of the significant rise in the price of electricity, causing spending on energy to increase by €0.9 million (+8%). The company has pursued a strategy of energy efficiency improvement by installing more efficient facilities (installation of several variable-speed drives in group lifts), and searching for other energy sources (e.g. the installation of photovoltaic systems) and the purchase of energy on the free market (EPAL was one of the first companies to launch a tender for the purchase of energy on the free market).



Of note are the significant reductions in some external supplies and services categories, particularly in representation expenses (-74%, corresponding to a reduction of €0.1 million), subcontracts (-25%, €0.2 million), conservation and repair (-7%; -€0.3 million), communication (-7%, €0.1 million) and specialised works (-4%, €0.2 million).

Financial results improved by €0.8 million (33%) as a result of reduced financial expenditures at €1.0 million (-16%) over the previous year. The company did not take on any new financing in 2012, and made capital repayments of €16 million for EIB loans, in accordance with its amortisation schedule.

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EBITDA reached €87.9 million, an increase of 1.6% over the previous year, which was only possible in this challenging environment of reduced sales by reducing expenditures, including personnel expenses, external supplies and services and financial expenditures.

Financially, EPAL maintains a balanced financial structure and there is a suitable match in terms of maturities between its uses of funds and its financing sources. At the end of 2012, the company's debt was €223.0 million, corresponding to the total EIB loans with remaining maturities of between 5 and 18 years. As regards the unamortised value, 53% corresponds to fixed rate and 47% variable rate loans.

In addition to its good economic performance, it should be noted that EPAL continues to have robust financial health, demonstrating a strong capacity to meet its commitments in the short, medium and long term.

The number of active employees as at 31 December was 736 employees, 3 employees fewer when compared with last year.

The absenteeism rate was 4.3%, an improvement of 0.8 percentage points over the previous year. There was a 15% decrease in overtime.

## 6.2 Waste

### Waste Business Unit (UNR)

#### Background

The Empresa Geral do Fomento, S.A. (EGF) is the Águas de Portugal sub-holding company responsible for the Waste Business Unit (UNR) that deals with the treatment and recovery of waste in an environmentally correct and economically sustainable manner, contributing in this way to improving quality of life and the environment.

Waste treatment and recovery systems are managed by 11 concessionary companies, set up in partnership with the municipalities served, which process about 3.2 million tons of municipal solid waste (MSW) a year, produced in 174 municipalities, serving 60% of the population of Portugal.



As a company that plays a fundamental role in supporting the configuring and definition of environmental policies in the waste sector, the EGF's main priority is to contribute to complying with national and European Union strategies and targets for the industry, particularly in regard to increasing the selective collection of multi-material packaging, reducing the disposal of municipal biodegradable waste in landfill sites, and generally increasing its readiness for urban waste reuse and recycling, including paper, card, plastic, glass, wood and biodegradable urban waste.

The investments and innovation carried out in its selective collection activity, both in terms of the associated logistics as well as activities to raise individuals' awareness of the importance of separating and depositing materials in the recycling points, resulted in a total of 236,000 tons collected in 2012, 12% less than in 2011, due to the economic crisis which the country is passing through.

In the area of the organic processing of biodegradable waste, EGF uses innovative technologies to foster energy production from the biogas produced from waste decomposition and the production of compost that can be used as an agricultural fertiliser. As well as

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extending the useful life of landfill sites, organic waste processing also reduces the emission of greenhouse gases and fosters the production of energy from endogenous resources.

In recent years, energy production from municipal waste (MW), either by incineration or the use of biogas from landfill sites and organic processing, has contributed to the economic sustainability of the companies and reduced Portugal's dependence on imported energy resources.

## Main developments

The main developments to be noted in 2012 were the following:

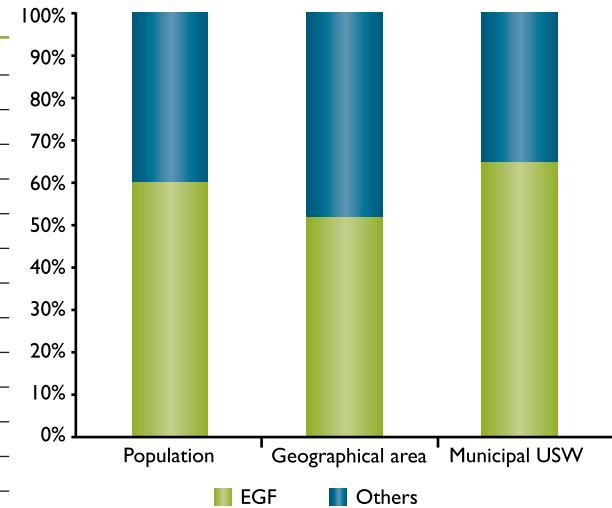
- completion of construction work and operational start-up of Mechanical and Biological Treatment units (MBT) in Aveiro and Coimbra (Ersuc);
- redevelopment of the Riba d'Ave Composting Plant (Resinorte);
- redevelopment and operational start-up of the Leiria Waste Sorting Centre (Valorlis);
- launch of public tenders for the redevelopment of the mechanical treatment of the MBT units at the companies Valorlis and Suldouro;
- completion of construction work and operational start-up of a Mechanical Treatment unit (MT) in Palmela (Amarsul);
- operational start-up of two preparation units for Waste-Derived Fuel (WDF) using USW at Amarsul and Valnor;
- in the area of energy production from landfill biogas, the operational start-up of the energy production unit in Abrantes (Valnor);
- in the area of energy production of biogas from anaerobic digestion, the installation of the energy production unit in São Brás de Alportel (Algar);
- in the area of energy production of biogas from anaerobic digestion, the operational start-up of the energy production units in Aveiro and Coimbra (Ersuc) and in Sermonde (Suldouro);
- as a final destination for processed MSW, start of construction work for cells 2 and 3 of the Valença Landfill (Valorminho);
- with regard to the resolution of environmental liabilities, the works to remove the waste deposited in the former National Steelworks and its rerouting to a more appropriate location.

## Activity indicators

The waste received, treated and recovered by EGF shareholdings in 2012 totalled about 3.2 million tons, of which 2.6 million were of municipal origin and around 65% of the national total was urban waste.

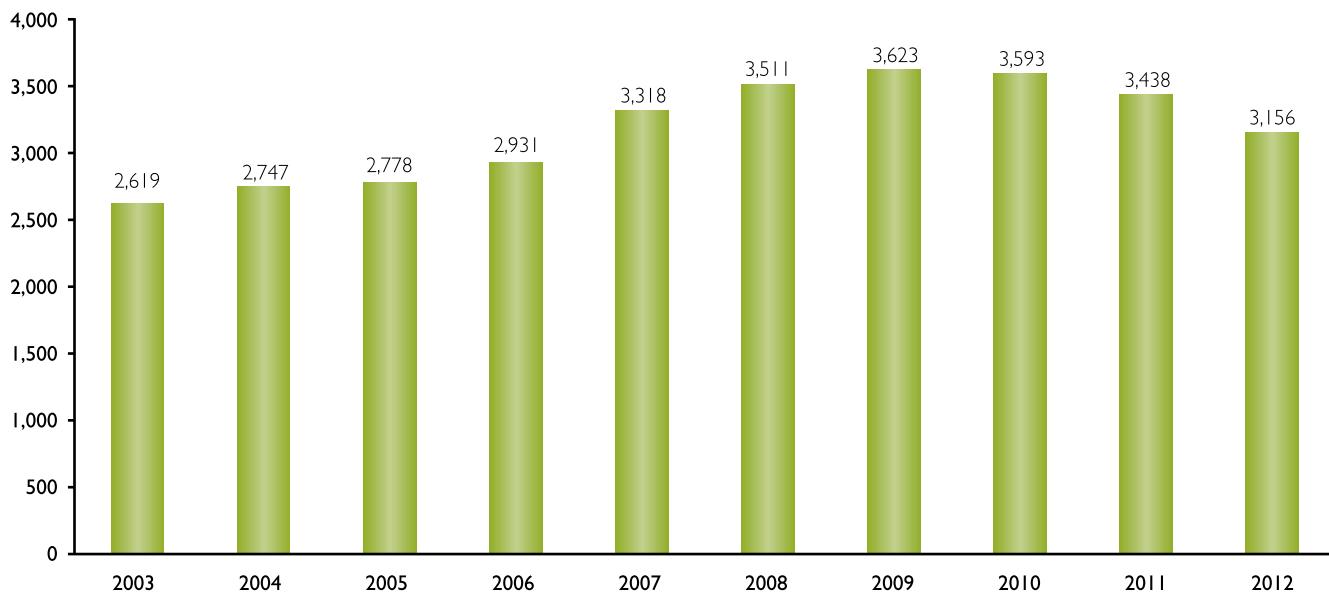
**Population, geographic area and waste**

Company	Population (thousand inhab)	Geographical Area (km <sup>2</sup> /10)	Municipal Solid Waste (thousand ton.)
Valorminho	78	1%	36
Resulima	322	3%	128
Resinorte	956	9%	353
Suldouro	442	4%	188
Resiestrela	203	2%	72
Ersuc	957	9%	389
Valorlis	307	3%	135
Valnor	272	3%	167
Valorsul	1,615	15%	859
Amarsul	779	7%	514
Algar	451	7%	356
<b>EGF</b>	<b>6,382</b>	<b>60%</b>	<b>3,197</b>
Others	4,180	40%	1,697
<b>Portugal</b>	<b>10,562</b>	<b>100%</b>	<b>4,894</b>



In the last 3 years, no new concessions have joined the EGF Group nor has there been any extension in the territories covered. No major population movements have been recorded either; and since the start of their activity, the companies involved in waste treatment and recovery have covered 100% of the municipal populations and geographical areas serviced by the concession. With regard to the quantity of waste treated, there has been a reduction since 2010, which was more accentuated in 2012 (-7%), due to the national economic crisis. The chart below shows the relative size of each company.

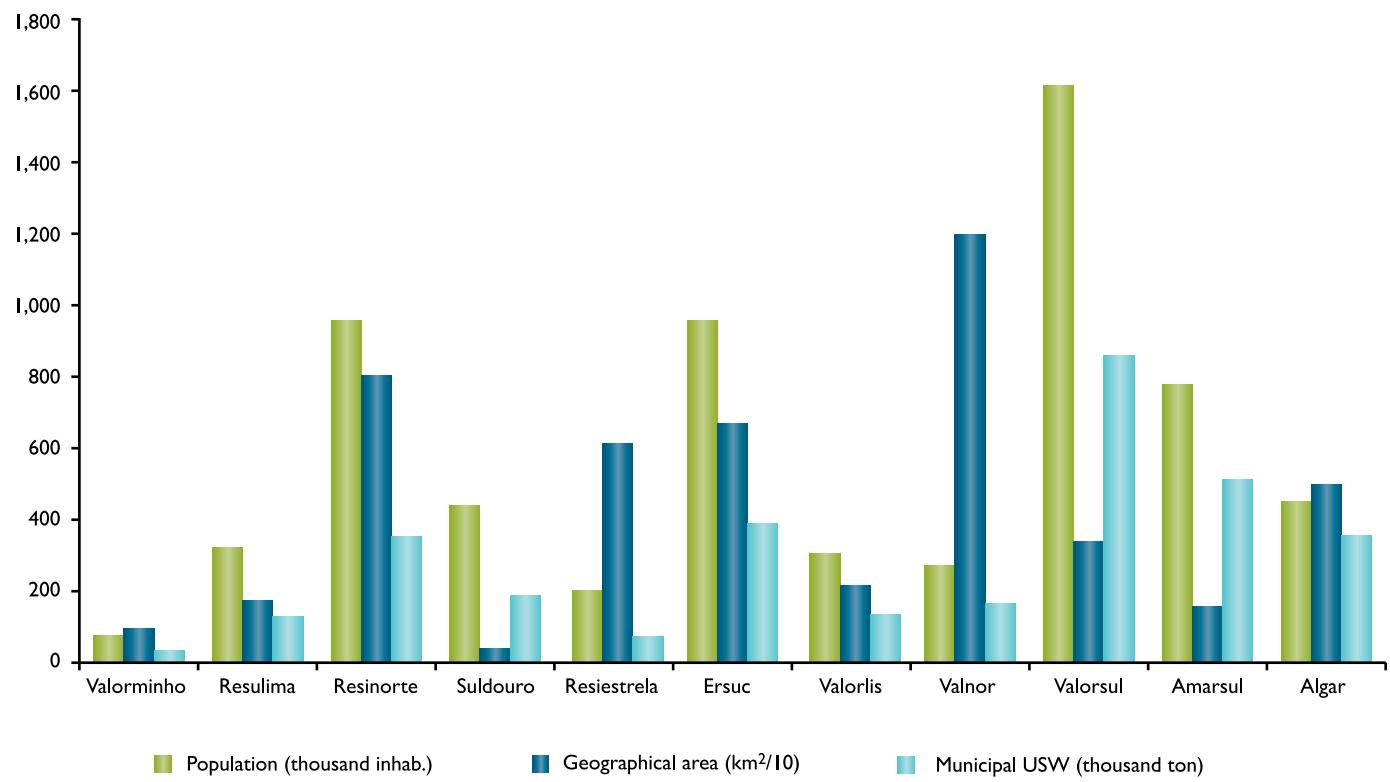
**Evolution of waste treated and recovered  
(thousand tons)**



Note: totals exclude inert and land

The chart below shows the relative size of each company.

### Size of companies, population served, waste and geographic area



The following table represents the different aspects and quantities of waste treated for each company and type of waste.

### Waste treated and recovered

Unit: thousand tons

MMS	Treated/ Recovered Waste (in MMS)						
	Total Waste	%	MSW Municipal	MSW private + Other Origins	Inert/ Construction and Demolition waste	Selective Collection Multi material	Organic/ Other
Valorminho	36	1%	32	1	0	3	0
Resulima	128	4%	116	2	0	11	0
Resinorte	353	11%	314	6	2	30	1
Suldouro	188	6%	169	4	1	14	0
Resiestrela	72	2%	67	1	0	4	0
Ersuc	389	12%	350	8	0	30	0
Valorlis	135	5%	122	0	2	10	0
Valorsul	859	26%	601	167	0	69	22
Amarsul	514	16%	397	72	20	25	0
Valnor	167	5%	107	39	8	11	2
Algar	356	11%	294	25	8	29	0
<b>Total</b>	<b>3,197</b>	<b>100%</b>	<b>2,569</b>	<b>324</b>	<b>41</b>	<b>236</b>	<b>26</b>

Finally, some of the performance indicators of the various shareholdings are shown below. These indicators show some significant differences between companies, which result from their geographic location (higher or lower population density), the economy of the populations served, and the waste processing technologies used.

## Performance indicators

Company	Waste (thousand tons)	Resíduos/ População servida (kg/per capita)	EBITDA/Waste (€/ton)
Valorminho	36	463	18
Resulima	128	399	19
Resinorte	353	369	13
Suldouro	188	425	30
Resiestrela	72	356	33
Ersuc	389	406	12
Valorlis	135	440	22
Valnor	167	614	25
Valorsul	859	532	24
Amarsul	514	659	14
Algar	356	790	17
EGF	3,197	501	19

## Financial indicators

### EGF indicators summary

Unit: thousand euros			
(EGF - Individual)	2012	2011	2010
Turnover	1,064	1,241	1,688
EBITDA *	6,465	8,315	5,098
Financial results	5,734	8,210	5,927
Net profit	5,150	6,386	3,494
Non-current assets	90,276	90,832	71,213
Financial investments	90,058	104,926	70,925
Assets	100,714	104,926	103,646
Liabilities	6,443	15,805	17,911
Equity capital	94,271	89,121	85,735

\* includes financial profits

Operating data (EGF Group)	2012	2011	2010
Solid waste (1,000 ton)	3,197	3,539	3,699
Population served (1,000 inhab)	6,382	6,381	6,410
Nº municipalities covered	174	174	174
Geographical area (km <sup>2</sup> )	48,009	48,009	48,009

## Subsidiary financial indicators

Unit: thousand euros

Indicators <b>2012</b>	Tangible + intangible investment	Accumulated investment	Turnover	EBITDA	Net profit	Total municipal customer debt	Net Debt	Net assets	Equity
Valorminho	135	11,845	1,564	643	282	330	0	8,544	2,060
Resulima	236	24,775	5,247	2,432	778	529	0	23,093	4,722
Resinorte	1,247	160,439	16,389	4,541	489	15,720	41,25	136,525	12,557
Suldouro	2,731	63,205	10,156	5,542	1,508	4,177	4,280	71,321	9,204
Resiestrela	1,212	34,562	5,315	2,363	852	9,424	6,938	42,693	6,163
Ersuc	18,119	158,714	16,695	4,772	1,035	5,722	17,179	129,029	17,131
Valorlis	2,928	51,935	6,077	2,974	483	825	19,631	39,338	4,133
Valnor	2,756	67,329	10,950	4,186	1,518	2,291	17,384	64,178	14,350
Valorsul	6,772	344,419	51,475	20,343	5,913	6,361	44,833	229,468	58,167
Amarsul	4,913	107,636	17,578	7,044	1,478	20,162	40,210	120,353	14,052
Algar	4,712	128,173	15,917	6,023	970	13,197	29,124	109,736	11,549
<b>Total Subsidiaries</b>	<b>45,760</b>	<b>1,153,031</b>	<b>157,363</b>	<b>60,862</b>	<b>15,308</b>	<b>78,737</b>	<b>220,830</b>	<b>974,277</b>	<b>154,089</b>

Taking into consideration the importance of customer debts, especially the municipalities, the following table shows their evolution in recent years.

## Customer debts

Unit: million euros

	December 2011	December <b>2012</b>	Absolute variation (Dec12 - Dec11)	Relative variation (Dec12 - Dec11)
Total MMS debt	91.1	103.7	12.7	14%
Municipal debt	70.3	78.7	8.4	12%
Outstanding debt (municipalities)	56.5	65.9	9.5	17%
Municipal debt w/ agreements	17.9	21	3.1	17%
Agreements w/ municipalities (No.)	34	31	(3)	(9%)

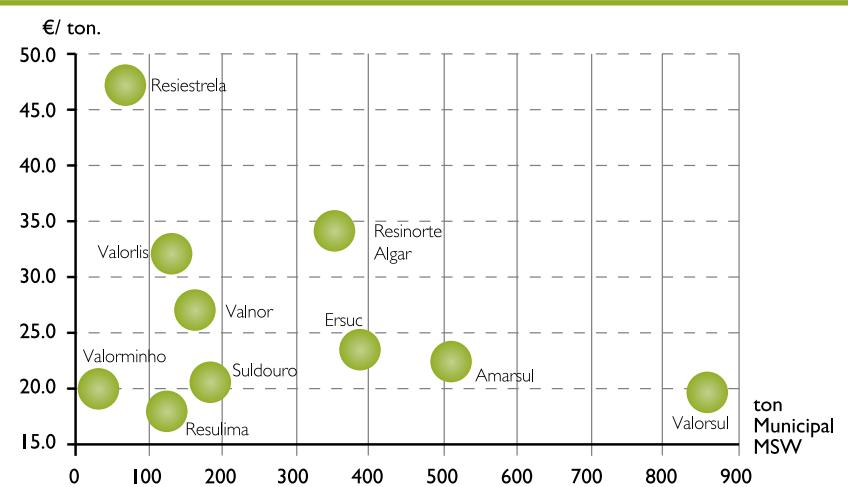
## Service costs, income per company/ product, historical evolution of income

The average tariff for 2012 was around €25 per ton. The companies which deal with greater volume generally have lower rates due to a scalar effect. However, it is also important to consider the effectiveness of the technologies used, since companies, for example those with "simpler" technological waste treatment models, based on landfill sites and energy recovery thereof, can also provide their service at reduced tariff rates, such as Valorminho and Resulima.

On the other hand, the territorial aspect for those in areas of the country with a small urban component, such as Resiestrela and Valnor, influences the tariff in a negative sense. These conclusions are graphically mirrored in the 2 tables below.

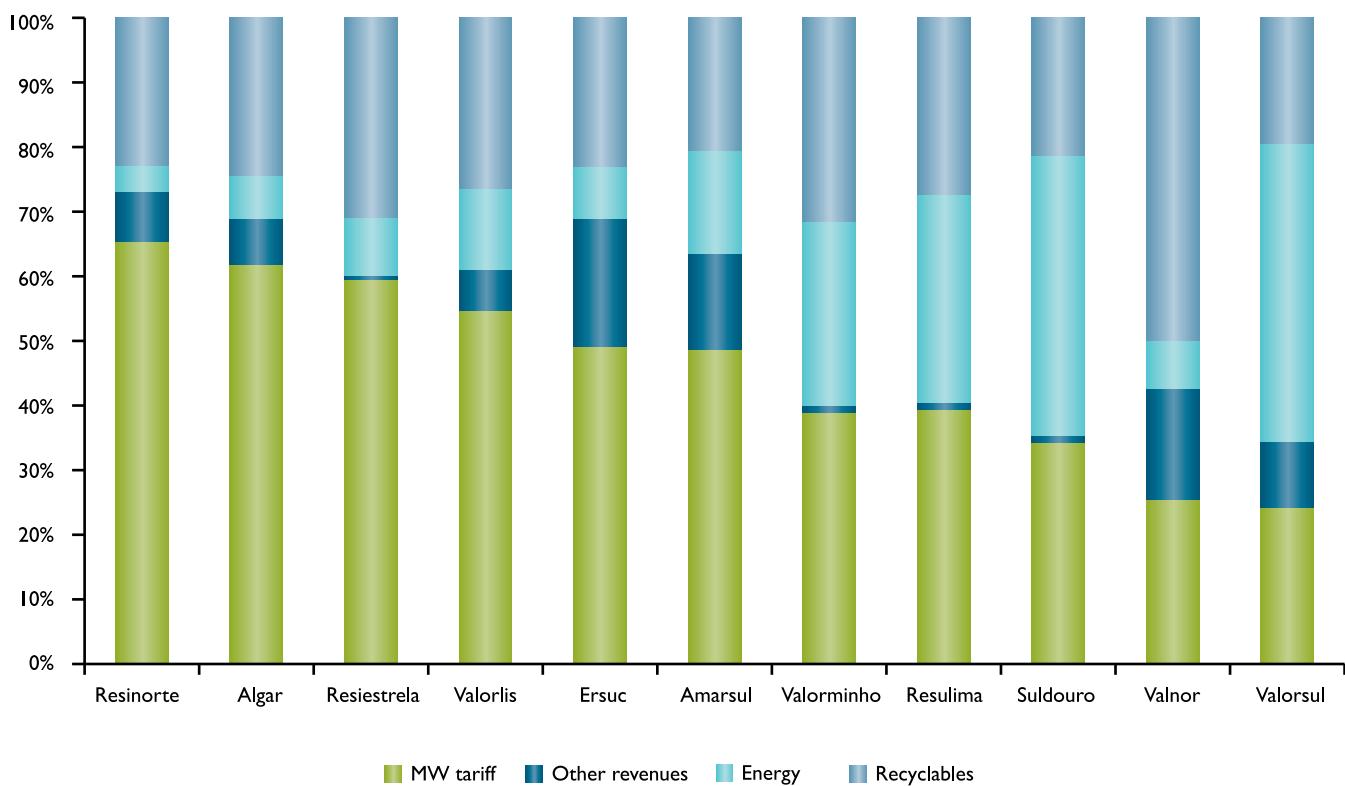
### Size and Tariffs

Company	Waste (thousand tons)	MSW Tariffs (€/ tons)
Valorminho	36	19.9
Resulima	128	18.0
Resinorte	353	34.1
Suldouro	188	20.6
Resiestrela	72	47.0
Ersuc	389	23.5
Valorlis	135	32.0
Valnor	167	27.1
Valorsul	859	19.9
Amarsul	514	22.4
Algar	356	34.0
<b>EGF</b>	<b>3,197</b>	<b>25.3</b>



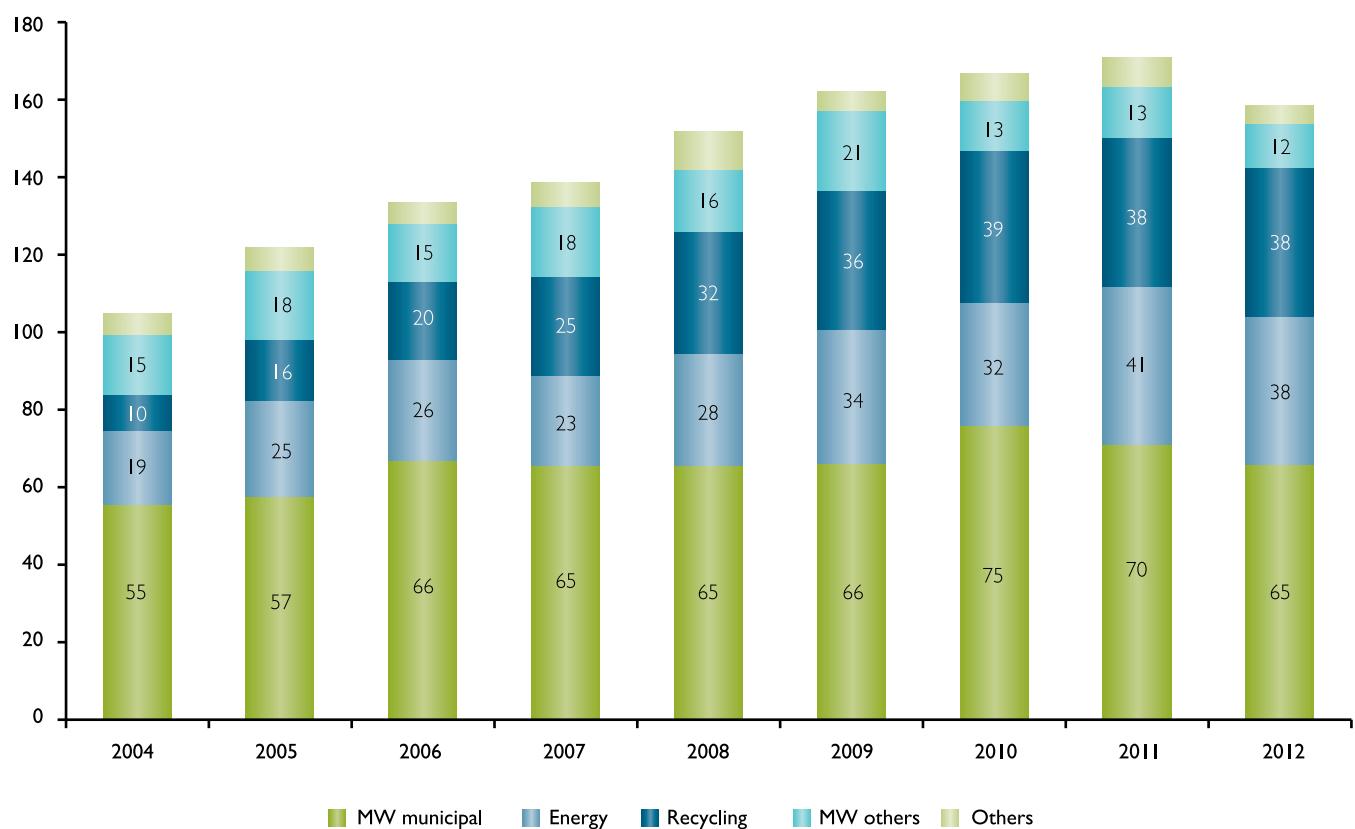
Companies with lower incomes outside the tariff require higher tariffs to support their spending activity.

Turnover by company and type



Be that as may, the dependence on tariff income within the EGF group has been reducing in a meaningful manner; and particularly so in the last three years. The "energy" and "recyclable" components are showing a growing importance for the turnover of companies. In 2012, the "energy" component decreased slightly due to a malfunction that left the Valorsul Incineration Plant idle for several months.

**Evolution of turnover by type**  
(millions of euros)



## Equity

In December 2012, the EGF Group was composed of 11 companies, all majority owned. A residual position was still held in two Supplementary Company Agreements (ACE), established for soil decontamination, including ACE EGF/Snesges Urbindústria and ACE EGF/Quimiparque.

## Shareholding Portfolio

Company	Concession Period	Municipalities Involved	Share Capital (€)	AdP Stake
EGF, S.A.	Holding	n.a.	56,000,000	100.0%
Valorminho, S.A.	25 years 1996-2021	Caminha, Melgaço, Monção, Paredes de Coura, Valença and Vila Nova de Cerveira.	900,000	51.00%
Resulima, S.A.	25 years 1996-2021	Arcos de Valdevez, Barcelos, Esposende, Ponte da Barca, Ponte de Lima and Viana do Castelo.	2,500,000	51.00%
Resinorte, S.A.	30 years 2009-2039	Alijó, Amarante, Armamar, Baião, Boticas, Cabeceiras de Basto, Celorico de Basto, Cinfares, 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, Sernancelhe, Santa Marta de Penaguião, Tabuaço, Tarouca, Trofa, Valpaços, Vila Nova de Famalicão, Vila Pouca de Aguiar, Vila Real and Vizela.	8,000,000	51.00%
Resiestrela, S.A.	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.	3,750,875	63.00%
Suldouro, S.A.	25 years 1996-2021	Vila Nova de Gaia and Santa Maria da Feira.	3,400,000	60.00%
Ersuc, S.A.	33 years 1997-2030	Águeda, Albergaria-a-Velha, Alvalázere, 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.	8,500,000	51.50%
Valorlis, S.A.	25 years 1996-2021	Batalha, Leiria, Marinha Grande, Ourém, Pombal and Porto de Mós.	2,000,000	51.00%
Valnor, S.A.	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.	10,000,000	53.33%
Valorsul, S.A.	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.	25,200,000	56.20%
Amarsul, S.A.	25 years 1997-2022	Alcochete, Almada, Barreiro, Moita, Montijo, Palmela, Seixal, Sesimbra e Setúbal.	7,750,000	51.00%
Algar, S.A.	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.	7,500,000	56.00%
Empresa Geral do Fomento, SNESGES, URBINDÚSTRIA A.C.E.	nd		0	1.00%
EGF, QUIMIPARQUE, A.C.E.	nd		0	1.00%

## 6.3 Energy and other businesses

### AdP Energias

#### Background

AdP Energias - Energias Renováveis e Serviços Ambientais, S.A. was set up on 11 September 2001 with the corporate name of RECICLAMAS - Multigestão Ambiental, S.A. The company changed this designation in September 2010 and its corresponding social purpose to have a name which was more appropriate to its current mission, in particular the role it has in the development of various forms of the energy usage of the assets and resources endogenous to the AdP Group.

AdP Energy is engaged in carrying out activities in the area of environmental management, including production, use and delivery to external consumers of various forms of renewable energy; the provision of systems for the collection, transportation, treatment and recovery of sludge and its application or final destination; the development of processes or facilities to improve energy efficiency and consulting and services provided in the same areas, in similar areas, ancillary or complementary areas, and in other sectors for environmental industries.

#### Main events

2012 may be characterized as a turning point in the Company. The taking of office of the new Board of Directors in March 2012, led to the outlining of a three year strategic vision which accentuates the position of AdP Energias as the Group vehicle for the energy sector, both in terms of maximising the energy use of its local resources, and looking to rationalise energy consumption and reducing or offsetting its greenhouse gas emissions (GGEs) through the creation of an Integrated Plan for Energy Efficiency.

Since 2010, the budgetary consolidation measures set out in the Stability and Growth Pact have been imposing limitations on the levels of indebtedness of State-owned Companies, which has caused major constraints on investment. However, given the status of exception granted to the AdP Group in 2010, it nevertheless proved possible to move forward with some priority projects.

The economic difficulties experienced in the country since 2010 remain, as well as all the constraints generated by the lack of liquidity in the financial market, which continued to establish major limitations on activity plans and the AdP Group's investment in the medium term.

In this context, the strategy previously defined for the energy area within the AdP Group was rethought.

AdP Energias thus made the necessary efforts so that the on-going projects would fit in to the new strategy and carried out the following activities in the various areas in which it has operated, as described below.

#### Forest biomass

In late 2012, AdP Energias signed a purchase and sale agreement for a 40% stake in the share capital held in the company MIESE to the FTP, a sale which must be completed in 2013. This operation will enable AdP Energias to exit a non-strategic sector without any form of impairment.

#### Photovoltaic - Microgeneration

AdP Energias continues to maintain a partnership established with various AdP Group companies in 2009 for photovoltaic microgeneration, including carrying out the monitoring and follow-up of microgeneration systems already in production. There are about 200 photovoltaic units located on the land and infrastructures of 18 Group companies, mostly companies managing multi-municipal water supply and wastewater sanitation systems.

#### Photovoltaic - Minigeneration

Following the "Tender for the Supply and Assembly of Photovoltaic Miniproduction Units for Multi-municipal Systems within the AdP Group", launched in 2011, in June 2012 four miniproduction facilities were completed, located on land made available at Portalegre and Tramaga WWTPs (Águas do Norte Alentejano) and at Olhão Nascente and Boavista WWTPs (Águas do Algarve).

These units started production and the sale of the respective energy to the Public Service Electricity Grid (RESP) in June 2012.

It has also launched a market consultation in August 2012 for the selection of an ESE Model partner (Energy Service Companies) for the generation of photovoltaic solar energy in six sites already identified and with RESP connection points already assigned, namely the Almargem WWTP (Águas do Algarve), the Reguengos, Borba, Redondo and Corval WWTPs (Águas do Centro Alentejo) and the Tolosa WWTP (Águas do Norte Alentejano).

The model chosen was based on a partnership with a third party in which they applied the ESE concept adapted to the energy producer market. The company chosen was Galp as it met the licencing requirements as an energy producer; and it also possessed the logistical conditions to install the energy generation facilities. The selected entity takes on the duties of the design, financing and installation of the energy generation facilities, sharing the capital gains generated by the sale of electricity with AdP Energias and its companies where these facilities are located.

The facilities were completed in late December.

#### **Concentration Photovoltaic (CPV)**

The publication, in late 2010, of the new tariff applicable to demonstration facilities under tender, forced the revision of the respective economic and financial feasibility study, as well as the request for the submission of the incorporation of a special investment vehicle for the construction of the power plant.

Since the company did not obtain a positive response from the Ministry of Finance, regarding the request for the submission of the incorporation of a special investment vehicle, it was not possible to proceed with the project.

Given this, and taking into account the fact that the Directorate General for Energy and Geology (DGEG) assigned a Prior Information Request (PIR) with a unit capacity of 1 MW for the construction of five solar photovoltaic concentration units, for a conceptual demonstration in an international tender in which the consortium formed by AdP Energias, Dreen and Solfocus was ranked first, AdP Energias decided to cede its position in the established consortium to Dreen.

Thus, during 2012 the assignment of its rights and obligations was concluded which enabled AdP Energias to exit from a non-strategic sector without any form of impairment.

#### **Low Temperature Heat Recovery (ORC)**

During 2012 the partnership with Suldouro continued regarding the installation of two low temperature heat recovery units from the exhaust fumes of biogas motor-generators used in the USW landfill sites of this company.

In the last quarter of 2012 the work required to transfer to Suldouro the 51% stake that AdP Energias owned in the business was carried out.

#### **Micro-Hydro**

Following the market test carried out during 2011, to tender for the works contract for the construction of the Small Hydropower Plant (SHP) at Beiriz, and after some contingencies aggravated by the economic situation of the country, the design and construction of the PCH project was awarded at the end of the year to SPIE. This project will be carried out in partnership with Águas do Noroeste, having also in late December been awarded the supervision of the respective construction project.

Mention should also be made of the work carried out concerning the DGEG in order to recover some licences for hydroelectric generation awarded to subsidiary companies that have expired.

#### **Energy management in the AdP Group companies**

Given that one of the goals of AdP Energias is to stimulate and promote energy efficiency projects and energy product projects in a special regime within the Group companies, an Integrated Plan for Energy Management started in 2012 which, in line with the National Plan of Action for Energy Efficiency (PNAEE), aims to promote and encourage measures to foster the reduction of energy consumption through its efficient use within the Group's companies.

The current situation also increasingly obliges a uniform approach at the Group level in order to reduce the costs underlie the supply of electricity, both in terms of reducing electricity consumption by changing behaviour and adopting more efficient strategies without any qualitative or quantitative losses, through the use of the most advantageous contractual mechanisms and procedures, and through the optimisation of the respective tariffs.

As such, AdP Energias intends, together with the AdP subsidiaries, to develop a concerted strategy consisting of the following lines of action:

- optimisation of energy consumption;
- energy production in a special regime (miniproduction).

The measures set out above are inseparable, complementing each other, and setting out a framework for integrating energy efficiency, supported by good management practices, and better use of existing energy consumption assets. Through benchmarking, measuring, documenting and reporting energy intensity improvements and their projected impact in terms of energy supply costs, both in individual terms, and in Group terms, it will be possible to adopt a proactive approach to this paradigm, within a framework of economic and environmental sustainability for the AdP Group.

To evaluate and prioritise the implementation of new technologies favouring increased energy efficiency, better use of electricity during less expensive periods and exploiting the vicissitudes of tariff regulation, optimising use and investment opportunities within the special production regime, it will be necessary carry out audits of facilities in terms of their use of electricity, weighing the risk and profitability of their respective investments, and taking into account their particularities, to help structure investment decisions taking into account the strategic alternatives.

AdP Energias already carried out some work at the end of 2012 to achieve all of this, and foresees its actual start-up on the ground in 2013.

#### **Integrate management of WWTP Sludge**

Taking into account the new economic and financial constraints of the Group, as well as the definitive abandonment of the construction of the Energy Recovery Plants (CVE), it was necessary to redefine the AdP Group's strategy towards Wastewater Treatment Plant (WWTP) sludge, which led to the presentation of the "AdP Group Strategy for WWTP and RDF Sludge", which was later supplemented with more documents, notable among which was a "Brief description of the advantages of and investments in the cement industry, in the use of secondary fuels".

Cooperation with various companies managing multi-municipal wastewater treatment systems has been maintained in the identification and analysis of technically and economically more cost effective solutions for the treatment and disposal of WWTP sludge.

The "Sludge Management Study", by Águas do Noroeste has been accompanied, seeking to implement a sludge management system in accordance with the AdP group's strategy for this sector.

Preparatory work for the construction of the first Solar Drying Unit (SDU) for sludge, to be installed in the Algarve, had to be stopped, when it became necessary to respond promptly to various requests for clarification from the municipality of Silves, the area envisaged for its construction. The assent of the municipality of Silves to the request for prior information on the feasibility of the licensing of the works for the construction of the SDU for sludge in São Bartolomeu de Messines was obtained on 18 April 2012. In this way, although the project is absolutely necessary for the Algarve region and in 2011 was considered as a priority by AdP SGPS, in April 2012 there were no financial resources available from AdP Energias, or AdP SGPS, to undertake the necessary investment, having studied several alternatives to its implementation.

Given the need to involve private entities in implementing the Group's sludge strategy, AdP Energias proceeded to draw up a Memorandum of Understanding (MoU) with the cement industry, particularly the company Ave - Gestão Ambiental e Valorização Energética. The AdP Group will be represented by AdP Energias. The signing of the document was made in September, with the presence of the Boards of Directors of AdP SGPS, Ave, Secil and Cimpor. The joint goal is to present a management model to the respective stakeholders based on a business model for the Sludge subsector.

In the aforementioned framework, AdP Energias also signed two other MoUs for the WWTP sludge sector, for pilot research solutions in different geographical regions: an MoU with INETO, in the Central area of the country, for the construction of a solar drying unit in an existing oven and another MoU with the companies Energopark/ Sunfish, to implement an innovative combination of different technologies, involving photovoltaic concentration and sludge drying.

### Other projects

It continued to cooperate with AdP SGPS in developing appropriate economic and business solutions concerning the Group's involvement in the development of collective solutions for treating pig effluent.

### Financial indicators

Financial indicators	2010	2011	<b>2012</b>	Unit: thousand euros	
				Change 2012/2011 Amount	%
Turnover	432,477	772,468	910,842	138,374	18%
Operating cash flow (EBITDA) <sup>1</sup>	(399,341)	216,088	546,279	330,191	153%
Current and non-current assets	4,414,426	4,863,025	4,991,009	127,984	3%
Current and non-current liabilities	1,662,399	2,177,594	2,160,064	(17,530)	(1%)
Financial result	(14,854)	(71,620)	(90,492)	(18,872)	(26%)
Net profit for the year	(1,584,106)	(66,596)	145,514	212,110	319%

<sup>1</sup> Operating income+ Depreciation + Provisions

The net profit of AdP Energias in 2012 was €146 thousand, representing an increase of €212 thousand compared to 2011, confirming the positive trend of recent years.

The evolution of turnover for AdP Energias essentially reflected the fact that 2010 was a year when the first investments in microgeneration and the subsequent operational start-up of the respective infrastructure were completed. In 2011, that trend was confirmed not only by the operational start-up of new microgeneration facilities, but also the completion of the business concerning low temperature heat recovery (ORC), which began the profit generation stage at the end of the year. 2012 reflected energy production, in full, by microgeneration and ORC facilities, but also the mid-year operational start-up of miniproduction facilities.

2010 was therefore a year that for AdP Energias represented a partial completion of investments in microgeneration facilities. This measure made this a year where the weight of costs was very significant in the life of the company, since profits from this only came on stream in 2011.

2011 reflected the projected income of the company, but also reflected the lower costs borne by AdP Energias due to the impact of the measures applied to State-owned Companies, both in terms of personnel costs as well as in terms of external services and supplies. In 2012, the cost-cutting measures imposed on the State-owned Companies remained as well as the positive development of the company's profits.

The non-current assets are primarily related to microgeneration and miniproduction facilities, a right to use ORC facilities and also a 40% stake in the share capital of Miese.

The asset development of AdP Energias in 2011 benefited from the capitalisation of the low temperature heat recovery asset (€633,000). In 2012 the assets benefited from the capitalisation of the miniproduction facilities (€756,000).

The liabilities of AdP Energias are to a large extent represented by a debt of €1.2 million owed to AdP SGPS, in the form of supplies which facilitated the company's different investments. Debt development in the following years has been the result of an increase in the supplier balance, through the investment made in the area of low temperature heat recovery.

The evolution of the financial result of AdP Energias reflects the taking out of a loan of €1.2 million with AdP SGPS in 2011, and which still remains to be repaid in 2012. This loan served in essence to carry out all the investments made in microgeneration.

## 6.4 International

### International Business Unit (UNI)

#### Background

The mission of the International Business Unit (UNI) is to carry out the commercial management of the AdP Group outside the country in an economically sustainable manner, acting as a showcase for the abilities and competencies of the Group at an international level and establishing itself as a lever for its internationalization.

It also plays an important role in the field of international cooperation, given that some of the actions it promotes or is engaged in on an on-going basis are geared towards cooperate and social responsibility, rather than being of an exclusively commercial nature. However, a principle driver of the unit's operations is economic sustainability.

To support the international strategy of the Group, AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A. (AdP I) was established in 2001.

With its activity oriented towards the economic and environmental sustainability of the projects and missions in which it is involved, AdP Internacional's main guidelines are as follows:

1. consolidating existing projects, favouring expansion into new businesses in markets where it already has significant presence or relevant experience;
2. sustaining growth by attracting new business within a logic of investment risk minimisation and a fee-based perspective;
3. strengthening organisational structure, focusing on managing the creation of shareholder value and consequently on the development of new economically sustainable businesses;
4. providing support for the internationalisation of other Portuguese companies.

#### Main events

The year 2012 was marked by seven new technical assistance contracts, namely:

- project to support the setting up of the water and wastewater sanitation company for the province of Uige, Angola, with funding from the Angolan government;
- project to support the setting up of the water and wastewater sanitation company for Sumbe (Kwanza Sul Province, Angola), in partnership with the firms KPMG and COBA, and with funding from the African Development Bank;
- project to draw up the roadmap for the setting up of the water and wastewater sanitation company for Cunene, Angola, with funding from the German Agency for International Cooperation, GIZ;
- technical assistance project for the Preparation of Projects and Audits (AT PF), with funding from the Angolan government;
- project to support the setting up of the water and wastewater sanitation company for Caxito (province of Bengo, Angola), with funding from the Angolan government;
- technical assistance project for the construction of the Water Treatment Plant at Matadi, Democratic Republic of Congo, in consortium with the construction company Sousa Pedro, and with funding from the World Bank;
- technical assistance project to the company Águas da Região de Maputo, Mozambique, to support commercial management, using the Aquamatrix software.

Of these listed projects, the Caxito project is the only one which has not yet started, and it is due to do so at the end of first quarter of 2013.

The continuation of the technical assistance contract with the Angola National Directorate for Water and Sanitation and the new contracts reflect the result of the investment that has been made by AdPI in this market, through consolidating the activity of its subsidiary (AdP Angola).

Also of note was the cancellation of the winding down of AdB - Águas do Brasil, S.A., which had started in 2009. This alteration in strategy for Brazil was due to the identification of a number of business opportunities in that market in the wastewater sanitation and solid waste sectors, resulting mainly from partnerships with Brazilian companies operating in those sectors. AdPI has developed many contacts, both at an institutional level and with several companies that potentially can become business partners, particularly in the states of Rio de Janeiro, Espírito Santo and Rio Grande do Sul.

In Mozambique, in 2011, following the strategic business refocusing carried out for the country, AdPI reactivated Aquatec, which became the company providing technical assistance consultancy services for the water, wastewater sanitation and waste sectors in this market.

During the first half of 2012, Aquatec was practically inactive during the selection process of its new director, who settled in Mozambique in September. Even so, in the second half of the year the company obtained its first technical assistance contract with the company Águas da Região de Maputo.

### Financial indicators

The economic and financial indicators shown below reflect the essentially instrumental nature of AdP Internacional, which ensures the transfer of resources necessary for the development of the activity of its subsidiaries and direct development of projects in the foreign markets in which it operates, and also through its subsidiary in Angola (AdP Angola).

Financial indicators	2010	2011	2012	Change 2012/ 2011	
				Amount	%
Turnover	1,657	1,656	3,750	2,094	126%
EBITDA <sup>1</sup>	(1,0326)	(1,262)	(470)	792	(63%)
Net assets	11,348	6,524	7,598	1,074	16%
Liabilities	5,816	7,208	8,425	1,217	17%
Financial result	(80)	(248)	(401)	(152)	(61%)
Net profit	8,501	(1,216)	(914)	302	25%

<sup>1</sup> Operating income+ Depreciation + Provisions

The company had a negative financial result of €914,000, although this corresponds to an improvement of €302,000 over the same period.

There was a doubling of turnover in 2012, due to the increase in the company's activity in Angola, due to the continuation of the project providing technical assistance to the National Directorate for Water Supply and Sanitation (DNAAS), the start of the UIGE, SUMBE and AT APF projects and the completion of the Cunene project.

What was important, however, was the inability to generate cash flow, although there was a substantial improvement in the mismatch between structure costs and levels of existing activity. This improvement is reflected in the EBITDA at the end of 2012, because although it is negative (-€470 thousand), it shows a growth of €792 thousand compared to 2011, supported by a clear increase in Turnover, greater than the increase in operating costs.

The improvement of the operational performance of the company was maintained in 2012, without, however, the cash-flow made available being able to fully cover the costs of existing structures.

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The improvement seen resulted from an increase in activity and changes to the company structure, through rationalisation of the existing staff structure (reduction in the number of tenured staff) and optimising its functioning.

The increase in liabilities of around €1,217 thousand is directly related to the increase in bank debt (increase in activity and improvement in payment periods), and the increase in the costs of suppliers resulting from the increase in activity, and the increase in the Other current liabilities heading, linked to AdP Angola.

Provisions were raised due to the renegotiation of a customer's debt.

Net assets saw a growth of €1,074 thousand compared to 2011, due to the €571 thousand Customer variation, resulting from the invoicing of new projects started at the end of the year (UIGE, SUMBE and AT APF) and the variation of €535 thousand in Other current assets linked to AdP Angola.

The financial performance saw a worsening of €153 thousand, totalling €402 thousand.

There were no financial gains, due to the increase in financial costs resulting from the worsening of the financing conditions, the increase in debt as a result of the increase in the company's activity and the profile of existing projects (monthly costs and six-monthly invoicing), the worsening of costs for bank guarantees and the increase in exchange losses recorded.

AdPI intends to continue the sustained growth process of its activity by consolidating the image of the AdP Group in the markets in which it operates and in new markets such as Mozambique, North Africa, Timor and Brazil.

## 6.5 Shared services

### Shared Services Business Unit (UNSP)

UNSP is the unit responsible for the group's shared services and includes the companies that operate in support and complementary sectors. Its mission is to provide shared and support services common to all of the companies and business units in the AdP Group, efficiently and at competitive prices, facilitating the generation of economies of scale, providing technologically advanced solutions, incorporating good management practices and contributing decisively to achieving the Group's corporate aims in the different areas where it operates.

#### AdP Serviços

AdP - Águas de Portugal Serviços Ambientais, S.A. (AdP Serviços) is especially concerned with providing the common support services necessary for the running of the Group's business units and companies. The provision of services is ensured by a group of seven functional departments, which simultaneously perform activities of a corporate nature and provide shared services and a staff structure in support of the Board of Directors.

Department/ Area	Mission	Department/ Area	Mission
Planning and Operations	Support the Board of Directors in the definition of strategy, objectives and shared service policies, engage in actions demonstrating the benefits of the shared service model and the development of control procedures taking into consideration the management of relationships with companies. Supervising the management of projects transversal to AdP Serviços of strategic relevance to business development.	Financial Services and Accounting	Provide accountancy services to the holding company and shared services as well as consolidating the AdP Group accounts, promoting the standardisation of principles, procedures and tools and thus contributing towards the steady improvement of Group business practices and processes.
Procurement and General Support	Leveraging the business advantages resulting from Group scale, holding responsibility for the development of centralised negotiation processes in areas deemed strategic thus providing, in conjunction with an e-procurement system, process gains and operationally added value that companies would never attain individually.	Marketing and Communication	Support group companies by providing integrated strategic marketing communication and graphic design services incorporating creativity, efficiency and quality as fundamental values.
IT Systems	Implementation of Group strategy and guidelines on IT Systems favouring standardisation and normalisation. Is also responsible for the management of network infrastructures and system applications of shared services companies.	Legal Department	Provision of consultancy and legal support services to the Group in the supervision of litigation, in areas of company law, public tender processes, and environmental legislation.
Human Resources	Centrally carrying out of human resource procedures, specifically contract management and processing of salaries, training, recruitment and selection, among others.	Engineering	Provision of engineering services in the three concession contract phases (planning, construction and operation) to all Group companies and to the holding company, with the objective of consolidating a Group technical culture, boosting process efficiency and establishing synergies, serving as a channel of communication and conveying the technical knowledge accumulated across the universe of Group companies.

#### Main events

During 2012, the activity of AdP Services was focused on monitoring the implementation of the roadmap towards the restructuring of the Group, including monitoring the mergers and vertical integration processes in progress. In terms of preparing for these processes, of note has been the development of technical and legal components, including the development of technical models, the study on optimizing associated operational costs and the operational organisation of future systems, monitoring the processes involving the development of the legal and contractual modelling, as well as the preparatory work to adapt and implement the existing consolidated processes within the Group.

The AdP Serviços provides financial and process/efficiency gains due to it being responsible for the development of centralized bargaining processes in strategic areas, (for example, the simplification and streamlining of the pre-contractual process through the launch of a single public procedure and streamlining the purchasing act through the provision of prices through the electronic purchasing system, etc.), yielding operational gains which each company in isolation would not achieve.

In 2012, it was estimated that the AdP Group benefited in financial gains due directly to the centralization of negotiations by about €10.7 million, with additional benefits derived from the process estimated at about €1.5 million.

Other highlights among the projects and initiatives developed by AdP Serviços departments in 2012 included:

- launch of the tender to carry out the new framework agreements in the categories of reagents and energy;
- launch of the initiative to develop a methodology for Infrastructure Asset Management within the AdP Group;
- legal and judicial monitoring of the procedures for the acquisition of reagents and the supply of electricity, as well as the preparation of procedures relating to insurance and communications;
- legal assistance to AdP subsidiaries in monitoring the application of financial corrections under the POVT framework;
- launch of an integrated campaign to raise awareness of the efficient use of water for UNA-PD companies, implemented by Águas do Centro Alentejo;
- planning and monitoring of the execution of the AdP EcoAtitude Campaign, implemented in the AdP head office and presented to the UNA-PD companies;
- providing human resources technical advice to AdP International projects, including the roadmap project to create a start-up company in the water and wastewater sanitation sector for the province of Cunene in Angola and the project to set up a water and wastewater sanitation company in Sumbe in Angola;
- development of SAP BW and Microstrategy;
- implementing the Group's accounting procedures handbook;
- developing and implementing specific accounting policies for the Concessions.

#### **Financial indicators**

Financial indicators	2010	2011	2012	Δ 2012 / 2011
Provision of services	11,028	10,079	9,967	(1%)
Other income and earnings	3,272	2,951	2,683	(9%)
Operating cash flow (EBITDA) <sup>1</sup>	3,571	4,504	4,431	(2%)
Current assets	5,368	3,349	5,050	51%
Non-current assets	24,506	23,600	22,425	(5%)
Current liabilities	8,940	5,919	7,140	21%
Non-current liabilities	18,339	17,344	15,406	(11%)
Financial result	(329)	(471)	(427)	9%
Net profit	648	1,691	2,244	33%

<sup>1</sup> Operating income + Depreciation + Provisions

In 2012 AdP Serviços obtained a net profit of €2,244 million, which represents an increase of 33% over the previous year; reflecting continued good operating performance by the company, as reflected in an EBITDA of €4,431 million in 2012, despite a slight reduction in the turnover of the company.

The services remained at the level of previous years, fulfilling the requirements of what had been budgeted for the year.

Other income and earnings showed a decrease as a result of the lower revised price per m<sup>2</sup> for use of the building, the result of earnings in contracts related to this.

Also included in this item is a windfall gain of €456 thousand relating to contractual penalties invoiced to the building's constructor.

Assets rose to be €27,474 million higher than in 2011, a result of increased third party debts and other assets (amounts to be invoiced for 2012).

The liabilities reflect a decrease, due on the one hand to a positive change in non-current liabilities (amortization of the building lease) but on the other hand a negative change in current liabilities, with an increase in the bank overdraft.

The financial result (€427 thousand) improved as a result of decreased interest on the building lease.

### Aquasis

Aquasis - Sistemas de Informação, S.A., was set up in 1991 by a group of civil engineers working in the hydraulics area, initially under the name of Aquasis - Consultores de Engenharia Municipal e Ambiente, Lda. Since its inception, the company has brought its know-how to the areas of hydraulic and sanitary engineering, in general, and water supply and wastewater and rainwater collection systems, in particular; and its assets in the area of information technology, particularly in the development of information systems. Thus, since its foundation, Aquasis has been concerned with the development of information systems aimed specifically at companies and bodies managing sanitation systems, and in Portugal pioneered the implementation of these types of information technologies.

As a result of its strategic development, the company established itself in the market, and in 2002 was partially purchased by AdP - Águas de Portugal, SGPS, S.A.

Nowadays its mission is to provide, develop and implement services, products and solutions to enhance the operational efficiency, cost efficiency and environmental sustainability of water, wastewater sanitation and waste utilities, based on information technologies, including:

- setting up a range of information system solutions and services (geographic information services, asset maintenance and management, integrated operation management and remote management, among others) for the technical management, operation and maintenance of water supply, wastewater sanitation and municipal solid waste collection, treatment and recovery systems;
- provide services and implement solutions for AdP Group (multi-municipal and municipal) companies and in companies and management entities operating in the sector, across all the respective components, specifically, analysis of functional processes, support for IT architecture, handling and processing of data, technical assistance, post- implementation support and training;
- promote the implementation of the aforementioned solutions, in national and international markets, in general;
- develop strategic development programmes, support for the technical management of AdP Group subsidiary companies, taking into account the standardisation of business processes for companies operating and running the same type of systems.

Membership of the AdP Group universe endows Aquasis with unique characteristics that differentiate it in relation to other information technology companies in the Portuguese marketplace, in particular:

- total specialisation in the fields related to water supply system and wastewater collection system (upstream and downstream) management companies as well as the collection and treatment of municipal solid waste;
- proximity and collaborative development with operational companies, which, allied with the existing engineering know how, provide thorough knowledge of the business and the real problems confronted on the ground;
- the opportunity, in conjunction with operational companies, to test out methodologies and solutions, *in situ*, thus providing guarantees as regards their appropriateness to the reality of the sector and the business;
- guarantee lasting solutions, with permanent teams dedicated to development, implementation, training and post- installation support and responding to operational/technological evolutions and the constant needs of users.

Particularly with regard to the field of geographic information systems, Aquasis is the national leader in the development and implementation of solutions for companies and entities managing water supply systems and wastewater and rainwater collection systems (upstream and downstream), and has entered the international market in Spain and Angola and also, hopefully in the short-term, will do so in the Brazilian market.

#### Main events

In 2012 Aquasis carried out major technical and commercial actions, both for the AdP Group companies and in the domestic and international markets, with special focus on companies and entities managing sanitation infrastructures.

As such, the following actions should be highlighted:

- SIG G/InterAqua Solution- Projects:
  - AdP Serviços, S.A.: Technical Support for the Organisation Study of the Operational Area of Águas do Norte de Portugal and Águas do Centro Litoral and the Licence for the Base Information Regarding the Transportation Network;
  - Lisboa municipality: Supply and Installation of the Geographic Information System and Sanitation Register Web Components;
  - Águas do Oeste, S.A.: Supply and Configuration of the G/InterAqua Solution Web Component;
  - EPAL, S.A.: Purchase of Technical Assistance Services for Revision of the G/InterAqua Solution Data Model;
  - Águas de Portugal Internacional, S.A.: Information Collection Solution;
  - SMAS de Oeiras e Amadora: Supply and Installation of the G/InterAqua Solution CCTV Module;
  - Águas de Portugal Internacional, S.A.: Information Collection Solution;
  - Águas da Região de Aveiro, S.A.: Supply and Installation of G/InterAqua Solution Query Station;
  - Águas de Santo André, S.A.: Supply and Installation of the following G/InterAqua Modules; Longitudinal Profiles; Service Orders.
- SIG G/InterAqua Solution -Technical Assistance and/or Upgrading Maintenance
  - AdP Serviços, S.A.: Upgrading Maintenance;
  - Águas da Região de Aveiro, S.A.: Upgrading Maintenance;
  - Águas de Santo André, S.A.: Upgrading Maintenance;
  - Águas de Trás-os-Montes e Alto Douro, S.A.: Technical Assistance and Upgrading Maintenance;
  - Águas do Algarve, S.A.: Upgrading Maintenance;
  - Águas do Centro, S.A.: Upgrading Maintenance;
  - Águas do Centro Alentejo, S.A.: Upgrading Maintenance;
  - Águas do Douro e Paiva, S.A.: Upgrading Maintenance;
  - Águas do Mondego, S.A.: Technical Assistance and Upgrading Maintenance;
  - Águas do Noroeste, S.A.: Technical Assistance and Upgrading Maintenance;
  - Águas do Norte Alentejano, S.A.: Upgrading Maintenance;

- Águas do Oeste, S.A.: Technical Assistance and Upgrading Maintenance;
- Águas do Zêzere e Côa, S.A.: Upgrading Maintenance;
- Águas Públicas do Alentejo, S.A.: Upgrading Maintenance;
- Algar, S.A.: Upgrading Maintenance;
- Amarsul, S.A.: Upgrading Maintenance;
- EPAL, S.A.: Technical Assistance and Upgrading Maintenance;
- Sanest, S.A.: Technical Assistance and Upgrading Maintenance;
- Simarsul, S.A.: Upgrading Maintenance;
- Simlis, S.A.: Upgrading Maintenance;
- Simria, S.A.: Upgrading Maintenance;
- Simtejo, S.A.: Upgrading Maintenance;
- Águas da Figueira, S.A.: Technical Assistance and Upgrading Maintenance;
- Águas de Cascais, S.A.: Technical Assistance and Upgrading Maintenance;
- Águas do Sado, S.A.: Technical Assistance and Upgrading Maintenance;
- SMAS de Almada, S.A.: Technical Assistance and Upgrading Maintenance;
- SMAS de Oeiras e Amadora, S.A.: Technical Assistance and Upgrading Maintenance;
- SMAS de Sintra: Technical Assistance and Upgrading Maintenance;
- SMAS de Torres Vedras: Technical Assistance;
- ATLL - Aigües Ter Llobregat, S.A.: Upgrading Maintenance;
- EMALSA, S.A.: Upgrading Maintenance;
- EPAL, E.P.: Technical Assistance and Upgrading Maintenance.

- Maintenance and Asset Management Information System - Projects:

- AdP Serviços, S.A.: Maintenance and Asset Management Information System for AdP Group Companies/ Solution Development and Installation of New Version;
- Águas de Santo André, S.A.: Integration of Property, Improvement and Assessment Functionality (through AdP Serviços, S.A.);
- Águas da Região de Aveiro, S.A.: Additional System Parameterization;
- Águas do Centro Alentejo, S.A.: Auditing, Validation and Loading of Level 7 and 8 Locations;
- SMAS de Oeiras e Amadora: Consultancy providing Support for Infrastructure Management Implementation;
- WeBuild: Technical Assistance to the Information Maintenance System at the Pego Thermoelectric Power Station.

- Maintenance and Asset Management Information System; Technical Assistance and/or Maintenance (through AdP Serviços, S.A.):

- Águas de Santo André, S.A.: Maintenance;
- Águas de Trás-os-Montes e Alto Douro, S.A.: Technical Assistance and Maintenance;
- Águas do Centro Alentejo, S.A.: Maintenance;
- Águas do Douro e Paiva, S.A.: Maintenance;
- Águas do Mondego, S.A.: Maintenance;
- Águas do Noroeste, S.A.: Maintenance;
- Águas do Norte Alentejano, S.A.: Maintenance;
- Águas do Oeste, S.A.: Maintenance;
- Águas do Zêzere e Côa, S.A.: Maintenance;
- Sanest, S.A.: Maintenance;
- Simlis, S.A.: Technical Assistance and Maintenance;
- Simria, S.A.: Maintenance;
- Simtejo, S.A.: Maintenance.

- Automation and Control:

- Águas do Noroeste, S.A.: Review and Update of the Telemanagement Project of the Multi-Municipal Water Supply System for the North Alentejo;
- Águas do Norte Alentejano, S.A.: Review and Update of the Telemanagement Project of the Multi-Municipal Water Supply System for the North Alentejo;

- Águas de Santo André, S.A.: Project involving the Telemanagement System for the Sanitation System;
- Águas do Norte Alentejano, S.A.: Technical Assistance for the Renegotiation of the Multiservice Communications Network;
- EPAL, Empresa Pública de Águas, E.P.: Project Implementation for the Benfica 2 Distribution Control Centre;
- EPAL, Empresa Pública de Águas, E.P.: Project Preparation for the Interior of the Valódia Contact Centre;
- EPAL, Empresa Pública de Águas, E.P.: Project Preparation for the Interior of the Order Room / Contact Centre of the EPAL Head Office;
- Simtejo, S.A.: Technical Assistance for the Renegotiation of the Multiservice Communications Network.

Besides its technical and commercial activity it has also continued to develop new products in line with what had been done in previous years. Of note in this regard are the following activities and the development of the following products:

- **G/InterAqua SWMM:** A module which, similar to the existing G/InterAqua EPANET model, allows coded data to be exported to the SIG G/InterAqua solution for the storm water management model (SWMM) program to simulate the hydraulic operating conditions of domestic wastewater and rainwater collection systems.
- **G/InterAqua CCTV:** Module to optimise the management and planning of CCTV video inspections across the drainage network, allowing results to be viewed at any time, in regular time intervals, for video inspections, according to the type of classification obtained. The data obtained when carrying out the video inspections on sections of the sewer network, using the Wincan software program, which has been designed according to the European standard for CCTV inspections, EN 13508/2, 2003, are used to record a range of information relevant to future planning of both interventions and new video inspections.
- **G/InterAqua Mobility PDA:** Module that allows PDA use with an attached GPS receiver in the mobility component of the SIG G/InterAqua solution to record service orders data in the operation of customer systems.
- **G/InterAqua Mobility Navigation:** Module for the mobility component of the SIG G/InterAqua solution for use with a tablet PC with an attached GPS receiver; which provides a navigation capability to optimise routes (fastest/shortest route).
- **Web Services - SMGA:** Providing services for GIS G/InterAqua and SMGA integration, thus enabling information updates on assets registered in both systems.
- **Web Services OT:** Providing services for GIS G/InterAqua and SMGA integration, thus enabling integral management of the complete work order (OT) lifecycle (creation, change of status and deletion).
- **Web Services - Suspension:** Providing services for GIS G/InterAqua and various CRM systems (Customer Relationship Management) integration, thus enabling the integral management of the complete lifecycle management of suspensions in supply and management by the CRM system of the customers affected.
- **Web Services - Roadmap:** Providing integration services between GIS G/InterAqua and other systems that require street map information and their door numbers.
- **Web Services - Content:** Provision of services for making maps available in standard format, according to the standards set by the OGC (Open GIS Consortium), namely: WMS (Web Map Service) and WFS (Web Feature Service), for other information systems with the ability to read these standards.

In 2012, Aquasis established a partnership with IBM Portugal, S.A., and signed an ISV contract (Independent Software Vendor), which is strategic for the asset maintenance and management area.

Also noteworthy, in 2012 was the holding of a Staff Meeting with the theme "Growing by innovating in the water market" which led to an internal restructuring of the company and the defining of a new vision and the alteration of its organisational chart. The new strategic vision seeks essentially to transform the company into a reference partner for the bodies managing water supply, wastewater sanitation and waste systems, to implement client-based innovative IT solutions, to guarantee operational efficiency and cost rationalization to these operators.

This was carried out throughout the company, with the intention that this restructuring would initiate a process of change focused on strengthening the organization and promoting the growth of Aquasis and total alignment at all levels of the company with the objectives established for 2013.

#### Financial indicators

Financial indicators	2010	2011	2012	Δ 2012 / 2011
Turnover	2,404	2,297	1,937	(15.7 %)
Operating cash flow (EBITDA) <sup>1</sup>	73	76	89	16.9 %
Current and non-current assets	1,823	1,851	2,146	16.0 %
Current and non-current liabilities	1,371	1,400	1,851	32.1 %
Financial result	(10)	(34)	(79)	133.2 %
Net profit	32	28	(130)	(558.1 %)

<sup>1</sup> Operating income + Depreciation + Provisions

The operating performance of Aquasis was an improvement on 2011, with an EBITDA of €89,000, which corresponds to a 16.9% increase on the previous year; despite a reduction in company turnover.

The negative change in turnover occurred in particular in the domestic market, both from the AdP Group companies (-21%) and the remaining domestic market (-42%). In the international market company turnover grew 38%.

Assets rose to €2,146 million, which was higher than 2011, a result of a significant increase in third party debts.

The increase in liabilities reflects an increase in supplier debt, the result of certain cash flow difficulties experienced by the company, due to customer delays in payments.

The increase in financial expenses by 133% is related to the deterioration in the company's financing conditions. Regarding expense on interest, this is explained by the increase in the 7% spread applied in 2012 (6% in 2011), as well as the management commission fee, which was 2% in 2012 (1.25% in 2011). The increase in financing interest is related to the cash flow support contracted with AdP - Águas de Portugal, SGPS, S.A., as well as the increase in the spread applied to this cash flow support, which was 6.7% in 2012.

The net result was negative, mainly due to the following factors: a very significant increase in financial expenses, which totalled €79,300.32 and the adjustments recorded due to customer impairment, amounting to €76,608.00.

## **7. Company and industry outlook**

In 2013, the AdP Group will celebrate its twentieth anniversary, and will mark the past with pride and with confidence in the future, in a history characterised by a journey of business excellence in terms of the results shown and by the positive developments in the Country in its areas of activity.

The future of the AdP Group involves the effective carrying out of its mission, which includes the development of activities to promote economic, financial, technical, social and environmental sustainability which will enable this Portuguese business group to leverage its skills to respond effectively to the major challenges that lie ahead in the environmental sector in Portugal.

It is expected that the water sector restructuring which started in 2012 will already show objective results during 2013, particularly with regard to the implementation of new aggregated systems that will enable the elimination of accumulated, and future, cost recovery deviations - by the twenty-fifth year of the concession - which will provide operating results and net profits from the first year of activity of the companies of the Group and promote customer-based tariff fairness, as long advocated in our Country.

The new Organic Law for ERSAR, which will give rise to an independent regulator with powers to ensure the economic regulation of all managing bodies, will certainly contribute to creating an environment promoting efficiency and effectiveness in the provision of public services. In this context, it is of the utmost importance to consider the application of a tariff regulation that has the economic and financial recovery of services costs as one of the principles in setting tariffs, as well as the conservation of natural resources and the promotion of efficient behaviour by consumers and the definition of a social tariff and tariff structures that incorporate the size of the household.

The recovery of the costs of services by managing bodies for household services is essential for their sustainability, and it is essential to ensure the cash flow necessary to pay the wholesale suppliers, and as such it is expected that the process of debt recovery from customers of the AdP Group companies will show positive results in the near future. This highlights, in this regard, the importance of providing a detailed invoice, which implies a mechanism that can autonomously generate a value in the invoice sent to the consumer of the amount due to the operator managing the upstream service and the amount due to the body managing the municipal system.

Along with the reorganization of the systems in terms of the aggregation processes and the development of actions aimed at implementing the vertical integration of the water supply and wastewater sanitation sector, the AdP Group will continue to strive to optimise efficiency levels along with the rational use of resources by opting for "virtuous" investment to guarantee quality of service levels while also ensuring the economic sustainability of its projects.

With these assumptions, it should be noted that AdP still has underway, projected for the 2013-2020 period, the implementation of investments relating to the consolidation and expansion of the water supply systems and, in particular, systems for wastewater treatment, and also those which are eco-efficient in terms of energy and adapting to climate change.

The waste sector, presuming that the treatment and recovery of waste will continue to be carried out in an environmentally responsible and economically sustainable manner and contribute to improving the quality of life of people, throughout 2013 will continue the process of the divestiture of its share capital in EGF towards it being made more open to private capital, taking into account the requirements of transparency and quality assurance in the future provision of this public service.

In the international area, it will continue its strategy to consolidate and develop business in the markets where the AdP Group is currently present and any consideration of new markets will follow the principle of economic and financial activity that also guides AdP Group operations in this commercial area.

As regards energy, special attention will be given to energy efficiency, including the introduction of greater efficiency in consumption, together with the development of a strategy for maximizing the use of local resources by the Group in hydroelectric or thermal energy production and treatment processes involving emissions from operating facilities.

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Reuse, water and wastewater treatments, including recovery of by-products, and the water-energy nexus are indeed priority investment areas within the innovation strategy for the water sector in the new Community support framework Horizon 2020, such that a strategy is being designed which, among other initiatives, will develop and implement innovative solutions, with emphasis on the optimisation of the operational management of the water and sanitation systems of the AdP Group, among other areas.

The AdP Group has the economic, financial and technical conditions to enable it to contribute to ensuring that the water and waste sectors in Portugal are sectors to be referenced at the international level, a fact which, along with the high quality and competence of its employees, provides it with the basis needed to face the future with confidence.

## **8. Relevant facts after the close of the financial year**

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

AdP began studies for the possible development of a project to make best use of its telecommunications infrastructure.

The process for developing the Strategic Plan for Water Supply and Wastewater Sanitation (PEAASAR) for 2014-2020 was started. The process of revising the PERSU for 2013-2020 also started.

The responsible Ministries approved the review of the AdP Group's investment plan.

In January 2013, AdP SGPS, Águas do Algarve, Águas do Mondego, Águas do Douro e Paiva, Águas do Centro and the European Investment Bank signed an amendment to the €227 million financing contract, which had been awarded in June 2007. This amendment extended the period to carry out the investments in the area of water supply and wastewater sanitation in the multi-municipal systems managed by those companies until 31 December 2015. The extension of the period to use tranche B of the aforementioned co-funding line until 2 November 2014 was also formalized.

In March 2013 at the General Meetings of the AdP Group companies, the municipal partners were informed of the study and work undertaken to restructure the sector, as well as on-going legislative changes, including changes to Decree-Law 379/93, of 5 November, the organic law for ERSAR, aimed at strengthening its powers, and the law delimiting the sectors (which have been under discussion in the Portuguese Parliament since January 2013).

## **9. Company subsidiaries**

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

AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A., wholly owned by AdP SGPS, has a subsidiary in Angola named AdP Angola.

## 10. Final considerations

The Board of Directors expresses its recognition of and gratitude for the effort and commitment of all those who, directly or indirectly, participated in 2012 in seeking to achieve the goals of the AdP Group, namely:

- to the staff and employees of AdP SGPS and all its companies for the skill, professionalism and dedication shown in performing their duties, especial in such a demanding year;
- to the directors and managers of all the Group companies, for their commitment and the work they accomplished, particularly in carrying out the work relating to the on-going restructuring;
- to the municipalities, private partners and financial institutions for the trust and cooperation they have shown;
- to the members of the Board of the General Meeting, the Supervisory Board, the Statutory Auditor and the External Auditor, for the impartial and exemplary manner in which they have superintended the Group's activities;
- to our Shareholders for their guidance and their commitment, trust and support;
- to the Regulatory Authority for its availability and cooperation;
- to the official Portuguese and international bodies with whom we have an institutional relationship, especially the organisations responsible for coordinating, supervising and regulating the environmental sector;
- to the Ministers and other staff members of the Government Departments with sectorial and financial responsibilities for the AdP Group.

Lisboa, 26 March, 2013

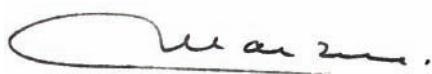
The Board of Directors



Afonso José Marçal Grilo Lobato de Faria  
(Chairman)



Álvaro António Magalhães Ferrão de Castello-Branco  
(Member)



Manuel Joaquim Barata Frexes  
(Member)



Gonçalo Ayala Martins Barata  
(Member)



Manuel Maria Pereira Fernandes Thomaz  
(Member)



Joaquim António Pais e Jorge  
(Non-executive Member)

## II. Proposed appropriation of profits

AdP SGPS recorded a net profit for 2012 of €42,271,202.56 (forty two million, two hundred and seventy-one thousand, two hundred and two euros and fifty-six cents).

Correspondingly, the Board of Directors, in accordance with the terms of article 19 of the Company Statutes and Articles 31 to 33 and 66 of the Commercial Companies Act, proposes that the net profit for the financial year of 2012, as recorded in the separate financial statements, be applied as follows:

- to the Legal Reserve - €2,113,560.13 (two million, one hundred and thirteen thousand, five hundred and sixty euros and thirteen cents);
- to Carried-over Earnings - €16,657,642.43 (sixteen million, six hundred fifty-seven thousand, six hundred and forty-two euros and forty-three cents);
- for distribution as dividends - €23,500,000 (twenty three million five hundred thousand euros).

Lisboa, 26 March 2013

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria  
(Chairman)

Álvaro António Magalhães Ferrão de Castello-Branco  
(Member)

Manuel Joaquim Barata Frexes  
(Member)

Gonçalo Ayala Martins Barata  
(Member)

Manuel Maria Pereira Fernandes Thomaz  
(Member)

Joaquim António Pais e Jorge  
(Non-executive Member)

## **12. Notes to the annual report**

On the closing day of the 2012 financial year, the equity capital of AdP - Águas de Portugal, SGPS, S.A. was wholly owned by the following shareholders:

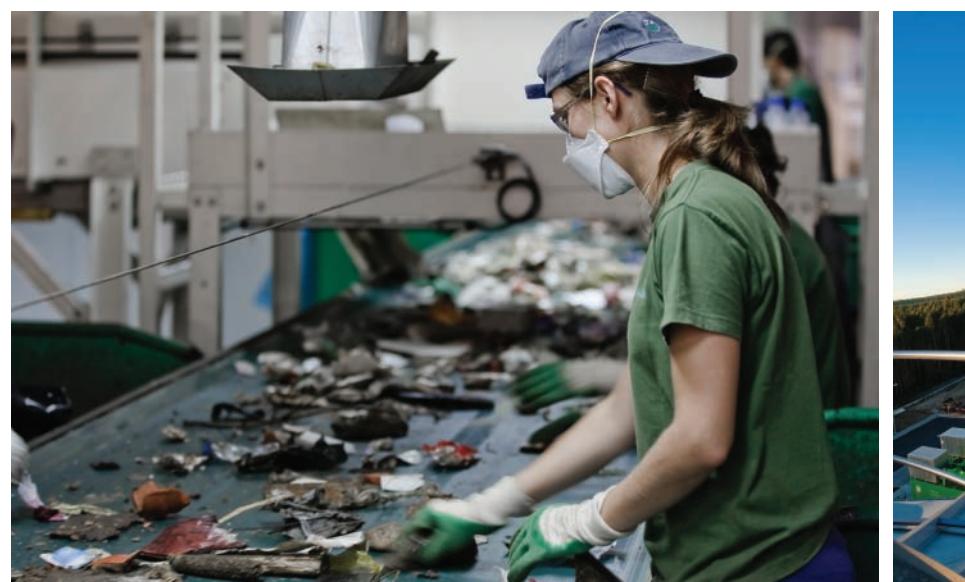
<b>Shareholders</b>	<b>%</b>	<b>Nº of Shares</b>	<b>Amount (€)</b>
Direção-Geral do Tesouro	8.82	7,666,282	38,331,410
Parcaixa, SGPS, S.A.	19.00	16,511,000	82,555,000
Parpública - Participações Públicas, SGPS, S.A.	72.18	62,722,718	313,613,590
<b>Total</b>	<b>100.00</b>	<b>86,900,000</b>	<b>434,500,000</b>

On 31 January 2013, the shareholding that the Direção-Geral do Tesouro (Directorate-General for the Treasury) held in the company was fully transferred to Parpública, SGPS, S.A., which now holds 81% of the capital of AdP SGPS.

In compliance with the legal provisions in force, we hereby state that there are no outstanding debts to the State-owned Public Sector.

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# Financial Statements for 2012





# Separate financial statements

for the year ended 31 December 2012

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## Statement of financial position

(amounts in euros)

	Notes	2012	2011
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	7	596,713	-
Tangible fixed assets	8	1,569	11,875
Financial investments	9	745,155,155	741,359,026
Loans to Group companies	10	201,680,575	239,214,100
Derivatives		-	-
		<b>947,434,012</b>	<b>980,585,001</b>
<b>Current assets</b>			
Trade receivables	11	28,758,610	13,633,108
Group companies	12	82,180,856	106,373,778
Other receivables	13	4,260,562	3,674,554
Income tax		-	-
Cash and cash equivalents	15	158,034,093	80,686,435
		<b>273,234,120</b>	<b>204,367,875</b>
<b>Total Assets</b>		<b>1,220,668,132</b>	<b>1,184,952,877</b>
<b>EQUITY</b>			
Share capital	16	434,500,000	434,500,000
Adjustments of shareholdings in subsidiaries and associated companies		26,438,662	27,094,733
Fair value reserve		(6,529,704)	-
Legal reserves		12,888,141	11,530,460
Retained earnings		29,934,064	18,482,051
Net income for financial year		42,271,203	27,153,623
<b>Total Equity</b>		<b>539,502,366</b>	<b>518,760,866</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provisions	17	11,946,887	11,216,885
Bank loans	18	605,055,721	601,591,950
Derivatives	19	54,624,093	36,864,384
		<b>671,626,701</b>	<b>649,673,219</b>
<b>Current liabilities</b>			
Trade payables	20	356,331	800,447
Income tax	14	3,353,673	9,159,270
Other creditors	21	5,829,061	6,559,075
		<b>9,539,065</b>	<b>16,518,792</b>
<b>Total Liabilities</b>		<b>681,165,767</b>	<b>666,192,011</b>
<b>Total Liabilities and Equity</b>		<b>1,220,668,132</b>	<b>1,184,952,877</b>

Lisboa, 26 March 2013

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)  
 Joaquim António Pais e Jorge (Non-executive member)

The Chartered Accountant  
 Carla Isabel Costa Pinto Ribeiro

## Income statement

(amounts in euros)

	Notes	2012	2011
Provision of services	22	10,663,579	10,666,382
<b>Turnover</b>		<b>10,663,579</b>	<b>10,666,382</b>
External supplies and services	23	(5,448,629)	(6,163,625)
Personnel costs	24	(3,755,847)	(4,707,193)
Amortisations in year	25	(12,398)	(16,116)
Provisions and reversals in year	17	(730,003)	(3,398,429)
Other operating expenses	26	(284,320)	(1,707,798)
Other operating income and gains	27	894,577	1,568,393
<b>Operating income</b>		<b>1,326,959</b>	<b>(3,758,387)</b>
Financial expenses	28	(33,497,218)	(42,640,614)
Financial income	29	74,707,696	71,536,789
<b>Current income</b>		<b>42,537,437</b>	<b>25,137,789</b>
<b>Profits before taxes</b>		<b>42,537,437</b>	<b>25,137,789</b>
Income tax for year	14	(266,234)	2,015,834
<b>Net income for financial year</b>		<b>42,271,203</b>	<b>27,153,623</b>
Income per share (basic and diluted)	16	0.49	0.31
		<b>2012</b>	<b>2011</b>
<b>Net income for financial year</b>		<b>42,271,203</b>	<b>27,153,623</b>
Fair value of cash flow hedging instruments		(6,529,704)	-
<b>Comprehensive income</b>		<b>35,741,500</b>	<b>27,153,623</b>

Lisboa, 26 March 2013

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria (Chairman)  
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The Chartered Accountant  
 Carla Isabel Costa Pinto Ribeiro

## Statement of changes in equity

(amounts in euros)

	Share capital	Adjust. shareholdings	Legal reserves	Cash flow hedging instruments	Free reserves	Retained earnings	Net profit	Total
<b>Balances 31 December 2010</b>	<b>434,500,000</b>	<b>27,638,892</b>	<b>10,163,283</b>	<b>-</b>	<b>19,000,764</b>	<b>(39,246)</b>	<b>27,343,552</b>	<b>518,607,244</b>
Cancellation of exchange variation effects	-	-	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-	-	-
Realisation of revaluation reserves (subsidiaries)	-	(544,160)	-	-	-	544,160	-	-
Allocation of 2010 profits	-	-	1,367,178	-	-	25,976,374	(27,343,552)	-
Distribution of dividends	-	-	-	-	(19,000,764)	(7,999,236)	-	(27,000,000)
Net profits for 2011	-	-	-	-	-	-	27,153,623	27,153,623
<b>Balances 31 December 2011</b>	<b>434,500,000</b>	<b>27,094,733</b>	<b>11,530,460</b>	<b>-</b>	<b>-</b>	<b>18,482,051</b>	<b>27,153,623</b>	<b>518,760,866</b>
Cancellation of exchange variation effects	-	-	-	-	-	-	-	-
Recognition of the MTM for hedge adjustments	-	-	-	(6,529,704)	-	-	-	(6,529,704)
Realisation of revaluation reserves (subsidiaries)	-	(656,072)	-	-	-	656,072	-	-
Allocation of 2011 profits	-	-	1,357,681	-	-	25,795,942	(27,153,623)	-
Distribution of dividends	-	-	-	-	-	(15,000,000)	-	(15,000,000)
Net profits for 2012	-	-	-	-	-	-	42,271,203	42,271,203
<b>Balances 31 December 2012</b>	<b>434,500,000</b>	<b>26,438,662</b>	<b>12,888,141</b>	<b>(6,529,704)</b>	<b>-</b>	<b>29,934,064</b>	<b>42,271,203</b>	<b>539,502,366</b>

Lisboa, 26 March 2013

**The Board of Directors**

Afonso José Marçal Grilo Lobato de Faria (Chairman)  
 Álvaro António Magalhães Ferrão de Castello-Branco (Member)  
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 Manuel Maria Pereira Fernandes Thomaz (Member)  
 Joaquim António Pais e Jorge (Non-executive member)

**The Chartered Accountant**  
 Carla Isabel Costa Pinto Ribeiro

## Statement of cash flows

(amounts in euros)

	<b>2012</b>	2011
<b>Operating activities</b>		
Cash flows generated by operations		
Receipts from trade receivables	33,965,740	38,291,997
Payments to trade payables	(6,962,349)	(7,323,752)
Payments to personnel		
Salaries	(1,875,689)	(2,428,285)
Personal income tax	(695,529)	(939,688)
Social security	(843,792)	(1,016,206)
Other	(33,337)	(50,486)
<b>Cash flows generated by operations</b>	<b>23,555,043</b>	<b>26,533,581</b>
Other cash flows before extraordinary items		
(Payment)/ Receipt of income tax and VAT	(2,310,917)	(2,510,842)
Other receipts /(Payments) related to operating activity	(2,443,958)	426,676
<b>Cash flows before extraordinary items</b>	<b>(4,754,875)</b>	<b>(2,084,165)</b>
<b>Total operating activities (1)</b>	<b>18,800,168</b>	<b>24,449,415</b>
<b>Investments</b>		
Receipts from:		
Financial investments	74,090,708	52,028,618
Interest and similar income	3,345,985	5,718,350
Dividends	38,215,674	41,674,490
<b>Sub-total</b>	<b>115,652,368</b>	<b>99,421,458</b>
Payments relating to:		
Financial investments	(22,500,576)	(141,803,949)
Tangible fixed assets	(799)	(207,478)
<b>Sub-total</b>	<b>(22,501,375)</b>	<b>(142,011,426)</b>
<b>Total investments (2)</b>	<b>93,150,993</b>	<b>(42,589,968)</b>
<b>Funding activities</b>		
Receipts from:		
Loans received	207,478	207,478
<b>Sub-total</b>	<b>207,478</b>	<b>207,478</b>
Payments relating to:		
Interest and similar costs	(20,141,805)	(15,055,566)
Dividends	(14,669,177)	(26,487,885)
<b>Sub-total</b>	<b>(34,810,982)</b>	<b>(41,543,451)</b>
<b>Total funding activities (3)</b>	<b>(34,603,504)</b>	<b>(41,335,973)</b>
Changes in cash and cash equivalents (1 + 2 + 3)	77,347,657	(59,476,526)
Effects of exchange rate differences	-	-
Cash and cash equivalents at start of year	80,686,436	140,162,962
<b>Cash and cash equivalents at end of year</b>	<b>158,034,093</b>	<b>80,686,436</b>

See together with note 15.

Lisboa, 26 March 2013

**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)  
Joaquim António Pais e Jorge (Non-executive member)

**The Chartered Accountant**  
Carla Isabel Costa Pinto Ribeiro

# Notes to the financial statements

## I. Economic activity of Águas de Portugal, SGPS, S.A.

### I.1. Introduction

The AdP - Águas de Portugal, SGPS, S.A. (hereunder called AdP or Company) was incorporated on 29 September 1993, and its head office is at Rua Visconde Seabra no. 3, in Lisboa. The main activity of AdP is the management of shareholdings, as and indirect way of engaging in economic activities.

### I.2. Activity

AdP was incorporated in 1993 and 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. In 1998, the Company's mission was extended when it started to diversify in terms of business segments and geography. It expanded into the water distribution segment and the collection of effluents directly from the communities served, in Portugal and abroad. In the 2000 financial year, in the context of strategic guidelines leading to the consolidation of the main business group in the environmental area, AdP became sole owner of Empresa Geral do Fomento, S.A., thereby gaining control of its subsidiaries, which have been made responsible for developing the multi-municipal systems of collecting and treating urban solid waste. The Council of Ministers Resolution 72/2004 of 16 June, which establishes the general lines for a model to restructure the water sector in Portugal, redefined the strategic positioning of the AdP Group and focused on the conclusion of the basic sanitation infrastructure. This was instrumental in the business restructuring of the sector. The AdP Group was therefore to pursue its activity in core areas and dispose of the rest, or make them autonomous. In March 2005, the programme of the 17th Constitutional Government highlighted the contribution of the AdP group to the national challenge posed by upgrading environmental infrastructure and its management so as to attain the levels of service appropriate to developed nations, anticipating an alternative strategy for the water and waste business sector to that arising from the Council of Ministers Resolution 72/2004. The guidelines indicate the consolidation of this business group, duly equipped to assure the development of public policy on the environment for the sector in the domains of water supply, sanitation and waste treatment. This does not preclude the establishment of strategic partnerships to enable it to strengthen its ability to respond, to develop national capacities and structure investments with a view to meeting the targets of the Strategic Plan for Water Supply and Wastewater Sanitation (PEAASAR) and the Strategic Plan for Urban Solid Waste (PERSU). Joint Order 169/2006 of the Ministries of Finance and Public Administration and the Environment, Land Use Planning and Regional Development approved the recommendation of the Board of Directors of AdP - Águas de Portugal, SGPS, SA with respect to the Company's mission for the current mandate, where each business unit's mission and guidelines were established.

The business model operated in the AdP Group is based on concession agreements between the Portuguese State and each of AdP's subsidiaries, in which the rules are established for operating and managing the multi-municipal systems, on an exclusive basis for a period of 25 to 30 years. These concessions establish the criteria for setting and approving the tariffs applied by the companies each year; so as to ensure a good financial balance for the concessions, in compliance with the following criteria:

- a) to ensure, within the concession period, the amortisation of the actual amount of the initial investment made by the concession holder, less any co-funding and non-refundable subsidies;
- b) to ensure the smooth running, conservation and safety of all the assets assigned to the concession, and the scheduled replacement of such assets;
- c) to take care of the expenditure required for the efficient management of the system and of any income not derived from the tariff;
- d) to secure the payment of the running expenses of the Monitoring Committee, the current regulator (ERSAR - Water and Waste Services Regulator), and ensure an adequate return on the concession holder's equity based on when the capital was paid up.

## I.3 Shareholders

The shareholders of AdP are:

Shareholders as at 31 December 2012	% Share capital	Amount subscribed	Nº. of shares	Type of shares
Parpública, SGPS, S.A.	72.18%	313,613,590	62,722,718	Registered
Parcaixa, SGPS, S.A.	19.00%	82,555,000	16,511,000	Registered
Direção Geral do Tesouro	8.82%	38,331,410	7,666,282	Registered
	<b>100.00%</b>	<b>434,500,000</b>	<b>86,900,000</b>	

## I.4 Approval of the financial statements

These financial statements were approved by the Board of Directors on 26 March 2013. The Board of Directors is of the opinion that they faithfully reflect the operations of AdP, its position and 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 interpreted by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) which preceded it, adopted by the European Union (EU), in force for the financial years starting 1 January 2012.

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 specified otherwise.

### 2.1 Presentation bases

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

#### 2.1.1 New standards and policy changes

No voluntary policy changes were made in the financial year ending 31 December 2012 with respect to those considered in the preparation of the financial information relating to the previous year, presented in the comparisons, arising from the application of new standards issued after 31 December 2011.

- New standards and interpretations issued by the IASB and already endorsed by the European Union, whose application is obligatory only in periods beginning after 30 June 2012 and 1 January 2013

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**IAS 1 - Presentation of financial statements (Amendment)**

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**No impact on the Company**

The amendment to IAS 1 changes the aggregation of items presented in the Statement of Comprehensive Income. Items that can be reclassified (or “recycled”) to future profit (for example on the date of derecognition or liquidation) must be presented separately from items that cannot be reclassified to profit or loss (for example, revaluation reserves as established in IAS 16 and IAS 38).

This amendment does not change the nature of items that must be recognised in the Statement of Comprehensive Income, nor if they should or should not be able to be reclassified in future profit or loss.

*The amendments to IAS 1 will apply to reporting periods beginning after 30 June 2012. They may be introduced earlier provided this duly disclosed. Retrospective application.*

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**IFRS 1 - First-time adoption of the international financial reporting standards - hyperinflationary economies (Amendment)**

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**No impact on the Company**

When an entity's date of transition to IFRS is on, or after, the functional currency ceases to be a currency of a hyperinflationary economy, the entity may measure all assets and liabilities held before the cessation and which were subject to the effects of a hyperinflationary economy, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities on the date of the opening IFRS statement of financial position.

The amendment further removes the fixed dates in IFRS 1 relative to the derecognition of financial assets and liabilities and of gains and losses on transactions in the initial recognition, the new date is then deemed the date of transition to IFRS.

*The amendments to IFRS 1 will apply to reporting periods beginning after 30 June 2012. They may be introduced earlier provided this duly disclosed.*

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**IFRS 1 (Amendment) - First-time adoption of the international financial reporting standards - IFRS 9 and IAS 20 - Accounting for government grants and disclosure of government assistance**

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**No impact on the Company**

The amendment establishes an exception in the retrospective application of IFRS 9 - Financial Instruments and IAS 20 - Accounting for government grants and disclosure of government assistance.

This amendment requires that entities that apply IFRS 1 apply the requirements of IAS 20 prospectively relative to government loans that exist at the date of transition to IFRS. However, entities may opt to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 retrospectively to government loans if the necessary information has been obtained on the date of initial recognition of these loans.

This adoption allows first-time adopters relief from the retrospective application of the measurement of government loans with an interest rate lower than the market interest rate. As a result of the non-retrospective application of IFRS 9 (or IAS 39) and IAS 20, first-time adopters do not need to recognise the corresponding benefit of a rate lower than the market interest rate on a government loan or grant.

*The amendments to IFRS 1 will apply to reporting periods beginning on after 1 January 2013. They may be introduced earlier provided this duly disclosed.*

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<b>IFRS 7 (Amendment) - Offsetting financial assets and financial liabilities</b>	This amendment requires entities to disclose information on offsetting and related agreements (for example collateral guarantees). These disclosures provide information that is useful to assess the net effect that these agreements may have on each entity's Statement of Financial Position. The new disclosures are obligatory for all the financial instruments that can be offset as established in IAS 32 Financial Instruments: Presentation. The new disclosures also apply to financial instruments that are subject to the main offsetting agreements or other similar agreements regardless of whether they are offset in accordance with the provision in IAS 32.
<b>No impact on the Company</b>	<i>The amendments to IFRS 1 will apply to the reporting periods beginning on or after 1 January 2013. The amendment to IFRS 7 should be applicable retrospectively, in accordance with IAS 8. But if the entity decides to apply IAS 32 – Offsetting financial assets and financial liabilities before then, the disclosures established in IFRS 7 should be applied in conjunction with it.</i>
<b>IFRS 10 - Consolidated financial statements</b>	The IASB issued IFRS 10 Consolidated financial statements that replaces the consolidation requirements established in SIC 12 Consolidation - special purpose entities, and in IAS 27 Consolidated and separate financial statements.
<b>No impact on the Company</b>	The IFRS establishes a new control concept that must apply to all special purpose entities and vehicles. The changes introduced by IFRS 10 will require that the Management makes a significant judgement to determine which entities are controlled and consequently included in the consolidated financial statements of the parent.
<b>IFRS 11 - Joint arrangements</b>	<i>This standard applies to reporting periods beginning on or after 1 January 2013. It may be applied earlier provided that the entity simultaneously applies IFRS 10, IFRS 12, IAS 27 (revised in 2011) and IAS 28 (revised in 2011). The application is retrospective.</i>
<b>No impact on the Company</b>	IFRS 11: <ul style="list-style-type: none"><li>• replaces IAS 31 - Interests in joint ventures and SIC 13 – Jointly-controlled entities - non-monetary contributions by venturers.</li><li>• changes the concept of joint control and removes the option to account for a jointly-controlled entity through the proportional consolidation method, and thus an entity must use the equity method to account for its interests in JCEs.</li><li>• further defines the concept of joint operations (combining the existing concepts of controlled assets and controlled operations) and redefines the concept of proportional consolidation for these operations, with each entity having to recognise in its financial statements the absolute or relative interests it owns in the assets, liabilities, income and costs.</li></ul> <i>This standard applies to reporting periods beginning on or after 1 January 2013. It may be applied earlier provided that the entity simultaneously applies IFRS 10, IFRS 12, IAS 27 (revised in 2011) and IAS 28 (revised in 2011). The application is retrospective.</i>

<b>IFRS 12 - Disclosure of interests in other entities</b>	IFRS 12 - Disclosure of interests in other entities establishes the minimum level of disclosure with respect to subsidiaries, joint arrangements, associates and unconsolidated structured entities.
<b>No impact on the Company</b>	This standard therefore includes all the disclosures that were mandatory under IAS 27 - Consolidated and separate financial statements relating to the consolidated accounts, and the mandatory disclosures included in IAS 31 - Interests in joint ventures and in IAS 28 - Investments in associates, in addition to extra new information.
	<i>This standard applies to reporting periods beginning on or after 1 January 2013. It may be applied earlier provided that the entity simultaneously applies IFRS 10, IFRS 11, IAS 27 (revised in 2011) and IAS 28 (revised in 2011). The application is retrospective.</i>
<b>IFRS 13 - Fair value measurement</b>	IFRS 13 establishes a single framework for the measurement of fair value in accordance with the IFRS. IFRS 13 does not specify when an entity should use fair value, but sets out a framework for measuring fair value whenever it is allowed or required.
<b>No impact on the Company</b>	Fair value is defined as the “price that would be received to sell an asset or paid to transfer a liability in a transaction between two parties operating on the market on the measurement date”.
	<i>This standard applies to all reporting periods beginning on or after 1 January 2013. It may be applied earlier provided such is disclosed. The application is prospective.</i>
<b>IAS 12 - Income taxes</b>	The amendment to IAS 12 clarifies that the determination of deferred tax relative to investment property measured at value, under IAS 40, should be calculated keeping in mind its recovery through its future sale. This presumption is rebuttable, however, if the entity has a business plan that shows that this tax will be recovered through the use of the investment property.
<b>No impact on the Company</b>	The amendment further states that deferred taxes recognised through non-depreciable tangible fixed assets that are measured according to the revaluation method must be calculated on the presumption that they will be recovered through the sale of such assets.
	<i>The amendments to IAS 12 will apply to reporting periods beginning on or after 1 January 2012. They may be introduced earlier provided this duly disclosed. The application is retrospective.</i>
<b>IAS 27 - Consolidated and separate financial statements (Revised in 2011)</b>	With the introduction of IFRS 10 and IFRS 12, IAS 27 is limited to stipulating the accounting treatment for subsidiaries, joint ventures and associates in the separate financial statements.
<b>No impact on the Company</b>	<i>The amendments to IAS 27 will apply to the reporting periods beginning on or after 1 January 2013. They can be applied earlier provided that the entity simultaneously applies IFRS 10, IFRS 11, IFRS 12 and IAS 28 (revised in 2011). The application is retrospective.</i>

<b>IAS 28 - Investments in associates and joint ventures</b>	With the changes to IFRS 11 and IFRS 12, IAS 28 was renamed and now sets out the application of the equity method for joint ventures, as has been done with associates.
<b>No impact on the Company</b>	<i>The amendments to IAS 27 will apply to the reporting periods beginning on or after 1 January 2013. They can be applied earlier provided that the entity simultaneously applies IFRS 10, IFRS 11, IFRS 12 and IAS 27 (revised in 2011). The application is retrospective.</i>
<b>IAS 32 - Financial instruments (Offsetting financial assets and financial liabilities)</b>	<p>The amendment clarifies the meaning of "currently enforceable legal right to set-off" and the application of IAS 32 to the offsetting criteria of settlement systems (such as central clearing house systems) which apply gross settlement systems that are not simultaneous.</p> <p>Paragraph 42 a) of IAS 32 requires that "a financial asset and financial liability must be offset and the net amount presented on the balance sheet when, and only when, an entity currently has a legally enforceable right to set off the recognised amounts". This amendment now clarifies that rights of set-off must not only be currently legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendment also clarifies that rights of set-off do not have to be contingent on a future event.</p>
<b>No impact on the Company</b>	<p>The IAS 32 offsetting criterion for financial instruments requires the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendment clarifies that only gross settlement that eliminates or results in insignificant credit and liquidity risk and that will process receivables and payables in a single settlement process or cycle may, in effect, be equivalent to net settlement and therefore would meet the net settlement criterion established in the standard.</p> <p><i>This standard applies to reporting periods beginning on or after 1 January 2014. The amendment to IFRS 7 is applicable retrospectively in accordance with IAS 8. Earlier application is allowed when this fact is disclosed and complies with the disclosures provided for in IFRS 7 Disclosures (Amendment) - Offsetting financial assets and financial liabilities.</i></p>

<b>IFRIC 20 - Stripping costs in the production phase of a surface mine</b>	This interpretation applies to waste removal costs incurred in a surface mining, during the production phase.
<b>No impact on the Company</b>	<p>If the benefit from the sorting activity will be realised in the current period, an entity must recognise these sorting and removal costs as an inventory cost. When the benefit refers to better access to the ore, the entity should recognise these costs as a non-current asset if certain recognition criteria are met. The sorting and removal activities asset should be accounted for as an addition to, or an enhancement of, an existing asset.</p> <p>If the costs of the sorting activity meet the conditions to be recognised as an asset and the inventory produced is not separately identifiable, the entity allocates the cost between the two assets using an allocation method based on a relevant production measure.</p> <p>After initial measurement, the sorting and removal activities asset is recognised at its cost or revalued amount less depreciation/ amortisation and impairment losses, using the same valuing criteria as for the assets of which this one is a part.</p>
	<p><i>IFRIC 20 applies to all reporting periods beginning on or after 1 January 2013. It may, however, be applied earlier provided this is duly disclosed. The application is retrospective.</i></p>

- New standards and interpretations issued by the IASB and not endorsed by the European Union, whose application is obligatory only in periods beginning after 30 June 2012 and 1 January 2013:

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**IFRS 9 - Financial instruments  
(introduces new classification  
and measuring requirements  
for financial assets and liabilities)**

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The first phase of IFRS 9 - Financial instruments addressed the classification and measurement of financial assets and liabilities. The IASB continues to work and discuss the issues of impairment of financial instruments and hedge accounting, with a view to replacing IAS 39 in its entirety. IFRS 9 applies to all financial instruments within the scope of IAS 39.

The main modifications are:

**Financial assets:**

All financial assets are measured at fair value on initial recognition.

Debt instruments may be subsequently measured at amortised cost if:

- if the fair value option is not invoked;
- the aim of holding the asset within the business model is to receive the contractual cash flows; and
- under the terms agreed, the financial assets give rise on specified dates to cash flows that are solely payments of principal and interests on the principal outstanding.

The other debt instruments are subsequently measured at fair value.

All financial investments of equity are measured at fair value either through the Statement of Comprehensive Income or through profit and loss. Each equity financial instrument must be measured at fair value through **i) the Statement of Comprehensive Income or ii) Profit and loss** (equity financial instruments held for trading must be measured at fair value with any changes, and are always recognised through profit and loss).

**Financial liabilities:**

Differences in the fair value of financial liabilities through profit and loss that arise from changes in the credit risk of the entity must be presented in the Comprehensive Statement of Income. All other changes in fair value must be recognised in profit and loss, unless presentation of the fair value differences arising from the financial liability's credit risk would create or enlarge a significant accounting mismatch in the profit or loss for the period.

All other IAS 39 classification and measurement rules for financial liabilities remain unchanged in IFRS 9, including the embedded derivative separation rules and the criterion for recognising them at fair value through profit and loss.

*This standard applies to all reporting periods beginning on or after 1 January 2015. It may be applied earlier provided such is duly disclosed. The provisions relating to financial liabilities can also be applied earlier provided that the provisions relating to financial assets are applied simultaneously.*

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- Standards and interpretations recently issued by the IASB, whose application is mandatory only for the periods beginning after 1 January 2013:

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**IAS 19 (Revised) - Employee Benefits**

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**No impact on the Company**

- The removal of the option to defer recognition of actuarial gains and losses, known as the corridor approach; actuarial gains and losses are recognised in the Statement of Comprehensive Income when they occur. The amounts recognised in profit or loss are limited: to the cost of current and past services (including gains and losses in curtailments), gains and losses in settlement and net interest expenses (income). All other changes in the net worth of the asset (liability) arising from the defined benefit plan must be recorded in the Statement of Comprehensive Income, with no subsequent reclassifying to profit or loss.
  - Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosures. These new disclosures include quantitative information about the sensitivity analyses as to the susceptibility of the defined benefits to possible changes in each main actuarial assumption.
  - Termination of employment benefits should be recognised at the earlier of: (i) when the commitment to their assignment cannot be withdrawn and (ii) when the restructuring provision is established under IAS 37.
  - The distinction between short and long term benefits will be based on the timing of the settlement of the benefit, regardless of whether the right to the benefit has already been granted to the employee.
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- Annual improvements to the 2009-2011 cycle, issued by the IASB

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**IFRS 1 (Amendment) - First-time adoption of international financial reporting standards**

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It clarifies that an entity that has stopped applying the IFRS may choose to either: (i) re-apply IFRS 1, even if the entity has applied IFRS 1 in a previous reporting period, or (ii) apply it retrospectively in accordance with IAS 8, as if it had never stopped applying the IFRS. If an entity re-applies IFRS 1 or applies IAS 8, it must disclose the reasons why it previously stopped applying IFRS and subsequently resumed applying them.

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**No impact on the Company**

It clarifies that, upon adoption of IFRS, an entity that capitalised borrowing costs in accordance with the previous standard, may carry forward, without adjustment, the amount previously capitalised in the Statement of financial position at the date of transition.

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<b>IAS 1 (Amendment) - Presentation of financial statements</b>	It clarifies the difference between additional comparative information and minimum comparative information. Generally, the minimum comparative information required corresponds to the previous period.
<b>No impact on the Company</b>	An entity must include comparative information in the notes to the financial statements when it voluntarily discloses comparative information beyond the minimum information required. The additional comparative information for the period does not need to contain a complete set of financial statements.
<b>IAS 16 - Tangible fixed assets</b>	Additionally, the opening balance sheet of the financial position (third balance sheet) must be presented in the following circumstances: <b>i)</b> when an entity applies an accounting policy retrospectively or carries out retrospective restatements or reclassifications of items in its financial statements; or <b>ii)</b> when it reclassifies items in its financial statements and these changes have a material effect on the statement of the financial position. The opening balance sheet must be the opening balance sheet of the comparative period. However, unlike the voluntary comparative information, the notes are not required to support the third statement of the financial position.
<b>No impact on the Company</b>	It clarifies that spare parts and servicing equipment that meet the definition of tangible fixed assets should be classified as such and they are not inventories.
<b>IAS 32 - Financial instruments</b>	It clarifies that income tax resulting from distributions to shareholders should be accounted in accordance with IAS 12 Income taxes.
<b>No impact on the Company</b>	
<b>IAS 34 - Interim financial reporting</b>	It clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments.
<b>No impact on the Company</b>	In accordance with this amendment the total of assets and liabilities for each reportable segment need to be disclosed only when the amounts are regularly provided to the segment managers.
	<i>The improvements to the IFRS apply to the reporting periods beginning on or after 1 January 2013 They can be applied earlier provided they are duly disclosed. The application is retrospective.</i>
<b>Guide to applying IFRS 10, IFRS 11 and IFRS 12</b>	It clarifies some temporary provisions of IFRS 10, IFRS 11 and IFRS 12.
<b>No impact on the Company</b>	<i>This guide will apply to reporting periods beginning on or after 1 January 2013 and may be applied earlier if the entity is applying IFRS 10, IFRS 11, IFRS 12 in advance.</i>

## 2.2 Financial holdings in subsidiaries and associates

Financial holdings 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 financial holdings were recognised in accordance with the presumed cost or deemed cost (paragraph 31, IFRS 1), that is, for the value that was transposed from the financial statements prepared according to the previous standard on that date, instead of acquisition cost.

The financial holdings are initially recognised at acquisition cost plus directly attributable transaction 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)** though it may retain part, but not substantially all, the risks and benefits associated with holding them, AdP has transferred control over the assets.

Recognition of dividends is recorded in the income statement on the date on which they were declared.

The subsidiaries are:

Business Unit/ Company	Head office	% capital held	Currency	Share capital	Equity	Net profit at 31 Dec. 2012
<b>UNA-PD</b>						
Aguas do Algarve, S.A.	Faro	54%	EUR	29,230,875	38,555,874	3,441,306
Aguas do Centro Alentejo, S.A.	Évora	51%	EUR	5,000,000	2,619,858	(30,904)
Aguas do Centro, S.A.	Castelo Branco	70%	EUR	24,000,000	10,958,877	(2,654,449)
Aguas do Douro e Paiva, S.A.	Porto	51%	EUR	20,902,500	30,812,470	2,404,636
Aguas do Mondego, S.A.	Coimbra	51%	EUR	18,262,743	20,769,968	1,049,359
Aguas do Norte Alentejano, S.A.	Portalegre	51%	EUR	7,500,000	(5,206,349)	(1,335,116)
Aguas do Noroeste, S.A.	Barcelos	57%	EUR	63,479,158	53,176,875	457,296
Aguas do Oeste, S.A.	Obidos	51%	EUR	30,000,000	20,654,305	(3,168,668)
Aguas de Santo André, S.A.	V.N.S. André	100%	EUR	1,000,000	11,448,140	4,566,228
Aguas de Trás-os-Montes e Alto Douro, S.A.	Vila Real	70%	EUR	26,966,250	4,083,357	3,423,237
Aguas do Zézere e Côa, S.A.	Guarda	87%	EUR	26,607,560	11,269,916	(1,252,835)
AgdA - Águas Públicas Alentejo, S.A.	Beja	51%	EUR	500,000	559,796	54,982
Sanest, S.A.	Cascais	51%	EUR	11,000,000	27,673,665	166,817
Simarsul, S.A.	Setúbal	51%	EUR	25,000,000	23,815,022	(714,283)
Simdouro, S.A.	V.N. de Gaia	51%	EUR	13,062,228	13,306,258	72,219
Simlis, S.A.	Leiria	70%	EUR	5,000,000	(2,103,349)	662,420
Simria, S.A.	Aveiro	68%	EUR	16,712,225	18,218,502	1,395,394
Simtejo, S.A.	Lisboa	51%	EUR	38,700,000	66,853,766	8,924,383
<b>EPAL</b>						
EPAL, S.A.	Lisboa	100%	EUR	150,000,000	532,963,376	43,852,247
<b>UNA-DR</b>						
AdRA - Águas da Região de Aveiro, S.A.	Aveiro	51%	EUR	15,000,000	18,813,501	1,743,387
<b>UNR</b>						
Algar, S.A.	Faro	56%	EUR	7,500,000	11,548,748	970,353
Amarsul, S.A.	Móita	51%	EUR	7,750,000	14,051,925	1,477,765
Empresa Geral do Fomento, S.A.	Lisboa	100%	EUR	56,000,000	94,270,758	5,149,650
Ersuc, S.A.	Coimbra	51%	EUR	8,500,000	17,301,164	1,205,409
Resiestrela, S.A.	Fundão	63%	EUR	3,750,875	6,163,448	851,923
Resinorte, S.A.	Coimbra	51%	EUR	8,000,000	12,556,955	489,286
Resulima, S.A.	Viana do Castelo	51%	EUR	2,500,000	4,722,371	778,293
Suldouro, S.A.	Sermonde	60%	EUR	3,400,000	9,204,469	1,508,293
Valnor, S.A.	Alter-do-Chão	53%	EUR	10,000,000	14,350,302	1,518,448
Valorlis, S.A.	Leiria	51%	EUR	2,000,000	4,133,403	483,158
Valorminho, S.A.	Valença	51%	EUR	900,000	2,060,095	282,276
Valorsul, S.A.	S. João da Talha	56%	EUR	25,200,000	58,167,108	5,912,989
<b>International</b>						
AdP Internacional, S.A.	Lisboa	100%	EUR	175,000	(826,659)	(914,159)
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	(26,637,777)	1,019,028
<b>Corporate</b>						
AdP Serviços, S.A.	Lisboa	100%	EUR	50,000	4,929,091	2,243,616
Aquasis, S.A.	Lisboa	55%	EUR	50,000	295,231	(129,915)
AdP Energias, S.A.	Lisboa	100%	EUR	250,000	2,830,946	145,515

AdP holds entities that qualify as associates.

The associate is:

Company	Head office	% capital held	Share capital	Turnover	Net profit at 31 Dec. <b>2012</b>
Trevo Oeste, S.A. (i)	Alcobaça	43.24%	1,336,085	-	(39,880)

(i) Figures from November 2012.

## 2.3 Currency conversion

### 2.3.1 Functional/ presentation currency

The items included in AdP's financial statements are measured in the currency of the economic environment in which the entity operates (functional currency). AdP's financial statements and the relevant notes are presented in euros, unless specified otherwise.

### 2.3.2 Transactions and balances

Transactions in currencies other than the euro are converted into the functional currency using the exchange rates on the transaction date. Exchange gains or losses resulting from the settlement of transactions and conversion, using the balance sheet date rate, of monetary assets and liabilities denominated in foreign currency are recognised in the income statement, except when they relate to an extension of an investment in a foreign operation. In this case they will be deferred under equity, in accordance with IAS 21. Non-monetary items valued at fair value are updated using the exchange rate on the date of their calculation. The exchange rate variation effect is recorded together with the change recorded in the fair value of such items. The exchange differences calculated are thus recorded in income for the financial year or in "Other reserves", depending on the appropriate entry for recognising gains or losses for the non-monetary item in question. Non-monetary items valued at historic cost are converted into AdP's functional currency using the transaction date exchange rate.

### 2.3.3 Exchange rates used (source: Bank of Portugal)

The foreign currency exchange rates used to convert transactions expressed in currencies other than the euro or to update balances expressed in foreign currency were:

Country	Currency	31.12.2012		31.12.2011	
		average	final	average	final
Brazil	Real	2.53	2.70	2.34	2.42
Cape Verde	Cape Verde Escudo (CVE)	110.27	110.27	110.27	110.27
Mozambique	Metical	36.49	39.24	40.51	34.96
Japan	Yen	103.5	113.6	111.32	100.2
USA	USD	1.29	1.32	1.4	1.29

## 2.4 Tangible fixed assets

Tangible fixed assets are measured at cost less any impairment losses, and are depreciated in terms of their estimated useful life. Expenditure directly due to the acquisition of assets and their commissioning is taken at its balance sheet value.

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. These assets are depreciated during their remaining useful life or until the next repair, whichever happens first. The replacement component is identified and recognised in the income statement.

Financial charges related to loans received for funding investment already in progress are fully capitalised until they are available for use.

Additional expenditure on repairs and maintenance is recognised as an expense in the period in which it is incurred.

Tangible fixed assets assigned for operation are depreciated based on estimated useful life as from when they are ready for commissioning. The depreciable value is calculated by deducting the expectable residual value at the end of the estimated useful life.

Estimated useful lives for tangible fixed assets are expressed in the following percentages:

Nature	Maximum annual rate
Buildings and other constructions	4.00%
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 for which there is an intention to sell is suspended and these are classified as assets held for sale.

Whenever there are signs of loss of value of tangible fixed assets, impairment tests are carried out to estimate the recoverable value of the asset and record an impairment loss if necessary. Recoverable value is determined as the higher of the net selling price and the value in use of the asset, the latter being 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 so that the consumption patterns of the benefits of the assets in the years they are used by AdP are faithfully reflected. Any changes to these assumptions will be treated as a change in an accounting estimate and earmarked for prospective application.

Gains or losses from write-downs or disposals are determined by 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 where AdP substantially holds all the risks and rewards inherent to the ownership of the asset are classified as financial leases. Also classified as financial lease agreements are those in which the analysis of one or more particular points of the agreement so indicate, since they are classified in terms of the substance not the form of the contract. Financial 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 payments of the lease with liability being recognised, net of financial charges, in other long-term liabilities. Assets acquired through financial lease agreements are depreciated at the lower of the period of the asset's useful life and the term of the lease agreement.

All the other leases are classified as operating leases. Their payments are recognized as an expense on a linear basis for the lease period.

### 2.5 Intangible assets

#### 2.5.1 Other intangible assets

Other intangible assets (software development expenditure, cost of intellectual property and other rights) are included in the accounts at their cost value net of accumulated amortisations. These headings are amortised by the straight-line method, usually for three to ten years. Investments that improve the performance of software programs beyond their original specifications are added to 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 below. Classification depends on the purpose of acquiring the investment and is determined at the initial recognition (trade date) of the investments and revalued on each subsequent reporting date. The Board of Directors decides on the classification of its investments on the acquisition date and revalues this classification on a regular basis. The 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 receipts for which there is no active listed market. Such assets may be: (i) assets originating from normal operating activities and other associated services, and there is no intention to trade them; and (ii) investments in companies holding multi-municipal concessions which, according to the special terms and conditions in 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 balance sheet date, so that they reflect their net realisable value.

Impairment adjustments are recorded when there are objective indicators that AdP will not be receiving all the sums due under the original terms of the agreements. Indicators such as the following are used to identify impairment situations: analysis of breach; breach of more than 6 months' standing; debtor's financial difficulties; debtor's probable bankruptcy.

When the sums receivable from trade receivables or other debtors are due and their terms are under renegotiation, they are no longer regarded as due 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, being recorded in this heading as investments with fixed maturity with AdP having the intention and ability to keep them until such date. Investments held to maturity are recorded at amortised cost, less any impairment losses.

#### **2.6.1.3 Financial assets measured at just value through profit or loss**

This category encompasses: (i) financial assets for trading which are acquired with the main aim of transacting them 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 encompasses derivatives that do not qualify for the purposes of hedge accounting.

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**

Assets available for sale are non-derivative financial assets which: (i) the Company intends to keep for an indefinite period; (ii) are designated as available for sale on their initial recognition; or (iii) do not fit into the above categories. They are presented as non-current assets unless their disposal is intended within 12 months of the balance sheet date.

After individual recognition, the assets available for sale are recorded at fair value through reference to their market value as at balance sheet date, without any deduction for transaction costs which may occur until they are sold. The respective changes in fair value are recognised directly in equity under "Fair value reserve", until the assets are derecognised or identified as an impairment loss, at which time the accumulated value of potential gains and losses recorded in reserves is transferred to the income statement. In the case of equity instruments, a significant decrease or prolongation of fair value below cost is crucial to determining the existence of impairment.

Equity instruments that are not shareholdings in subsidiaries, joint ventures or associates are classified as financial assets available for sale, in accordance with IAS 39. In the absence of market value these assets are kept at acquisition cost, subject to impairment tests.

### **2.6.2 Financial liabilities**

Financial liabilities are classified in accordance with the contractual substance, regardless of the legal form they take. IAS 39 - financial Instruments: recognition and measurement classifies financial liabilities in two categories: (i) financial liabilities at fair value through profit or loss; (ii) other financial liabilities. Other financial liabilities include loans received and trade payable and other account payables.

#### **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 intended for sale in the short term and derivatives that do not qualify for hedge accounting purposes, and they are thus classified on initial recognition. Gains and losses arising from changes in fair value of liabilities measured at fair value through profit or loss are recognised in the income statement for the period.

#### **2.6.2.2 Bank loans**

Loans are initially recognised at fair value less any transaction costs incurred, and afterwards they are measured at amortised cost. Any difference between the issue value (net of any transaction costs incurred) and the nominal value is recognised in the income statement for the lifetime of the loans in accordance with the effective interest rate method. Loans received are classified in non-current liabilities, unless AdP discharges the liability within 12 months of the balance sheet date, in which case it is classified in current liabilities.

#### **2.6.2.3 Trade payable and other account payables**

The balances of trade payable 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 rate method. Financial liabilities are derecognised when the underlying obligations are extinguished by payment, are cancelled or expire.

### **2.7 Fair value hierarchy**

AdP's financial assets and liabilities measured at fair value are classified in accordance with the following hierarchy levels, as set out in IFRS 7:

**Level 1:** fair value of financial instruments is based on active liquid market quotations as at the balance sheet reference date. This level includes equity instruments, debt (e.g. NYSE, Euronext) and futures listed on active markets;

**Level 2:** the fair value of financial instruments is not determined based on active market quotations, but from evaluation models. The main inputs of the models used are observable on the market. This level includes, for example, over-the-counter derivatives; and

**Level 3:** the fair value of financial instruments is not determined based on active market quotations, but from evaluation models whose main inputs are not observable on the market.

A table showing the financial assets and liabilities at fair value, classified by level, is provided in note 6.2.

### **2.8 Derivatives and hedge accounting**

AdP uses derivatives solely to manage its financial risks. Under its financial policies AdP does not use derivatives for speculation. Even though the derivatives contracted by AdP are effective economic hedging instruments 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 changes in them are recognised in financial income. Whenever available, the fair value of derivatives is estimated based on listed instruments. In the absence of market prices, the fair value of derivatives is estimated by the discounted cash flow method and option valuation models, in accordance with generally accepted market assumptions. Derivatives are recognized on their trade date, at their fair value. Afterwards, the fair value of derivatives is revalued on a regular basis and any resulting gains or losses are recorded directly in the income statement for the period, except in relation to hedge derivatives. Recognition of changes in fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

#### **Hedge accounting**

Hedge accounting is used whenever there is a relationship between the hedged item and the hedging instrument, subject to 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 designed.

As at 1 January 2012, all the requirements demanded by IAS 39 were in place for the Company to classify two of the derivatives it has as hedges.

Changes in the fair value of the derivatives classified as hedges are recognised directly in equity.

## **2.9 Trade receivables and other account receivables**

The balances of trade receivables and other account receivables are amounts to be received for services provided to the Group in the normal course of its activities. They are initially recorded at fair value and afterwards measured at amortised cost by the effective interest rate 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 three months or less, at no significant risk of changing in value. Bank overdrafts are shown in the balance sheet, in current liabilities, under the heading "Loans", which are also considered when preparing the statement of cash flows.

## **2.11 Impairment**

### **2.11.1 Impairment of financial assets**

At each reporting date, AdP analyses for objective evidence of whether a financial asset or group of financial assets is impaired.

#### **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 in the financial asset that has been recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses in equity instruments recognised in the income statement are not reversed through the income statement.

#### **Trade receivables, debtors and other financial assets**

Adjustments for impairment losses are recorded when there are objective indicators that AdP will not be receiving all the sums to which it is entitled under the original terms of the agreements. Various indicators are used to identify impairment situations, such as: (i) analysis for breach; (ii) debtor's financial difficulties; (iii) probably bankruptcy of the debtor.

Impairment losses are determined as the difference between the recoverable amount and the balance sheet amount of the financial asset, and they are recorded against the profits for the year. The carrying amount of these assets is the recoverable amount. When a sum receivable from trade receivables and debtors is held to be irrecoverable it is written down via the adjustment account to accumulated impairment losses. Subsequent recoveries of sums that have been written down are recorded in the income statement. When the sums receivable from trade receivables or other debtors are due, their terms are subject to renegotiation, and they are no longer regarded as due and are treated as new credits.

### **2.11.2 Impairment of non-financial assets**

The assets of AdP are analysed at each balance sheet date for signs of possible impairment losses. If such an indication is found the recoverable amount of the asset is evaluated. For goodwill and other intangible assets with an indefinite useful life, the recoverable amount is evaluated annually at the balance sheet date. The recoverable amount of the AdP assets for which there are indications of potential impairment losses is determined. 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 year.

AdP carries out an impairment analysis on those cash-generating units which started activity within less than a certain period (2 to 3 years). However, insofar as the relevant businesses are not sufficiently mature, impairment losses are recognised when there are unequivocal indications that their recoverability is unlikely.

#### **Determination of recoverable amount of assets**

The recoverable amount of receivables in the medium and long run corresponds to the present value of estimated future receipts, using as a discount factor the effective interest rate implicit in the original operation. The recoverable amount of the remaining assets is whichever is the higher of its net sale price and its value in use. The value in use of an asset is calculated as the present value of estimated future cash flows 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 assets that do not generate independent cash flow is determined together with the cash-generating unit to which these assets belong.

#### **Reversal of impairment losses**

Impairment losses recognised in medium and long term receivables are reversed whenever the increase in the recoverable amount is justified on the basis of an event that occurred after the date of the recognition of the impairment loss. Impairment losses recognised in goodwill are not reversed. Impairment losses for other assets are reversed whenever there are changes in the estimates used to determine the relevant 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 by the issuance 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 Investment grants**

Investment grants are recognised when there is reasonable certainty that the grant will be received and that AdP will meet all the obligations inherent to receiving them. Investment grants for the acquisition and/or construction of tangible and/or intangible assets are included in the non-current liabilities and are credited in the income statement based on the same amortisation method as 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 discharge of which is likely to require the allocation of internal resources in a sum that can be reliably estimated. Whenever any criterion is not met or the existence of the obligation is conditional on the (non-)occurrence of a particular future event, AdP will disclose this fact as a contingent liability, unless an assessment of demandability of the outflow of funds for its discharge is considered unlikely. When there is a large number of similar obligations, the probability of generating an outflow of internal resources is determined as a whole. The provision is recognised even where the likelihood of an outflow of internal resources relating to an item in the same class of obligations may be small.

The present obligations that arise from onerous contracts are recorded and measured as provisions. A contract is held to be onerous when the Company is an integral part of the provision of a contract of agreement, whose performance has unavoidable associated costs that exceed any future economic benefits derived therefrom.

The provisions are measured at current value, as at 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 current value reflects the current expectation of the market for the period of the discount and 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 recognized in the financial statements; they are disclosed in the 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 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 in accordance with tax rules.

Deferred tax is recognised by the balance sheet liabilities method, taking the temporary differences between the tax base of assets and liabilities and their carrying amount. Deferred tax that arises from the initial recognition of an asset or liability in a transaction that is not a merger, which on the transaction date has affected neither the accounting outcome nor the tax outcome, is not recorded. Deferred tax assets are recognised to the extent that 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 already officially announced as 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 to which the temporary tax differences will revert are entered in the income statement.

Deferred taxes are recognised in 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 the entry of the transaction or event giving rise to them.

### **2.17 Revenue**

Revenue encompasses the fair value of provision of services, net of tax and discounts.

#### **2.17.1 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 reduces its book value to its recoverable value, while estimated future cash flows are still discounted at the initial effective interest rate (before impairment) and the regularisation of the discount is considered as interest income.

#### **2.17.2 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**

Resources directly allocated to tangible and intangible assets during their development/ construction stage are recognised as costs, when it is concluded that they are recoverable through the realisation of said assets. Capitalised financial expenses and certain personnel costs can be significant. They are measured at cost but are recognised without any margin, based on internal information specially prepared for the purpose (internal costs) or in the respective purchase costs plus other expenses inherent thereto. Capitalised expenses are recorded directly in the balance sheet without passing through the income statement and are disclosed in the notes whenever 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 the 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 activities of AdP are exposed to a number of financial risk factors: credit risk, liquidity risk and market risk (interest rate risk, cash flow 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, intends to minimise the potential adverse effects on the financial performance of AdP and its subsidiaries. Risk management is the responsibility of the central treasury department, based on policies approved by the Board of Directors. The treasury pinpoints, assesses and undertakes operations designed to minimise the financial risks in close cooperation with the AdP Group's operational units. The Board of Directors drafts the principles underpinning risk management as a whole and policies that cover specific areas such as exchange 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 principles for risk management and exposure limits. All transactions undertaken using derivative instruments require the prior approval of the Board of Directors, which sets the parameters of each transaction and approves the formal documents describing their 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 open to credit risk in its operating, investment and treasury activities.

Credit risk in operations is basically related to outstanding receivables for services rendered to trade receivables and loans granted. This risk is theoretically low, given the nature of the service rendered (to Group companies). But given Portugal's financial and economic situation in the past year, with direct consequences for local authorities, non-payment to Group companies may have direct implications for credit risk. The AdP Group has been warning the Government about the unsustainability of the arrears situation of some municipalities with a view to finding alternative ways of collecting the outstanding amounts owed to Group companies.

Impairment losses for receivables are calculated with the following in mind: i) the customer's risk profile, depending on whether they are institutional or business customers; ii) the average collection period, which varies from business to business; and iii) the customer's financial circumstances.

The table below represents the maximum exposure of AdP to credit risk (not including trade receivables' and other debtors' balances) as at 31 December 2012, not taking into consideration any collateral held or other credit enhancements. For assets in the balance sheet, exposure is based on their carrying amount as reported on the face of the balance sheet.

<b>Banking financial assets</b>	<b>31.12.2012</b>
Current accounts	1,252,133
Term deposits	155,945,000
	<b>157,197,133</b>

Rating	<b>31.12.2012</b>
Ba3	131,471,689
Ba3	10,843,994
Ba3	5,000,000
Ba3	3,085,492
Baa3	2,770,903
Ba1	1,994,259
B2	1,988,441
A2	18,642
B1	10,063
B1	5,318
Ba3	5,011
A3	3,320
	<b>157,197,133</b>

Note: Moody's rating notation taken from the sites of the financial institutions in January 2013.

### 3.3 Exchange rate risk

Exposure to exchange risk arises basically from funding in foreign currency and from future commercial transactions. This risk basically encompasses funding in foreign currency and in future commercial transactions, recognised assets and liabilities, along with net investments in foreign operations not incurred or expressed in AdP's functional 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 whose net assets are exposed to exchange rate risk through conversion, and funding in foreign currency exposed to exchange rate risk. The exchange 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 the floating debt through an adequate amount of credit facilities and the ability to liquidate market positions. Given the dynamics of the underlying businesses, the AdP's treasury intends to secure floating debt flexibility, keeping credit lines available for that purpose. AdP undertakes liquidity risk management by taking out and maintaining credit lines and financing facilities with a firm underwriting commitment by domestic and international financial institutions with high credit ratings, allowing immediate access to funds. This practice has been greatly influenced in this last financial year by Portugal's well-known difficulties in gaining access to the credit markets, and by the relentless rise in customer debt.

The table below shows AdP's liabilities by intervals of contractual 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).

<b>31.12.2012</b>	< 1 year	1 to 5 years	> 5 years
Loans	-	105,055,721	500,000,000
Trade payables and other liabilities	6,185,392	-	-
<b>31.12.2011</b>	< 1 year	1 to 5 years	> 5 years
Loans	-	101,591,950	500,000,000
Trade payables and other liabilities	7,359,520	-	-

### 3.5 Cash flow and fair value risk linked to interest rates

Interest rate risk basically stems from taking out long term loans. Such loans, with interest rates calculated at variable rates, expose AdP to cash flow risk whereas loans whose interest rates are fixed 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 variable interest to be converted to fixed interest rate loans.

#### Sensitivity analysis to interest rate change

		<b>31.12.2012</b>	31.12.2011
Interest paid	Real	15,188,672	11,253,506
Interest paid	average rate +1%	18,160,262	14,556,360
Interest paid	average rate -1%	14,959,138	8,359,941

### 3.6 Capital risk

AdP's goal with respect to managing capital, which is a broader concept than the capital disclosed on the face of 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 purpose 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 Group's policy is to take out loans with financial entities, at the level of AdP, the parent company (apart from loans related to investment), which will then make loans to its subsidiaries. This policy aims to optimise the capital structure for greater tax efficiency and to reduce the average cost of capital.

	<b>31.12.2012</b>	31.12.2011
Non-current loans	605,055,721	601,591,950
Liquid assets	(158,034,093)	(80,686,435)
<b>Debt</b>	<b>447,021,628</b>	<b>520,905,515</b>
Investment grants	-	-
Total equity	539,502,366	518,760,867
<b>Capital</b>	<b>986,523,994</b>	<b>1,039,666,382</b>
<b>Debt/ total capital</b>	<b>0.45</b>	<b>0.50</b>

## 4. Estimates and judgments

Estimates and judgments that have an impact on AdP's financial statements are assessed continuously and they represent, as 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, turn out to differ from the estimated amounts. The estimates and judgments that have a significant risk of giving rise to a material adjustment in the book value of assets and liabilities in the next financial year are:

### 4.1 Provisions and adjustments

AdP periodically analyses any obligations that arise from past events and that should be recognised or disclosed. AdP is a party in several ongoing legal actions regarding which, based on the opinion of its lawyers, it has made a judgment to decide if there should be a provision for these contingencies (note 17).

The subjectivity inherent to determining the likelihood and amount of the internal resources outflows needed to discharge obligations may lead to significant adjustments, either through changing such 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 method are essential to calculate the amount of depreciation and amortisation to be recognised in the income statement.

## **4.3 Impairment**

The determination of an impairment loss can be triggered by a number of events, many of which cannot be influenced by 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 receivables are essentially calculated based on the seniority of the accounts, the customer's risk profile and their financial situation. Estimates related to adjustments for receivables differ from business to business.

As at the issue date of AdP's financial statements, the existence of any impairment in the reported assets is not regarded as likely. If, for the purpose of the assessment currently under way, any sign of impairment is found, the relevant amount of the asset in the balance sheet will be adjusted against the profit for the year. In addition to the uncertainties mentioned above, there are some areas of judgment whose impact is 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 AdP Board of Directors.

## **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 judgment to choose the evaluation techniques and assumptions to be used to assess the derivatives contracted as at the financial reporting date.

## **5. Relevant fact**

The derivatives are presented in note 19.

AdP uses derivatives solely to manage the financial risks to which it is exposed. Under its financial policies AdP does not use derivatives for negotiation. Even though the derivatives contracted by AdP are effective economic hedging instruments 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 changes in them are recognised in financial income. Whenever available, the fair value of derivatives is estimated based on listed instruments. In the absence of market prices, the fair value of derivatives is estimated by the discounted cash flow method determined by outside entities, based on accepted market valuing techniques. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is revalued on a regular basis and any resulting gains or losses are recorded directly in the income statement for the period, except in relation to hedge derivatives. Recognition of changes in fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

The financial instruments linked with Depfa loans (Notional, 50 million euros and 20 million euros), are regarded as cash flow hedging instruments, and thus the relevant change in fair value is recognised directly in equity from 2012. The effectiveness of the instruments was evaluated and the results were within the range 80% to 125%.

The table below shows the effect in 2011 if the instruments had already been regarded as hedges, the effect on comprehensive income was:

Swap	Risk hedged	Notional	Maturity	31.12.2012	31.12.2011
BNP – interest rate	Interest rate	50,000,000	2023	(4,644,479)	(5,098,090)
BBVA – interest rate	Interest rate	20,000,000	2023	(1,885,225)	(2,174,626)
<b>Sub-total</b>				<b>(6,529,704)</b>	<b>(7,272,716)</b>

Swap	Notional	Mat.	Fair value 31.12.2012	Fair value 31.12.2011	Change	In profits	In equity
Mitsubishi – exch. rate	100,000,000	2015	(1,124,899)	16,248,188	(17,373,087)	(17,373,087)	-
Exchange update	100,000,000	2015			13,909,305	13,909,305	-
<b>Sub-total</b>			<b>(1,124,899)</b>	<b>16,248,188</b>	<b>(3,463,782)</b>	<b>(3,463,782)</b>	-
City Bank – interest rate	50,000,000	2022	(11,150,000)	(9,725,000)	(1,425,000)	(1,425,000)	-
BNP – interest rate	75,000,000	2022	(28,275,433)	(18,470,438)	(9,804,995)	(9,804,995)	-
BNP – interest rate	50,000,000	2023	(10,875,039)	(6,230,560)	(4,644,479)	-	(4,644,479)
BBVA – interest rate	20,000,000	2023	(4,323,611)	(2,438,386)	(1,885,225)	-	(1,885,225)
<b>Sub-total</b>			<b>(54,624,083)</b>	<b>(36,864,384)</b>	<b>(21,223,481)</b>	<b>(11,229,995)</b>	<b>(6,529,704)</b>
<b>Total</b>						<b>(14,693,777)</b>	<b>(6,529,704)</b>

Note: The exchange rate swap is presented in the heading Non-current loans.

## 6. Financial instruments (IFRS 7)

### 6.1 By IAS 39 category

	Loans and receivables (assets)	Assets at fair value through profit or loss	Liabilities at amortised cost	Liabilities at fair value through profit or loss	Total liabilities at fair value through equity	Total	Non-classified 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	4,260,562	-	-	-	-	4,260,562	-	4,260,562
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 in financial year	-	-	-	-	-	-	-	-
Cash and cash equivalents	158,034,093	-	-	-	-	158,034,093	-	158,034,093
<b>Total Assets</b>	<b>474,914,695</b>	-	-	-	-	<b>474,914,695</b>	<b>745,753,437</b>	<b>1,220,668,132</b>
Provisions	-	-	-	-	-	-	11,946,887	11,946,887
Bank loans	-	-	605,055,721	-	-	605,055,721	-	605,055,721
Derivatives	-	-	-	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
Tax for financial year	-	-	3,353,673	-	-	3,353,673	-	3,353,673
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>614,594,786</b>	<b>39,425,443</b>	<b>15,198,650</b>	<b>669,218,879</b>	<b>11,946,887</b>	<b>681,165,767</b>

	Loans and receivables (assets)	Assets at fair value through profit or loss	Liabilities at amortised cost	Liabilities at fair value through profit or loss	Total	Non-classified financial instruments	Balance sheet total as at 31.12.2011
Intangible assets	-	-	-	-	-	-	-
Tangible fixed assets	-	-	-	-	-	11,875	11,875
Financial investments	-	-	-	-	-	741,359,026	741,359,026
Loans to Group companies	239,214,100	-	-	-	239,214,100	-	239,214,100
Other receivables	3,674,554	-	-	-	3,674,554	-	3,674,554
Trade receivables	13,633,108	-	-	-	13,633,108	-	13,633,108
Group companies	106,373,778	-	-	-	106,373,778	-	106,373,778
Derivatives (a)	-	16,248,189	-	-	16,248,189	(16,248,189)	-
Tax for financial year	-	-	-	-	-	-	-
Cash and cash equivalents	80,686,435	-	-	-	80,686,435	-	80,686,435
<b>Total Assets</b>	<b>443,581,975</b>	<b>16,248,189</b>	<b>-</b>	<b>-</b>	<b>459,830,164</b>	<b>725,122,712</b>	<b>1,184,952,877</b>
Provisions	-	-	-	-	-	11,216,885	11,216,885
Bank loans	-	-	601,591,950	-	601,591,950	-	601,591,950
Derivatives	-	-	-	36,864,384	36,864,384	-	36,864,384
Trade payables	-	-	800,447	-	800,447	-	800,447
Other creditors	-	-	6,559,075	-	6,559,075	-	6,559,075
Tax for financial year	-	-	9,159,270	-	9,159,270	-	9,159,270
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>618,110,742</b>	<b>36,864,384</b>	<b>654,975,126</b>	<b>11,216,885</b>	<b>666,192,011</b>

(a) Derivatives (assets) are presented in the balance sheet under the heading bank loans, combining the hedged and the hedging instrument under the same item.

## 6.2 Fair value hierarchy

The financial assets and liabilities of AdP measured at fair value are classified in accordance with the following hierarchy levels, as set out in IFRS 7:

	31 December 2012			31 December 2011		
	level 1	level 2	level 3	level 1	level 2	level 3
<b>Financial assets at fair value through profit or loss</b>						
Derivatives (a)	-	-	-	-	16,248,189	-
<b>Financial assets at fair value through comprehensive income</b>						
Derivatives	-	-	-	-	-	-
<b>Financial liabilities at fair value through profit or loss</b>						
Derivatives	-	40,550,332	-	-	36,864,384	-
<b>Financial liabilities at fair value through comprehensive income</b>						
Derivatives	-	15,198,650	-	-	-	-

(a) Derivatives (assets) are presented in the balance sheet under the heading bank loans, combining the hedged and the hedging instrument under the same item.

## 7. Intangible assets

	31.12.2012	31.12.2011
Intangible assets in progress	596,713	-
	<b>596,713</b>	-

Various technical studies (prepared jointly with other Group companies) are recorded in "Intangible assets in progress". These studies relate to the restructuring plan for the sector; in particular the mergers planned within the AdP Group. When new concessionaires are established, these amounts will be invoiced to them.

## 8. Tangible fixed assets

Net assets	31.12.2012	31.12.2011			
Transport equipment	-	-			
Office equipment	1,569	11,875			
Other tangible assets	-	-			
	1,569	11,875			
Gross assets	31.12.2011	Additions	Disposals and write-offs	Transf.	31.12.2012
Transport equipment	-	-	-	-	-
Office equipment	105,384	2,091	-	-	107,475
Other tangible assets	1,058	-	-	-	1,058
	106,442	2,091	-	-	108,533
Amortisations and Adjustments	31.12.2011		Appropriations	Cancellation/ Reversal	31.12.2012
Transport equipment	-	-	-	-	-
Office equipment	(93,508)		(12,398)	-	(105,906)
Other tangible assets	(1,058)		-	-	(1,058)
	(94,566)		(12,398)	-	(106,964)
Gross assets	31.12.2010	Additions	Disposals and write-offs	Transf.	31.12.2011
Transport equipment	29,999	-	(29,999)	-	-
Office equipment	305,789	-	(200,405)	-	105,384
Other tangible assets	1,058	-	-	-	1,058
	336,846	-	(230,404)	-	106,442
Amortisations and Adjustments	31.12.2010		Appropriations	Cancellation/ Reversal	31.12.2011
Transport equipment	(29,999)		-	29,999	-
Office equipment	(277,771)		(16,116)	200,379	(93,508)
Other tangible assets	(1,057)		-	-	(1,058)
	(308,827)		(16,116)	230,378	(94,566)

## 9. Financial investments

	31.12.2012	31.12.2011
Investments in subsidiaries	9.1	744,740,200
Investments in associates	9.1	-
Other financial investments	i)	414,955
	745,155,155	207,478
		741,359,026

i) The amount recorded in other financial investments relates to sums received from the subsidiaries Simlis (166,610 euros), Valorminho (76,909 euros) and Valorlis (171,437 euros) (see note 21) that were invested in the IGCP - Instituto de Gestão e Crédito Público (Treasury and Public Credit Management Institute). Since the IGCP does not allow investment of amounts of less than 100,000 euros, all the investments of the Group companies below that amount were concentrated in the holding company prior to being invested in the IGCP.

## 9.1 Movements in the period

	<b>31.12.2012</b>	31.12.2011
<b>Opening balance</b>	<b>741,151,549</b>	731,291,204
Capital increase	i) 2,817,750	10,433,336
Loss apportionment	ii) 770,901	-
Financial investment impairment	iii) -	(572,991)
<b>Closing balance</b>	<b>744,740,200</b>	<b>741,151,549</b>

i) In the 2012 financial year, AdP undertook the following capital increases:

	<b>31.12.2012</b>	31.12.2011
Águas do Douro e Paiva	765,000	-
Simria	-	348,086
Simdouro	2,052,750	2,052,750
Águas do Noroeste	-	8,032,500
	<b>2,817,750</b>	<b>10,433,336</b>

ii) In the 2012 financial year, AdP undertook the apportioning of its losses in its subsidiary AdP Internacional, S.A., in the total amount of 770,901 euros.

iii) In 2011 and considering the economic and financial situation of the associate Trevo Oeste, and the uncertainty as to its future, the Board of Directors decided to undertake an adjustment equivalent to the balance sheet value of its financial stake (impairment).

## 9.2 Individual value of shareholding

	<b>31.12.2012</b>	<b>31.12.2011</b>
EPAL	366,116,761	366,116,761
EGF	60,651,531	60,651,531
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 Zêzere e Côa	29,451,416	29,451,416
Águas do Mondego	11,170,388	11,170,388
Águas do Douro e Paiva	11,656,901	10,891,901
Águas da Região de Aveiro	7,650,000	7,650,000
Águas do Norte Alentejano	6,062,066	6,062,066
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
AdP Internacional	5,120,282	4,349,381
Águas de Santo André	2,298,412	2,298,412
AdP Serviços	587,465	587,465
Águas Públicas do Alentejo	255,000	255,000
Aquasis	100	100
Simdouro	7,624,500	5,571,750
Águas do Noroeste	56,301,275	56,301,275
	<b>744,740,200</b>	<b>741,151,549</b>

## 10. Loans to Group companies

	<b>31.12.2012</b>	<b>31.12.2011</b>
Simtejo	17,000,000	30,000,000
Águas do Zêzere e Côa	13,000,000	17,500,000
Águas de Trás-os-Montes e Alto Douro	40,000,000	40,000,000
Águas do Algarve	45,000,000	55,000,000
Simria	25,000,000	25,000,000
Empresa Geral do Fomento	-	6,500,000
Águas do Norte Alentejano	1,028,775	2,115,050
Simdouro	17,600,000	18,047,250
Águas do Noroeste	43,000,000	45,000,000
Águas do Brasil	51,800	51,800
	<b>201,680,575</b>	<b>239,214,100</b>

## 10.1 Movements in the period

	<b>31.12.2012</b>	31.12.2011
<b>Opening balance</b>	<b>239,214,100</b>	<b>224,551,800</b>
Advance (Águas do Zêzere e Côa)	2,500,000	2,500,000
Repayment (Águas do Zêzere e Côa)	(7,000,000)	(5,000,000)
Advance (Águas do Algarve)	(10,000,000)	5,000,000
Advance (Águas do Norte Alentejano)	4,943,825	2,115,050
Repayment (Águas do Norte Alentejano)	(6,030,100)	-
Repayment (Águas da Região de Aveiro)	-	(21,000,000)
Repayment (Empresa Geral do Fomento)	-	(2,000,000)
Repayment (Águas do Noroeste)	(2,000,000)	15,000,000
Advance (Simdouro)	-	20,100,000
Repayment (Simdouro)	(447,250)	(2,052,750)
Repayment (Simtejo)	(13,000,000)	-
Repayment (EGF)	(6,500,000)	-
<b>Closing balance</b>	<b>201,680,575</b>	<b>239,214,100</b>

Bearing in mind the serious cash flow problems suffered in many Group companies, AdP has provided advances or cash support during the course of the year (see note 12).

## 11. Trade receivables

	<b>31.12.2012</b>	31.12.2011
Simtejo	2,948,945	75,678
Águas do Noroeste	1,850,675	1,899,561
EPAL	22,012	485,137
Águas do Zêzere e Côa	304,190	670,053
EGF	191,894	310,519
Águas do Algarve	12,371,392	5,607,853
Aquapor	-	176,882
Águas de Trás-os-Montes e Alto Douro	3,887,537	1,254,636
Sanest	57,154	32,278
Águas do Centro	40,425	32,879
Águas do Mondego	770,301	173,849
Águas do Centro Alentejo	40,236	36,710
Águas Públicas do Alentejo	1,134,637	884,412
Simarsul	3,040,404	719,949
Águas de Portugal Serviços Ambientais	81,422	174,510
Águas do Norte Alentejano	145,502	386,808
Simdouro	1,064,198	187,044
Águas da Região de Aveiro	215,623	223,699
Simria	159,350	28,471
Águas do Oeste	184,298	48,509
Other trade receivables balances	248,416	223,671
	<b>28,758,610</b>	<b>13,633,108</b>

The considerable cash problems that many Groups' companies are suffering (due to customers defaulting on payments) are being reflected directly in their debt payments to AdP. The subsidiaries with the worst problems are Águas do Algarve, Simtejo, Simarsul and Águas do Trás-os-Montes e Alto Douro, whose debts rose by 14,590,162 euros.

## 12. Group companies

	<b>31.12.2012</b>	31.12.2011
AdP Serviços	273,407	506,569
Águas do Noroeste	11,750,000	5,000,000
Águas de Trás-os-Montes e Alto Douro	13,944,684	13,944,684
Águas do Oeste	8,000,000	10,000,000
Águas Públicas do Alentejo	10,000,000	10,019,639
AdP Energias	1,218,627	1,200,000
Empresa Geral do Fomento	3,700,000	6,200,000
Valorsul	10,000,000	10,000,000
Águas de Santo André	1,667,864	3,483,994
Águas do Zêzere e Côa	7,000,000	20,000,000
Simarsul	-	9,049,011
Águas do Mondego	7,217,000	3,500,000
Águas do Norte Alentejano	1,508,050	2,250,000
Aquasis	436,050	436,000
Tax recoverable from fiscal consolidation	5,465,174	2,102,305
EPAL	-	8,681,576
	<b>82,180,856</b>	<b>106,373,778</b>

The above table shows various entries of cash flow support to Group companies. This support fell significantly at the end of 2012, largely because several subsidiaries received loans from EIB III and part of the cash support was repaid.

In 2010, AdP embarked on the Special Taxation Scheme for the tax consolidation perimeter comprising these companies: AdP SGPS, AdP Serviços, EPAL, EGF, AdP Internacional, Águas de Santo André, AdP Energias and AdP Imobiliária. Under this scheme, tax is paid by the parent company with the subsidiaries belonging to the tax consolidation being debtors or creditors with respect to the amount of tax involved. As at the year end, AdP was owed the following sums:

	<b>31.12.2012</b>	31.12.2011
AdP Serviços	273,407	506,569
Águas de Santo André	657,367	2,473,497
EPAL	5,465,174	8,681,576
AdP Energias	18,627	-
	<b>6,414,575</b>	<b>11,661,642</b>

## 13. Other receivables - current

		<b>31.12.2012</b>	31.12.2011
Earnings to be billed	i)	2,376,637	2,194,615
Interest on term deposits	ii)	646,951	259,152
Bank charges		739,141	847,910
Deferral of EIB set-up charges		140,201	171,269
Board of Directors participation fee	iii)	300,017	150,612
Other balances from other debtors		57,615	50,995
		<b>4,260,562</b>	<b>3,674,554</b>

i) earnings to be billed, take the following form:

<b>Earnings to be billed</b>	<b>31.12.2012</b>	31.12.2011
Interest to be billed	1,886,714	1,667,900
EIB fees	377,980	339,967
Other	111,942	186,748
	<b>2,376,637</b>	<b>2,194,615</b>

The increase in interest to be billed basically comes from the increased funding (advances and cash flow support) agreed between Group companies and AdP in 2012, and from higher interest rates debited by AdP SGPS.

- ii) the increase in deferred interest on term deposits is due to the Company having invested a considerably higher amount at the end of the year; compared with 2011;
- iii) the increase in this item is solely because of the non-implementation of several minutes of the Remuneration Committee that were pending at the end of 2012. With the introduction of the new *Lei do Gestor Público* (Public Manager Statute) it has been found necessary to amend nearly all the minutes of the Remuneration Committee which are expected to be ready at the start of 2013 for subsequent billing.

## 14. Income tax for year

	<b>31.12.2012</b>	31.12.2011
<b>Profit before tax</b>	<b>42,537,437</b>	<b>25,137,789</b>
Dividends received	(38,229,371)	(41,694,129)
Other adjustments	(1,926,410)	3,681,835
<b>Assessment base (tax loss)/ tax profit</b>	<b>2,381,656</b>	<b>(12,874,505)</b>
Deduction of losses	(1,786,242)	-
<b>Taxable amount</b>	<b>595,414</b>	-
Corporate Income Tax 25%	148,854	-
Municipal surtax 1.5%	35,725	-
State surtax	26,450	-
Tax-free allowance	-	-
<b>Corporate income tax assessment (recoverable)/ payable</b>	<b>211,028</b>	-
Autonomous taxation	55,206	86,471
<b>Current tax</b>	<b>266,234</b>	<b>86,471</b>
Payment on account	72,477	146,834
Tax withheld at source	2,032,107	1,999,223
Current tax of fiscal perimeter	(5,192,023)	(11,218,856)
	(3,353,673)	(9,159,270)
	<b>31.12.2012</b>	31.12.2011
Corporate Income Tax 25%	148,854	-
Municipal surtax	35,725	-
State surtax	26,450	-
Autonomous taxation	55,206	86,471
Tax recovery via fiscal consolidation	-	(2,102,305)
<b>Tax for the year</b>	<b>266,234</b>	<b>(2,015,834)</b>
	<b>31.12.2012</b>	31.12.2011
<b>Profit before tax</b>	<b>42,537,437</b>	<b>25,137,789</b>
Tax rate	26.8%	26.5%
	<b>11,391,526</b>	<b>6,661,514</b>
Fair value of derivatives	(1,730,372)	-
Transition adjustments	(491,832)	(491,832)
Tax benefits code	1,406,342	1,616,745
Other accruals	519,225	1,487,346
Dividends	(10,130,783)	(11,048,944)
Other deductions	(306,518)	(327,134)
Deduction of tax losses	(446,561)	-
Autonomous taxation	55,206	86,471
<b>Current tax</b>	<b>266,234</b>	<b>(2,015,834)</b>
Current tax	266,234	86,471
Deferred tax	-	-
Current tax of fiscal perimeter	-	(2,102,305)
	<b>266,234</b>	<b>(2,015,834)</b>

## 14.1 Deferred tax

Heading	Rate	31.12.2011	Appropriation/ Correction	Utilisation/ Reduction	31.12.2012
Deferred tax assets					
Provisions		11,216,882	1,888,021	(1,158,018)	11,946,885
Reportable losses		30,154,804	(19,354,437)	(1,786,242)	9,014,125
Assessment base...		41,371,686	(17,466,416)	(2,944,260)	20,961,010
Tax rate:					
Corporate income tax...	25.00%	10,342,921	(4,366,604)	(736,065)	5,240,252
Municipal surtax	1.50%	168,253	28,320	(17,370)	179,203
Tax...		10,511,175	(4,338,284)	(753,435)	5,419,456
Impairment...		10,511,175	(4,338,284)	(753,435)	5,419,456
<b>Deferred tax asset</b>		-	-	-	-
Deferred tax liabilities					
Revaluations		-	-	-	-
Reinvestment of capital gains		-	-	-	-
Other		-	-	-	-
Assessment base...		-	-	-	-
Tax rate:		-			
Corporate income tax...	25.00%	-		-	-
Municipal surtax	1.50%	-	-	-	-
<b>Deferred tax liability</b>		-	-	-	-

## 14.2 Tax losses

As shown in the table of the preceding note, deductible temporary differences (unused tax losses, unused tax credits) do exist for which no deferred tax asset was recognised in the balance sheet due to doubts as to their recoverability.

Tax losses to recover	31.12.2012	31.12.2011
2006 financial year	-	3,055,370
2007 financial year	9,014,125	27,099,433
<b>Total</b>	<b>9,014,125</b>	<b>30,154,804</b>

## 15. Cash and cash equivalents

	31.12.2012	31.12.2011
Current accounts	1,252,133	4,372,707
Term deposits	155,945,000	76,220,000
Cash	836,960	93,728
<b>Total</b>	<b>158,034,093</b>	<b>80,686,435</b>

The amount recorded in "Cash" relates to amounts received at the year end and deposited in the first few days of 2013.

## 16. Equity

### 16.1 Shareholders - Owners of share capital

Shareholders as at 31.12.2012	% Share capital	Amount subscribed	No. of shares	Type of shares
Parpública, SGPS, S.A.	72.18%	313,613,590	62,722,718	Registered
Parcaixa, SGPS, S.A.	19.00%	82,555,000	16,511,000	Registered
Direção Geral do Tesouro	8.82%	38,331,410	7,666,282	Registered
	100.00%	434,500,000	86,900,000	

As at 31 December 2012 the capital was wholly subscribed and paid up, represented by 86,900,000 shares with a par value of 5 euros each.

### 16.2 Earnings per share

	31.12.2012	31.12.2011
Net profit for financial year	42,271,203	27,153,623
Number of shares	86,900,000	86,900,000
Earnings per share	0.49	0.31

## 17. Provisions

	31.12.2012	31.12.2011
Studies and projects (multi-municipal systems)	-	-
Liabilities for subsidiaries and associates	6,946,887	5,688,110
Other liabilities	5,000,000	5,528,775
	11,946,887	11,216,885

### 17.1 Movements in the period

	Studies and projects	Subsidiaries and associates	Other liabilities	Total
Balance as at 31 December of 2010	1,218,799	1,599,655	5,000,000	7,818,454
Increases via operating profit	-	4,088,453	528,774	4,617,227
Reductions of provisions	(1,218,799)	-	-	(1,218,799)
Balance as at 31 December 2011	-	5,688,110	5,528,775	11,216,885
Increases via operating profit	-	1,258,777	629,244	1,888,021
Reductions of provisions	-	-	(1,158,019)	(1,158,019)
Balance as at 31 December 2012	-	6,946,887	5,000,000	11,946,887

The increase in provisions for subsidiaries and associates arises from the Group's international liabilities. Implicit in the increase in the provision for other liabilities in the sum of 629,244 euros is the existence of legal contingencies which were identified in the first half of 2012. These were reversed at the end of the year in a total amount of 1,158,019 euros since they are recorded in each subsidiary.

## 18. Loans

	<b>31.12.2012</b>	31.12.2011
Foreign currency loans - JPY	100,000,000	100,000,000
Bond issues	500,000,000	500,000,000
Exchange adjustment of JPY	3,930,822	17,840,138
Exchange hedge swap	1,124,899	(16,248,188)
<b>Non-current loans</b>	<b>605,055,721</b>	<b>601,591,950</b>
Short term loans	-	-
Bank overdrafts	-	-
<b>Current loans</b>	<b>-</b>	<b>-</b>
<b>Total loans</b>	<b>605,055,721</b>	<b>601,591,950</b>

Foreign currency loans and bond issues are subject to ownership clauses which state that any changes in the shareholder structure of the Company implies immediate maturity.

### 18.1 Loans by maturity

	<b>31.12.2012</b>	31.12.2011
Up to 1 year	-	-
From 1 to 2 years	-	-
From 2 to 3 years	100,000,000	-
From 3 to 4 years	-	100,000,000
From 4 to 5 years	-	-
More than 5 years	500,000,000	500,000,000
	<b>600,000,000</b>	<b>600,000,000</b>

### 18.2 Loans by maturity and type of interest rate

Variable interest rate	<b>31.12.2012</b>	31.12.2011
Up to 1 year	-	-
From 1 to 2 years	-	-
From 2 to 3 years	100,000,000	-
More than 3 years	500,000,000	600,000,000
	<b>600,000,000</b>	<b>600,000,000</b>

Fixed interest rate	<b>31.12.2012</b>	31.12.2011
Up to 1 year	-	-
From 1 to 2 years	-	-
From 2 to 3 years	-	-
More than 3 years	-	-
	<b>600,000,000</b>	<b>600,000,000</b>

## 18.3 Credit lines agreed and not used

	<b>31.12.2012</b>	31.12.2011
Expiring in one year (fixed rate)	-	-
Expiring in one year (variable rate)	31,500	41,500
Expiring after 1 year (fixed rate)	-	-
Expiring after 1 year (variable rate)	-	-
	<b>31,500</b>	<b>41,500</b>

## 18.4 Fair value of loans

	Book value <b>31.12.2012</b>	Book value 31.12.2011	Fair value <b>31.12.2012</b>	Fair value 31.12.2011
	600,000,000	600,000,000	228,506,616	270,197,176
Non-current	600,000,000	600,000,000	228,506,616	270,197,176

The rates employed for fair value were 8.0% for 2012 and 8.4% for 2011.

## 19. Derivatives

Swap	Notional	Mat.	Acc.Int. <b>31.12.2012</b>	Acc.Int. 31.12.2011	Change	In profits	In equity
Mitsubishi - exch. rate	100,000,000	2015	(1,124,899)	16,248,188	(17,373,087)	(17,373,087)	-
Exchange update	100,000,000	2015			13,909,305	13,909,305	-
<b>Sub-total</b>			<b>(1,124,899)</b>	<b>16,248,188</b>	<b>(3,463,782)</b>	<b>(3,463,782)</b>	-
City Bank - interest rate	50,000,000	2022	(11,150,000)	(9,725,000)	(1,425,000)	(1,425,000)	-
BNP - interest rate	75,000,000	2022	(28,275,433)	(18,470,438)	(9,804,995)	(9,804,995)	-
BNP - interest rate	50,000,000	2023	(10,875,039)	(6,230,560)	(4,644,479)	-	(4,644,479)
BBVA - interest rate	20,000,000	2023	(4,323,611)	(2,438,386)	(1,885,225)	-	(1,885,225)
<b>Sub-total</b>			<b>(54,624,083)</b>	<b>(36,864,384)</b>	<b>(21,223,481)</b>	<b>(11,229,995)</b>	<b>(6,529,704)</b>
<b>Total</b>						<b>(14,693,777)</b>	<b>(6,529,704)</b>

Note: the exchange rate swap is presented in the heading non-current loans.

AdP uses derivatives solely to manage the financial risks to which it is exposed. Under its financial policies AdP does not use derivatives for negotiation. Even though the derivatives contracted by AdP are effective economic hedging instruments 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 changes in them are recognised in financial income. Whenever available, the fair value of derivatives is estimated based on listed instruments. In the absence of market prices, the fair value of derivatives is estimated by the discounted cash flow method determined by outside entities, based on accepted market valuing techniques. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is revalued on a regular basis and any resulting gains or losses are recorded directly in the income statement for the period, except in relation to hedge derivatives. Recognition of changes in fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

The financial instruments linked with Depfa loans (Notional, 50 million euros and 20 million euros), are regarded as cash flow hedging instruments, and thus the relevant change in fair value is recognised directly in equity from 2012. The effectiveness of the instruments was evaluated and the results were within the range 80% to 125%.

## 20. Trade payables

	<b>31.12.2012</b>	31.12.2011
Trade payables c/ac - national	262,204	344,737
Trade payables c/c - other countries	3,803	1,225
Trade payables c/ac - Group companies	90,324	454,485
	<b>356,331</b>	<b>800,447</b>

The reduction of debt to suppliers is mainly due to the reduction in the sums payable to Group companies. At the end of the year, AdP Serviços issued a credit note for the reduction of price per m<sup>2</sup> (for 2012) for the provision of space, which explains why there is no debt related to AdP Serviços.

## 21. Other current liabilities

	<b>31.12.2012</b>	31.12.2011
Interest payable	i)	2,311,897
State and other public entities	ii)	894,608
Holidays and holiday allowance	iii)	217,355
General charges and expenses of AdP Serviços	iv)	866,186
Group companies	V)	1,356,889
Other creditors		182,126
	<b>5,829,061</b>	<b>6,559,075</b>

i) The table below presents interest accruals and commissions payable by entity:

Interest payable	<b>31.12.2012</b>	31.12.2011
BEI	303,012	899,971
Dexia	233,902	621,895
Mitsubishi	746,600	730,466
Depfa	991,275	1,928,471
BPI	37,108	104,190
	<b>2,311,897</b>	<b>4,284,994</b>

The reduction in the guarantee commission payable to the Portuguese State through EIB loans fell significantly because a shorter accrual period is considered in this financial year (15 days in 2012 and 3 months and 15 days in 2011). With respect to the higher interest accrual for Depfa, this is mainly due to offsetting through the linked swaps;

ii) The following amounts should be noted in the heading State and other public entities:

	<b>31.12.2012</b>	31.12.2011
Employee income tax withheld and other earnings	114,206	58,186
VAT	692,453	780,098
Social security	78,199	76,582
Other taxation	9,750	2,885
	<b>894,608</b>	<b>917,750</b>

iii) The 2013 Budget (*Lei do Orçamento de Estado*) maintained the non-payment of holiday allowances in 2013, so the Company only accrued the holiday allowance payable in 2013;

- iv) The increase in charges related to AdP Serviços is explained by the fact at the end of the year invoices have been accrued that the company had not yet issued. These relate to technical studies for the restructuring of the water sector and amount to 596,713 euros;
- v) Part of the amount recorded in Group companies relates to the amount of tax that some of these companies have to recover under the fiscal consolidation process (Special Taxation Scheme). Namely:

	<b>31.12.2012</b>	<b>31.12.2011</b>
EGF	784,969	53,674
AdP Internacional	156,964	367,401
AdP Energias	-	18,710
AdP Imobiliária	-	3,000
Simlis	i) 166,610	83,305
Valorminho	i) 76,909	38,454
Valorlis	i) 171,437	85,718
	<b>1,356,889</b>	<b>650,263</b>

- i) The sum received from subsidiaries Simlis, Valorminho and Valorlis (see note 21) relates to investment in the IGCP - Instituto de Gestão e Crédito Público, as mentioned in note 9.

## 22. Provision of services

	<b>31.12.2012</b>	<b>31.12.2011</b>
EPAL	2,523,592	2,573,168
Águas do Douro e Paiva	543,942	544,039
Simtejo	704,267	701,629
Empresa Geral do Fomento	741,062	861,494
Águas do Algarve	799,852	788,976
Sanest	262,612	257,454
Águas de Santo André	502,679	377,978
Águas do Oeste	460,095	504,200
Simria	258,056	243,510
Águas do Zêzere e Côa	289,966	310,357
AdP Serviços	195,623	221,496
Águas do Mondego	282,285	258,274
Águas do Centro	211,816	218,825
Águas de Trás-os-Montes e Alto Douro	495,992	398,481
Simarsul	222,794	225,824
Águas do Centro Alentejo	137,633	149,588
Simlis	119,041	118,853
Águas do Norte Alentejano	126,140	119,428
Águas do Noroeste	634,241	650,246
Águas da Região de Aveiro	806,133	747,660
Águas Públicas do Alentejo	188,757	250,396
Simdouro	157,001	144,506
	<b>10,663,579</b>	<b>10,666,382</b>

The amounts by which subsidiaries were debited for management agreements are listed in provision of services.

## 23. External supplies and services

	<b>31.12.2012</b>	31.12.2011
Specialised work	4,416,069	4,883,638
Advertising	449,846	573,045
Rents and hires	237,788	242,382
Travel and accommodation	78,021	55,676
Other external supplies and services	266,905	408,884
	<b>5,448,629</b>	<b>6,163,625</b>

Costs related to the rental of space (including the rent, hire of office equipment, etc.) are entered under the heading of specialised work, in a total of 1,582,336 euros (2,099,936 euros in 2011). Also entered under this heading are sundry services provided by AdP Serviços, in the sum of 2,583,176 euros (1,940,037 euros in 2011), and of legal services in the sum of 250,557 euros (82,320 euros in 2011). This increase is largely due to various legal opinions on the restructuring of the water sector in Portugal. Advertising expenses are lower because the Company did not enter into any sponsorship deals in 2012 and continued its cost-cutting policy.

## 24. Personnel costs

		<b>31.12.2012</b>	31.12.2011
Remuneration of corporate bodies	i) and 24.I	401,741	743,074
Payroll	ii)	2,476,724	2,904,650
Compensation	iii)	50,000	128,464
Social security contributions		592,754	678,075
Other personnel costs		256,755	248,229
Corrections for previous years		(22,126)	4,701
		<b>3,755,847</b>	<b>4,707,193</b>

i) law 12-A/201 of 30 June, remained in force; it established 5% salary cuts for corporate bodies. Law 55-A/2010 of 31 December also remained in force; it established a 10% cut in managers' salaries from January 2011. Furthermore, in January 2012 there were only two directors in office (five in January 2011); it was only from February that the five directors were appointed for the 2012-2014 term, and their remuneration was in accordance with the provisions in the new Public Manager Statute;

ii) the lower remuneration expenses are explained by the fact that some employees on the Board of Directors of subsidiaries were paid by those companies. Law 55-A/2010 of 31 December remained in force in the 2012 financial year, which provides for a cut in employees' pay of between 3.5% and 10%; the payment of holiday and Christmas allowances, or their equivalent, was also suspended from January 2011 pursuant to Article 21 of Law 64-B/2011.

iii) one employee left the Company in 2012, by mutual agreement, with a severance package of 50,000 euros.

### 24.I Corporate bodies

	<b>31.12.2012</b>	31.12.2011
Board of Directors	335,805	594,336
Supervisory Board	47,441	57,398
Statutory Auditor (a)	18,495	72,000
Other	-	19,340
	<b>401,741</b>	<b>743,074</b>

- (a) The Company was given guidance from the Directorate-General of Treasury and Finance (DGTF) indicating that the remuneration of the Statutory Auditor (ROC) should be indexed to that of the Company's Chairman, corresponding to 22.5% thereof. The Company thus calculated the amount (1,802.67 euros/ month), subsequently applying the reductions provided for in Article 12(1) of Law 12-A/2010 of 30 June (i.e. a reduction of 5% - 90.13 euros) and in Article 20(1) of Law 64-B/2011 of 30 December (i.e. a reduction of 10% - 171.25 euros). The monthly remuneration after this is 1,541.28 euros (18,495 euros per year).

## 24.2 Establishment

Nature	Average number		Year end	
	2012	2011	2012	2011
Board of Directors	5	4	5	4
Supervisory Board	4	4	4	4
Permanent/ temporary workers	55	60	56	63
	64	68	65	71
<b>Debts</b>		<b>31.12.2012</b>	<b>31.12.2011</b>	
Corporate bodies		assets	liabilities	assets
Corporate bodies		-	(612)	152
Personnel		190	(521)	183
		190	(1,133)	335
				(2,127)

## 25. Amortisations in year

	<b>31.12.2012</b>	31.12.2011
Depreciation of tangible fixed assets	12,398	16,116
	<b>12,398</b>	<b>16,116</b>

## 26. Other operating expenses

	<b>31.12.2012</b>	31.12.2011
Taxes and charges	i)	126,916
Other operating expenses	ii)	-
Fines and penalties		1,225
Donations and membership fees		24,288
Impairment of financial investments	9.I	67,285
Corrections for previous years	iii)	572,991
Other extraordinary expenses and losses	iv)	119,660
	<b>284,320</b>	<b>1,707,798</b>

- i) the stamp tax for the sundry funding undertaken during the year is recorded in the heading Taxes;
- ii) in 2011, the effect of cancelling intangible fixed assets in progress was recorded in Other operating expenses;
- iii) the sum of 119,660 euros in 2011 almost entirely relates to the VAT corrections for previous years, which arose from the tax inspection conducted on the Company in that year;
- iv) the year-long effect of pro-rata VAT is entered in Other extraordinary expenses and losses;

## 27. Other operating income and gains

	<b>31.12.2012</b>	31.12.2011
Additional income	805,740	1,516,901
Other extraordinary earnings and gains	88,837	9,535
Corrections for previous years	-	41,957
	<b>894,577</b>	<b>1,568,393</b>

Additional income relates to remuneration of duties carried out by AdP staff on the corporate bodies of companies in which the Company has shareholdings. There was a significant reduction in 2012 since the Company had to adopt the new remuneration rates established in the Public Managers Statutes, which set the maximum amounts payable to the chairs of the Boards of Directors and their members.

## 28. Financial expenses

	<b>31.12.2012</b>	31.12.2011
Interest paid	i)	15,188,672
Other expenses and losses	ii)	18,308,546
	<b>33,497,218</b>	<b>42,640,614</b>

i) the table below gives the interest paid by entity and changes vis-à-vis 2011:

	<b>31.12.2012</b>	31.12.2011
Bank of Tokyo - Mitsubishi (BTM) AND Meiji Yasuda (MY)	2,853,135	2,799,919
BPI	2,556,680	2,946,138
Depfa	4,010,087	3,941,452
Dexia	5,767,698	4,365,466
Other interest	1,073	41,575
	<b>15,188,672</b>	<b>14,094,551</b>

The interest rate on loans with BTM and MY was practically unchanged at 2.843% in 2012 (2.807% in 2011). Regarding the BPI bond issue, there was a significant drop in rates in the last quarter of 2012. The interest rate on the Dexia loan rose by around 2.8%, and this led to higher associated financial expenses.

ii) The table below shows the breakdown of the heading Other financial expenses and losses:

	<b>31.12.2012</b>	31.12.2011
Financial instruments	19	14,693,778
Commissions	a)	2,885,637
Other financial expenses	b)	729,131
	<b>18,308,546</b>	<b>28,546,063</b>

a) The amount recorded relates to guarantee commissions paid to the Portuguese State and EIB loans to the AdP Group; note that the guarantees are subsequently billed to the Group companies.

b) Bank expenses for guarantees, the EIB set-up charges etc. are entered in this heading.

## 29. Other operating income and gains

		31.12.2012	31.12.2011
Interest received	i)	36,478,325	29,839,505
Dividends received	ii)	38,229,371	41,694,129
Corrections for previous years		-	3,156
		<b>74,707,696</b>	<b>71,536,789</b>

i) The table below shows the main sources of interest received by AdP:

		31.12.2012	31.12.2011
Interest on treasury cash flow and loans to the Group	a)	21,905,061	14,922,351
Interest on term deposits	b)	3,793,559	5,512,472
Commissions	c)	10,779,706	9,221,846
Other interest		-	182,837
		<b>36,478,325</b>	<b>29,839,505</b>

- a) The increase in interest from treasury cash flow and loans to the Group is explained by the problems experienced by the treasuries of certain AdP Group companies, with AdP funding these companies with considerable sums (see notes 10 and 12). Furthermore, interest rates and the spreads applied increased in 2011.
- b) The reduction of interest on term deposits was because, in the 2012 financial year, investment was lower; on average it was 94.9 million euros (110.4 million euros in 2011) (as a rule these investments are used as consideration for credit limits with banks), and the interest rates applied to these deposits were also lower.
- c) The sums debited from the subsidiaries for guarantee costs, loan set-up fees, guarantee commissions, etc. are recorded in the heading "Commissions".

ii) Dividends received/ allocated by company

		31.12.2012	31.12.2011
Águas do Douro e Paiva		-	407,694
Sanest		282,008	3,015,213
Simtejo		2,701,230	1,645,651
Águas do Mondego		-	472,853
Águas do Algarve		-	2,709,588
EPAL		34,044,440	24,000,000
Aquasis		50	60
Águas de Santo André		168,357	101,664
Águas da Região de Aveiro		-	661,767
Águas Públicas do Alentejo		33,286	79,639
Empresa Geral do Fomento		-	3,000,000
AdP Internacional		-	5,000,000
AdP Serviços		1,000,000	600,000
		<b>38,229,371</b>	<b>41,694,129</b>

## 30. Transactions with related entities

<b>Year 2012</b>	<b>Subsidiaries</b>	<b>Shareholders</b>	<b>Corporate bodies</b>
<b>Income</b>			
Revenue	44,259,285		
Dividends received/ allocated	38,229,371		
<b>Expenses</b>			
Personnel costs			383,246
Other expenses	3,277,195		
<b>Assets</b>			
Trade receivables	28,758,610		
Loans	201,680,575		
Other debtors	84,278,952		
<b>Liabilities</b>			
Trade payables	90,324		
Other creditors	1,565,143		
<b>Cash flows</b>			
Dividends paid/ payable		15,000,000	
<b>Year 2011</b>	<b>Subsidiaries</b>	<b>Shareholders</b>	<b>Corporate bodies</b>
<b>Income</b>			
Revenue	36,405,471		
Dividends received/ allocated	41,694,129		
<b>Expenses</b>			
Personnel costs			651,734
Other expenses	3,927,753		
<b>Assets</b>			
Trade receivables	13,633,108		
Loans	239,214,100		
Other debtors	104,271,473		
<b>Liabilities</b>			
Trade payables	454,485		
Other creditors	650,263		
<b>Cash flows</b>			
Dividends paid/ payable		27,000,000	

## 31. Contingent assets and liabilities

Any financial commitments and liabilities of the Company that are not entered in the balance sheet are presented as follows:

<b>2012</b>	<b>National banks</b>	<b>Foreign banks</b>	<b>Total</b>
Guarantees	71,165,011	1,587,326,551	1,658,491,562
Comfort letters	10,546,333	-	10,546,333
Surety	166,743,989	-	166,743,989
Security	5,600,000	-	5,600,000
	<b>254,055,333</b>	<b>1,587,326,551</b>	<b>1,841,381,884</b>

2011	National banks	Foreign banks	Total
Guarantees	70,535,469	1,416,605,199	1,487,140,668
Comfort letters	10,000,000	-	10,000,000
Surety	204,750,000	-	204,750,000
Security	5,600,000	-	5,600,000
	<b>290,885,469</b>	<b>1,416,605,199</b>	<b>1,707,490,668</b>

Under the loan agreements entered into with the EIB related to the investment in infrastructure to be made through various subsidiaries, the Company is jointly and severally liable for the liabilities contracted.

## 32. 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 established in Decree-Law 328/95 of 9 December and those in Decree-Law 411/91 of 17 October, it should be noted that:

- a) In compliance with the provision in Article 324(2) of the CSC, the Company does not have any own shares, nor has it undertaken to date any deals involving such shares.
- b) In compliance with Article 397(4) of the CSC, no deals were transacted between the Company and any members of its corporate bodies in 2012.
- c) In compliance with Article 21 of Decree-Law 411/91 of 17 September, the Company does not have payments outstanding to any health insurance/ welfare institution, with the balances recorded as at 31 December 2012 resulting from withholding at source the discounts and contributions relating to December, whose payment was made in January 2013, within the legal time limit.

## 33. Litigation and contingencies

There were no legal actions and/or contingencies involving the Company on the date on which these financial statements were prepared.

## 34. Subsequent events

In January 2013, the Directorate-General for the Treasury transferred 7,666,282 shares to Parpública, corresponding to 8.82% of the share capital of AdP - Águas de Portugal, SGPS, S.A., which changed the shareholder structure as follows:

	% Share capital	Amount subscribed	No. of shares	Type of shares
Parpública, 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
	<b>100.00%</b>	<b>434,500,000</b>	<b>86,900,000</b>	

Lisboa, 26 March 2013

The Board of Directors



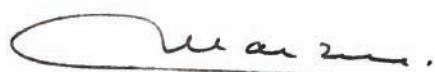
Afonso José Marçal Grilo Lobato de Faria  
(Chairman)



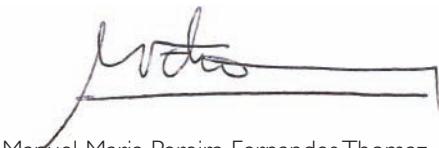
Álvaro António Magalhães Ferrão de Castello-Branco  
(Member)



Gonçalo Ayala Martins Barata  
(Member)



Manuel Joaquim Barata Frexes  
(Member)

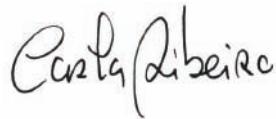


Manuel Maria Pereira Fernandes Thomaz  
(Member)



Joaquim António Pais e Jorge  
(Non-Executive Member)

The Chartered Accountant



Carla Isabel Costa Pinto Ribeiro

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# Report and opinion of the Audit Committee

Águas de Portugal

## Report and opinion of the Audit Committee on the separate 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 separate financial statements of the company AdP - Águas de Portugal, SGPS, S.A. for the 2012 financial year, presented by the Board of Directors.
- 2 - The Audit Committee monitored the management of AdP - Águas de Portugal, SGPS, S.A. 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 appraised compliance with applicable legal and statutory requirements. It exercised its powers in accordance with the provisions of Article 420 of the Portuguese Companies Code. It found no situations of non-compliance, except for those cases reported in the Table of Compliance with Legal Requirements, which were also deemed to be insignificant.
- 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, 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 2012 Management Report and Accounts provides information on compliance with the Principles of Good Governance, embodied in Council of Ministers Resolution no. 49/2007, published on 28 March 2007, despite the analysis of the Group's sustainability in the economic, social and environmental fields also benefiting from the presentation of the 2012 Sustainability Report, demonstrating material compliance with those principles.
- 6 - The remuneration reductions defined in Law no. 12-A/2010 of 30 June and Law no. 64-B/2011 of 30 December, and which were the object of guidance as regards their application to the Group, were complied with.
- 7 - The Audit Committee noted the report issued by the External Auditors on the separate accounts, finding no point of disagreement in relation to its content.
- 8 - The Audit Committee analysed the Legal Certification of Accounts 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 Legal Certification and it took note of the annual report of the Statutory Auditor on the review carried out.

- 9** - The Audit Committee considers, as a result of the work carried out, that the Report of the Board of Directors and the separate financial statements (which comprise the statement of financial position as at 31 December 2012, 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, S.A. as at 31 December 2012, and the manner in which the results were achieved and how the business activity developed.
- 10** - 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, S.A.

### **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, S.A. approve:

- a)** The separate management report and accounts for the 2012 financial year;
- b)** The appropriation of profit proposed by the Board of Directors in its report.

Lisboa, 2 April 2013

### **The Audit Committee**

Paulo Alexandre dos Santos Ferreira (Chairman)

Mário José Alveirinho Carrega

Ana Luísa Videira Gomes

AdP - Águas de Portugal, SGPS, S.A.  
Rua Visconde de Seabra, 3 • 1700-421 Lisboa • Portugal  
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# Legal certification of separate accounts

Alves da Cunha, A. Dias & Associados  
Statutory Audit Firm

## Legal certification of separate accounts

### Introduction

1. We have examined the separate financial statements of AdP - Águas de Portugal, SGPS, S.A., comprising the statement of financial position as at 31 December 2012 (which reports a total of EUR 1,220,668,000 and total equity of EUR 539,502,000, including a net profit of EUR 42,271,000), 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:
  - 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;
  - 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 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 2012, of the financial position of AdP - Águas de Portugal, SGPS, S.A., 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, S.A. and, at the same time, on the evaluation of its shareholdings.

Lisboa, 2 April 2013

ALVES DA CUNHA, A. DIAS & ASSOCIADOS  
Statutory Audit Firm  
represented by José Duarte Assunção Dias

Commercial Company registered on the List of Statutory Auditors under no. 74 • Registered as Auditor with the CMVM under no. 2699  
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TEL.: 21 840 84 32 - 21 840 32 34 - FAX: 21 847 07 80 - E-mail: [acad.sroc@acad.pt](mailto:acad.sroc@acad.pt)

# Auditor's report

Ernst & Young

Ernst & Young  
Audit & Associados - SROC, S.A.  
Avenida da República, 90 - 6º  
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Portugal  
Tel.: +351 217 912 000  
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## Auditor's Report

### 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 2012 (which reports a total of EUR 1,220,668,132 and total equity of EUR 539,502,366, including a net profit of EUR 42,271,203), the statement of 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;
- 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.** We believe that the examination carried out provides an acceptable basis for expressing our opinion.

#### **Opinion**

**6.** In our opinion, the referred financial statements present in all materially relevant aspects a true and appropriate view, as at 31 December 2012, 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**

**7.** 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 still 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, including the measures relative to the Programme to Support the Local Economy and the Law of Commitments Undertaken, which may ensure the economic and financial stability of the companies and compliance with contractual obligations.

Lisboa, 2 April 2013

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

Statutory Audit Firm (no. 178)

Represented by:

Rui Abel Serra Martins (ROC no. 1119)

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# Consolidated financial statements

for the year ended 31 December 2012

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## Consolidated statement of financial position

(amounts in euros)

	Notes	31.12.2012	31.12.2011
<b>Non-current assets</b>			
Intangible assets	8	4,722,944,524	4,795,074,634
Tangible fixed assets	9	791,135,430	808,566,586
Investment properties	10	1,069,272	1,165,151
Investments	11	118,000,928	110,414,665
Investments in associates	12	213,784	191,784
Deferred tax assets	13	267,531,026	251,961,551
Derivatives	14	-	-
Tariff deficit	15	508,207,171	430,171,545
Trade receivables and other non-current assets	16	185,978,072	142,661,600
<b>Total non-current assets</b>		<b>6,595,080,207</b>	<b>6,540,207,518</b>
<b>Current assets</b>			
Inventories	17	7,576,991	7,714,534
Trade receivables	18	474,811,470	408,813,873
State and other public entities	19	9,961,992	14,205,353
Income tax for year		-	-
Other current assets	20	175,351,544	235,736,978
Cash and cash equivalents	21	335,280,411	286,273,575
<b>Total current assets</b>		<b>1,002,982,408</b>	<b>952,744,312</b>
<b>Total assets</b>		<b>7,598,062,615</b>	<b>7,492,951,831</b>
<b>Shareholders' equity</b>			
Share capital	22	434,500,000	434,500,000
Reserves and other adjustments	23	6,468,125	11,497,153
Retained earnings	24	294,044,696	220,702,587
Net income for financial year		93,841,091	89,602,511
		828,853,912	756,302,251
Non-controlling interests	25	307,047,919	278,136,832
<b>Total equity</b>		<b>1,135,901,831</b>	<b>1,034,439,083</b>
<b>Non-current liabilities</b>			
Provisions	26	12,904,974	15,699,696
Pension liabilities	27	9,639,079	12,119,946
Loans	28	2,476,130,548	2,365,063,667
Trade payables and other non-current liabilities	29	143,374,537	183,618,271
Deferred tax liabilities	13	319,475,539	308,535,750
Accrued contractual investment expenses	30	465,449,041	546,009,446
Investment grants	31	1,925,337,858	1,950,784,151
Tariff surplus	15	120,156,451	112,488,776
Derivatives	14	59,679,814	38,456,333
<b>Total non-current liabilities</b>		<b>5,532,147,841</b>	<b>5,532,776,036</b>
<b>Current liabilities</b>			
Loans	28	619,910,904	612,837,601
Trade payables	32	108,865,984	125,188,965
Other current liabilities	33	161,035,133	137,660,057
Income tax for year	34	11,622,421	20,849,772
State and other public entities	19	28,578,501	29,200,317
<b>Total current liabilities</b>		<b>930,012,943</b>	<b>925,736,711</b>
<b>Total liabilities</b>		<b>6,462,160,784</b>	<b>6,458,512,748</b>
<b>Total liabilities and equity</b>		<b>7,598,062,615</b>	<b>7,492,951,831</b>

Lisboa, 26 March 2013

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)  
 Joaquim António Pais e Jorge (Non-Executive Member)

The Chartered Accountant  
 Carla Isabel Costa Pinto Ribeiro

## Consolidated income statement by nature

(amounts in euros)

	Notes	<b>31.12.2012</b>	<b>31.12.2011</b>
Sales	35	412,821,090	406,176,565
Provision of services	35	313,348,435	315,774,677
Cost recovery tariff deficit/surplus	35	65,232,452	112,297,346
<b>Turnover</b>		<b>791,401,977</b>	<b>834,248,588</b>
Sales expenditure/variation of inventories	37	(33,094,976)	(32,900,261)
Gross margin		758,307,001	801,348,327
External supplies and services	38	(222,350,231)	(216,264,644)
Personnel costs	39	(120,765,161)	(131,745,428)
Amortisations, depreciations and reversals in financial year	40	(235,611,661)	(243,216,536)
Provisions and reversals in financial year	41	1,881,781	(2,361,311)
Impairment losses and reversals in financial year	42	(7,594,457)	(5,688,592)
Fair value gains/ losses		-	191
Investment grants	31.2	67,640,533	80,823,249
Other operating expenses and losses	43	(15,326,499)	(12,863,902)
Other operating income and gains	44	22,586,143	17,595,181
<b>Operating profit</b>		<b>248,767,449</b>	<b>287,626,536</b>
Financial expenses	45	(121,899,318)	(127,508,312)
Financial income	46	45,599,795	37,138,302
Gains/ (losses) on investments	47	6,745	(235,507)
<b>Financial income</b>		<b>(76,292,778)</b>	<b>(90,605,517)</b>
<b>Profit before tax</b>		<b>172,474,671</b>	<b>197,021,018</b>
Income tax in financial year	48	(58,026,467)	(40,072,267)
Deferred tax	48	9,921,629	(16,953,147)
<b>Net profit of financial year as a going concern</b>		<b>124,369,833</b>	<b>139,995,605</b>
Net profit attributable to shareholders of AdP SGPS		93,841,091	89,602,511
Net profit attributable to non-controlling interests		30,528,742	50,393,094
		124,369,833	139,995,605
<b>Earnings per share</b>	22	<b>1.08</b>	<b>1.03</b>

Lisboa, 26 March 2013

**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)  
 Joaquim António Pais e Jorge (Non-Executive Member)

**The Chartered Accountant**  
 Carla Isabel Costa Pinto Ribeiro

## Consolidated statement of comprehensive income

(amounts in euros)

	<b>31.12.2012</b>	<b>31.11.2011</b>
<b>Net profit in financial year</b>	<b>124,369,833</b>	<b>139,995,605</b>
Currency conversion gains/ losses	142,995	(122,737)
Fair value of hedging instruments	(6,529,704)	-
Other gains and losses	-	(248,640)
<b>Comprehensive income</b>	<b>117,983,124</b>	<b>139,624,228</b>
Net profit attributable to shareholders of AdP SGPS	87,454,382	89,231,134
Net profit attributable to non-controlling interests	30,528,742	50,393,094
	<b>117,983,124</b>	<b>139,624,228</b>
<b>Earnings per share</b>	<b>1.01</b>	<b>1.03</b>

Lisboa, 26 March 2013

**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)  
 Joaquim António Pais e Jorge (Non-Executive Member)

**The Chartered Accountant**

Carla Isabel Costa Pinto Ribeiro

## Consolidated statement of changes in equity

(amounts in euros)

	Share capital	Currency conversion reserve	Legal reserve	Fair value reserve hedging instruments	Free reserve	Retained earnings	Profit for the year	Total	Non-controlling interests	Total Equity
<b>Balance 31 December 2010</b>	<b>434,500,000</b>	<b>89,429</b>	<b>10,163,282</b>		<b>19,000,764</b>	<b>151,060,893</b>	<b>79,459,018</b>	<b>694,273,385</b>	<b>234,196,760</b>	<b>928,470,145</b>
Allocation of 2010 profit	-	-	1,367,178		-	78,091,840	(79,459,018)	-	-	-
Currency conversion	-	(122,737)	-		-	-	-	(122,737)	-	(122,737)
Distribution of dividends	-	-	-	(19,000,764)	(7,999,236)	-	(27,000,000)	(12,507,752)	(39,507,752)	
Paid-in capital	-	-	-		(450,910)	-	(450,910)	6,054,730	5,603,821	
Other adjustments	-	-	-		-	-	-	-	-	-
Non-controlling interests	-	-	-		-	-	-	-	-	-
Net profits for 2011	-	-	-		-	89,602,511	89,602,511	50,393,094	139,995,605	
<b>Balance 31 December 2011</b>	<b>434,500,000</b>	<b>(33,308)</b>	<b>11,530,460</b>		<b>-</b>	<b>220,702,587</b>	<b>89,602,511</b>	<b>756,302,250</b>	<b>278,136,832</b>	<b>1,034,439,083</b>
Allocation of 2011 profit	-	-	1,357,682	-	-	88,244,829	(89,602,511)	-	-	-
Currency conversion	-	142,995	-	-	-	-	-	142,995	-	142,995
Distribution of dividends	-	-	-	-	-	(15,000,000)	-	(15,000,000)	(6,029,178)	(21,029,178)
Paid-in capital	-	-	-	-	-	-	-	-	4,508,803	4,508,803
Other adjustments	-	-	-	(6,529,704)	-	97,280	-	(6,432,424)	(97,280)	(6,529,704)
Net profits for 2012	-	-	-	-	-	-	93,841,091	93,841,091	30,528,742	124,369,833
<b>Balance 31 December 2012</b>	<b>434,500,000</b>	<b>109,687</b>	<b>12,888,142</b>	<b>(6,529,704)</b>	<b>-</b>	<b>294,044,696</b>	<b>93,841,091</b>	<b>828,853,912</b>	<b>307,047,919</b>	<b>1,135,901,831</b>

Lisboa, 26 March 2013

### 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)  
 Joaquim António Pais e Jorge (Non-Executive Member)

**The Chartered Accountant**  
 Carla Isabel Costa Pinto Ribeiro

## Consolidated statement of cash flow

(amounts in euros)

	<b>31.12.2012</b>	31.12.2011
<b>Operating activities</b>		
Cash flow generated by operations		
Trade receivables	742,038,779	711,695,551
Trade payables	(319,010,089)	(340,589,085)
Payments to personnel	(93,936,104)	(107,660,528)
<b>Cash flow generated by operations</b>	<b>329,092,586</b>	<b>263,445,938</b>
Other operating flows		
Income tax (payable)/ receivable	(58,996,050)	(61,727,681)
Other receipts/ (payments) related to operating activity	(93,153,470)	(95,907,878)
<b>Other operating flows</b>	<b>(152,149,520)</b>	<b>(157,635,559)</b>
<b>Total operating activities (1)</b>	<b>176,943,066</b>	<b>105,810,379</b>
<b>Investments</b>		
Receipts from:		
Financial investments	3,549,173	59,291,325
Tangible fixed assets	58,924	131,157
Intangible assets	163,273	3,254,296
Investment grants	113,986,906	157,488,873
Interest and similar income	14,291,790	14,313,741
Dividends	-	-
<b>Sub-total</b>	<b>132,050,066</b>	<b>234,479,391</b>
Payments relating to:		
Investments	(9,893,023)	(63,052,639)
Tangible fixed assets	(22,618,149)	(21,911,374)
Intangible assets	(206,914,640)	(372,842,412)
<b>Sub-total</b>	<b>(239,425,812)</b>	<b>(457,806,425)</b>
<b>Total investments (2)</b>	<b>(107,375,746)</b>	<b>(223,327,034)</b>
<b>Funding activities</b>		
Receipts from:		
Loans	714,846,669	536,514,734
Paid-in capital, additional capital contributions	4,508,803	4,282,348
<b>Sub-total</b>	<b>719,355,472</b>	<b>540,797,081</b>
Payments relating to:		
Loans	(544,958,064)	(536,317,877)
Interest and similar expenditure	(112,081,896)	(93,842,829)
Dividends	(19,064,722)	(35,048,269)
Reduction of capital and additional capital contributions	-	-
<b>Sub-total</b>	<b>(676,104,682)</b>	<b>(665,208,974)</b>
<b>Total funding activities (3)</b>	<b>43,250,790</b>	<b>(124,411,893)</b>
<b>Changes in cash and cash equivalents (1 + 2 + 3)</b>	<b>112,818,110</b>	<b>(241,928,547)</b>
Impact of currency conversion differences	30,542	69,540
Cash and cash equivalents at start of year	59,167,163	301,026,170
Change in perimeter	-	-
<b>Cash and cash equivalents at end of year</b>	<b>172,015,815</b>	<b>59,167,163</b>
	<b>31.12.2012</b>	31.12.2011
Cash and Banks	335,280,411	286,273,575
Bank overdrafts	(163,264,596)	(227,106,412)
	<b>172,015,815</b>	<b>59,167,163</b>

Lisboa, 26 March 2013

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)

Joaquim António Pais e Jorge (Non-Executive Member)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

# Notes to the consolidated financial statements

## I. General information

### I.1. Introduction

AdP - Águas de Portugal, SGPS, S.A. (hereinafter called AdP SGPS or AdP Group, when intending to refer to AdP SGPS and its subsidiaries and associates) was incorporated on 29 September 1993, with its head office at Rua Visconde Seabra no. 3, in Lisboa.

The shareholders of AdP SGPS are:

Shareholders at 31.12.2012	% Share capital	Amount subscribed	Nº. of shares	Type of shares
Parpública, SGPS, S.A.	72.18%	313,613,590	62,722,718	Registered
Parcaixa, SGPS, S.A.	19.00%	82,555,000	16,511,000	Registered
Direção-Geral do Tesouro	8.82%	38,331,410	7,666,282	Registered
	<b>100.00%</b>	<b>434,500,000</b>	<b>86,900,000</b>	

AdP SGPS 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, as well as the collection and treatment of urban solid waste. In 1998 the Company's mission was extended when it started to diversify in terms of business segments and geography. It expanded into water distribution and the collection of effluents directly from the communities served, in Portugal and abroad.

No significant modifications in the AdP Group's operations occurred during the 2012 financial year.

### I.2. Business activity

#### I.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 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 share capital (to cover the return on invested capital on termination of the concession), **(iv)** the sale prices (tariffs) charged are set by the Concession Granter, endorsed by the Regulatory Authority (ERSAR) and include a portion of return on capital, 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 length of 25 to 50 years.

##### I.2.1.1 UNA-PD (Water - Production and Purification Business Unit) 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 encompass high levels of investment to be made by the concession holder. Funding is obtained through EU funds, bank loans, equity and funds generated by the business operations. The municipalities to which the company provides its services are also the company's shareholders. The service provided is paid through the tariff fixed by the Concession Granter, endorsed by the Regulatory Authority (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.

The partnership agreements signed by the State and local government to which the services are delivered are characterised by high levels of investment required by the concession holder company. Funding is obtained through EU funds, bank loans, equity and funds generated by the business operations. The municipalities to which the company provides its services are also the company's shareholders. The service is paid by means of the tariff fixed by the partnership committee.

#### **I.2.1.2 UNR (Waste Business Unit)**

In the 2000 financial year, in the context of strategic guidelines leading to the consolidation of the main business group in the environmental area, AdP SGPS became sole owner of Empresa Geral do Fomento, S.A., therefore controlling its subsidiaries, which have been made responsible for developing the multi-municipal systems for collecting and treating urban solid waste. The companies of this segment have an exclusive concession awarded by the State for the management and recovery of solid waste. The concession contracts contemplate high levels of investments required from the concession holder, funded by EU funds, bank loans, equity and funds obtained from the business operations. The municipalities to which the company provides the services are also the company's shareholders. The service is paid through the tariff fixed by the Concession Granter, endorsed by the Regulatory Authority (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.

#### **I.2.1.3 UNA-DR (Water - Distribution and Collection Business Unit)**

The companies of this segment result from a partnership contract between the State and the municipalities territorially encompassed by the agreement. The municipalities delegate in the State, through this agreement, the responsibility of 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 collection 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, tied to turnover. The service is paid through the fixed tariff invoiced to customers (those residing in the municipality) who are provided with services by each of the partnerships. One of the features of the concession agreement is guaranteed return on the invested capital and its infrastructures.

### **I.2.2 Unregulated business activity**

#### **I.2.2.1 EPAL**

EPAL is responsible for the collection, transport, treatment and distribution of drinking water, aiming to provide a quality service, respecting essential social and environmental criteria. It covers distribution in the city of Lisboa (residential distribution) and upstream supply to 35 municipalities (including Lisboa) of the Greater Lisboa 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 defined.

#### **I.2.2.2 International**

This segment aims to develop international business and comprises operations undertaken abroad. Currently, the most significant is the technical assistance contract in Angola.

#### **I.2.2.3 Corporate services**

Includes shared services provided by the holding, EGF, AdP Serviços, Aquasis and AdP Energias, with the aim of optimising resources and attaining synergies in the Group.

### **I.3 Strategy**

Pursuant to legal regime for the State Business Sector and Public Manager Statute, the State, as the shareholder, defines the specific strategic guidelines for the Board of Directors of AdP SGPS.

The strategic guidelines for the 2012-2014 mandate are based on the following principles:

- the implementation of a philosophy of professionalised management based on appropriate powers and the increment of productive capacity according to the most demanding parameters of quality, with the aim of fulfilment of its mission;
- the adoption of the best management practices, according to the Principles of Good Governance of the companies of the State Business Sector;

- the development of an organisational culture focused on performance excellence through the use of a set of business practices of reference, 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.

## I.4 Mission and future guidelines

AdP SGPS is a holding company that has the mission, through its subsidiaries, to design, construct, operate and to manage systems of water supply, wastewater treatment, 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.

Since the AdP Group is the business tool of the State for the implementation of public policy and national objectives in these areas of the environment sector, 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 SGPS, in the framework of its mission, should pursue the following strategic guidelines:

- ensure continuation of the sector policies that fall within its business operations and the creation of shareholder value, with special focus on a prudential management of risk and mobilisation of financial resources;
- promote the streamlining of the investments required to deliver the services, with a focus 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 fostering efficiency, strengthening the grouping of systems and promoting integrated solutions for management of the urban cycle of water;
- promote conditions for the participation of private entities in the management of the systems;
- continue the identification of solutions that foster the solution of the tariff deficit, in terms of its sustainability;
- make the waste business unit of the AdP Group autonomous and implement the necessary measures for its opening up to the private sector;
- contribute to sustainable development by developing solutions to harness endogenous assets and resources, rationalise energy consumption and reduce or ensure the offsetting of 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 objectives for this field;
- ensure the continuity of other projects deemed to be important, in accordance with the direction expressed by the governmental area responsible for the field.

## I.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 six business units, generally enjoying management autonomy and adequate means for the specific nature of each business 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 Board of Directors on 26 March 2013.

## **2. Accounting policies**

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and interpreted by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) which preceded it, adopted by the European Union (EU), in force for the financial years starting 1 January 2012.

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 Bases of presentation**

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

#### **2.1.1 New standards and policy changes**

No voluntary policy changes were made in the financial year ending 31 December 2012 with respect to those considered in the preparation of the financial information relating to the previous year, presented in the comparisons, which may have arisen from applying new standards issued after 31 December 2011.

- New standards and interpretations issued by the IASB and already endorsed by the European Union, whose application is obligatory only in periods beginning after 30 of June 2012 and 1 January 2013**

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#### **IAS 1 - Presentation of financial statements (Amendment)**

The amendment to IAS 1 changes the aggregation of items presented in the Statement of Comprehensive Income. Items that can be reclassified (or "recycled") to future profit (for example on the date of derecognition or liquidation) must be presented separately from items that cannot be reclassified to profit or loss (for example, revaluation reserves as established in IAS 16 and IAS 38).

#### **No Impact on the Group**

This amendment does not change the nature of items that must be recognised in the Statement of Comprehensive Income, nor if they should or should not be able to be reclassified in future profit or loss.

*The amendments to IAS 1 will apply to reporting periods beginning after 30 June 2012. They may be introduced earlier provided this duly disclosed. Retrospective application.*

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<b>IFRS 1 - First-time adoption of the international financial reporting standards - hyperinflationary economies (Amendment)</b>	When an entity's date of transition to IFRS is on, or after, the functional currency ceases to be a currency of a hyperinflationary economy, the entity may measure all assets and liabilities held before the cessation and which were subject to the effects of a hyperinflationary economy, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities on the date of the opening IFRS statement of financial position.
<b>No Impact on the Group</b>	The amendment further removes the fixed dates in IFRS 1 relative to the derecognition of financial assets and liabilities and of gains and losses on transactions in the initial recognition, the new date is then deemed the date of transition to IFRS.  <i>The amendments to IFRS 1 will apply to reporting periods beginning after 30 June 2012. They may be introduced earlier provided this duly disclosed.</i>
<b>IFRS 1 (Amendment) - First-time adoption of the international financial reporting standards - IFRS 9 and IAS 20 - Accounting for government grants and disclosure of government assistance</b>	<p>The amendment establishes an exception in the retrospective application of IFRS 9 - Financial Instruments and IAS 20 - Accounting for government grants and disclosure of government assistance.</p> <p>This amendment requires that entities that apply IFRS 1 apply the requirements of IAS 20 prospectively relative to government loans that exist at the date of transition to IFRS. However, entities may opt to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 retrospectively to government loans if the necessary information has been obtained on the date of initial recognition of these loans.</p> <p>This adoption allows first-time adopters relief from the retrospective application of the measurement of government loans with an interest rate lower than the market interest rate. As a result of the non-retrospective application of IFRS 9 (or IAS 39) and IAS 20, first-time adopters do not need to recognise the corresponding benefit of a rate lower than the market interest rate on a government loan or grant.</p> <p><i>The amendments to IFRS 1 will apply to reporting periods beginning on or after 1 January 2013. They may be introduced earlier provided this duly disclosed.</i></p>
<b>IFRS 7 (Amendment) - Offsetting financial assets and financial liabilities</b>	This amendment requires entities to disclose information on offsetting and related agreements (for example collateral guarantees). These disclosures provide information that is useful to assess the net effect that these agreements may have on each entity's Statement of Financial Position. The new disclosures are obligatory for all the financial instruments that can be offset as established in IAS 32 Financial Instruments: Presentation. The new disclosures also apply to financial instruments that are subject to the main offsetting agreements or other similar agreements regardless of whether they are offset in accordance with the provision in IAS 32.
<b>No Impact on the Group</b>	<i>The amendments to IFRS 1 will apply to the reporting periods beginning on or after 1 January 2013. The amendment to IFRS 7 should be applicable retrospectively, in accordance with IAS 8. But if the entity decides to apply IAS 32 – Offsetting financial assets and financial liabilities before then, the disclosures established in IFRS 7 should be applied in conjunction with it.</i>

<b>IFRS 10 - Consolidated financial statements</b>	The IASB issued IFRS 10 Consolidated financial statements that replaces the consolidation requirements established in SIC 12 Consolidation - special purpose entities, and in IAS 27 Consolidated and separate financial statements.
<b>No Impact on the Group</b>	The IFRS establishes a new control concept that must apply to all special purpose entities and vehicles. The changes introduced by IFRS 10 will require that the Management makes a significant judgement to determine which entities are controlled and consequently included in the consolidated financial statements of the parent.
	<i>This standard applies to reporting periods beginning on or after 1 January 2013. It may be applied earlier provided that the entity simultaneously applies IFRS 10, IFRS 12, IAS 27 (revised in 2011) and IAS 28 (revised in 2011). The application is retrospective.</i>
<b>IFRS 11 - Joint arrangements</b>	A IFRS 11: <ul style="list-style-type: none"> <li>• replaces IAS 31 - Interests in joint ventures and SIC 13 – Jointly-controlled entities - non-monetary contributions by venturers.</li> <li>• changes the concept of joint control and removes the option to account for a jointly-controlled entity through the proportional consolidation method, and thus an entity must use the equity method to account for its interests in JCEs.</li> <li>• further defines the concept of joint operations (combining the existing concepts of controlled assets and controlled operations) and redefines the concept of proportional consolidation for these operations, with each entity having to recognise in its financial statements the absolute or relative interests it owns in the assets, liabilities, income and costs.</li> </ul>
<b>No Impact on the Group</b>	<i>This standard applies to reporting periods beginning on or after 1 January 2013. It may be applied earlier provided that the entity simultaneously applies IFRS 10, IFRS 12, IAS 27 (revised in 2011) and IAS 28 (revised in 2011). The application is retrospective.</i>
<b>IFRS 12 - Disclosure of interests in other entities</b>	IFRS 12 - Disclosure of interests in other entities establishes the minimum level of disclosure with respect to subsidiaries, joint arrangements, associates and unconsolidated structured entities.
<b>No Impact on the Group</b>	This standard therefore includes all the disclosures that were mandatory under IAS 27 - Consolidated and separate financial statements relating to the consolidated accounts, and the mandatory disclosures included in IAS 31 - Interests in joint ventures and in IAS 28 - Investments in associates, in addition to extra new information.
	<i>This standard applies to reporting periods beginning on or after 1 January 2013. It may be applied earlier provided that the entity simultaneously applies IFRS 10, IFRS 11, IAS 27 (revised in 2011) and IAS 28 (revised in 2011). The application is retrospective.</i>

<b>IFRS 13 - Fair value measurement</b>	IFRS 13 establishes a single framework for the measurement of fair value in accordance with the IFRS. IFRS 13 does not specify when an entity should use fair value, but sets out a framework for measuring fair value whenever it is allowed or required.
<b>No Impact on the Group</b>	Fair value is defined as the “price that would be received to sell an asset or paid to transfer a liability in a transaction between two parties operating on the market on the measurement date”.
	<i>This standard applies to all reporting periods beginning on or after 1 January 2013. It may be applied earlier provided such is disclosed. The application is prospective.</i>
<b>IAS 12 - Income taxes</b>	The amendment to IAS 12 clarifies that the determination of deferred tax relative to investment property measured at value, under IAS 40, should be calculated keeping in mind its recovery through its future sale. This presumption is rebuttable, however, if the entity has a business plan that shows that this tax will be recovered through the use of the investment property.
<b>No Impact on the Group</b>	The amendment further states that deferred taxes recognised through non-depreciable tangible fixed assets that are measured according to the revaluation method must be calculated on the presumption that they will be recovered through the sale of such assets.
	<i>The amendments to IAS 12 will apply to reporting periods beginning on or after 1 January 2012. They may be introduced earlier provided this duly disclosed. The application is retrospective.</i>
<b>IAS 27 - Consolidated and separate financial statements (Revised in 2011)</b>	With the introduction of IFRS 10 and IFRS 12, IAS 27 is limited to stipulating the accounting treatment for subsidiaries, joint ventures and associates in the separate financial statements.
<b>No Impact on the Group</b>	<i>The amendments to IAS 27 will apply to the reporting periods beginning on or after 1 January 2013. They can be applied earlier provided that the entity simultaneously applies IFRS 10, IFRS 11, IFRS 12 and IAS 28 (revised in 2011). The application is retrospective.</i>
<b>IAS 28 - Investments in associates and joint ventures</b>	With the changes to IFRS 11 and IFRS 12, IAS 28 was renamed and now sets out the application of the equity method for joint ventures, as has been done with associates.
<b>No Impact on the Group</b>	<i>The amendments to IAS 27 will apply to the reporting periods beginning on or after 1 January 2013. They can be applied earlier provided that the entity simultaneously applies IFRS 10, IFRS 11, IFRS 12 and IAS 27 (revised in 2011). The application is retrospective.</i>

<b>IAS 32 - Financial instruments (Offsetting financial assets and financial liabilities)</b>	<p>The amendment clarifies the meaning of "currently enforceable legal right to set-off" and the application of IAS 32 to the offsetting criteria of settlement systems (such as central clearing house systems) which apply gross settlement systems that are not simultaneous.</p> <p>Paragraph 42 a) of IAS 32 requires that "a financial asset and financial liability must be offset and the net amount presented on the balance sheet when, and only when, an entity currently has a legally enforceable right to set off the recognised amounts". This amendment now clarifies that rights of set-off must not only be currently legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendment also clarifies that rights of set-off do not have to be contingent on a future event.</p>
<b>No Impact on the Group</b>	<p>The IAS 32 offsetting criterion for financial instruments requires the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendment clarifies that only gross settlement that eliminate or result in insignificant credit and liquidity risk and that will process receivables and payables in a single settlement process or cycle may, in effect, be equivalent to net settlement and therefore would meet the net settlement criterion established in the standard.</p> <p><i>This standard applies to reporting periods beginning on or after 1 January 2014. The amendment to IFRS 7 is applicable retrospectively in accordance with IAS 8. Earlier application is allowed when this fact is disclosed and complies with the disclosures provided for in IFRS 7 Disclosures (Amendment) - Offsetting financial assets and financial liabilities.</i></p>
<b>IFRIC 20 - Stripping costs in the production phase of a surface mine</b>	<p>This interpretation applies to waste removal costs incurred in a surface mining, during the production phase.</p> <p>If the benefit from the sorting activity will be realised in the current period, an entity must recognise these sorting and removal costs as an inventory cost. When the benefit refers to better access to the ore, the entity should recognise these costs as a non-current asset if certain recognition criteria are met. The sorting and removal activities asset should be accounted for as an addition to, or an enhancement of, an existing asset.</p> <p>If the costs of the sorting activity meet the conditions to be recognised as an asset and the inventory produced is not separately identifiable, the entity allocates the cost between the two assets using an allocation method based on a relevant production measure.</p>
<b>No Impact on the Group</b>	<p>After initial measurement, the sorting and removal activities asset is recognised at its cost or revalued amount less depreciation/ amortisation and impairment losses, using the same valuing criteria as for the assets of which this one is a part.</p> <p><i>IFRIC 20 applies to all reporting periods beginning on or after 1 January 2013. It may, however, be applied earlier provided this is duly disclosed. The application is retrospective.</i></p>

- New standards and interpretations issued by the IASB and not endorsed by the European Union, whose application is obligatory only in periods beginning after 30 of June 2012 and 1 January 2013:

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**IFRS 9 - Financial instruments (introduces new classification and measuring requirements for financial assets and liabilities)**

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The first phase of IFRS 9 - Financial instruments addressed the classification and measurement of financial assets and liabilities. The IASB continues to work and discuss the issues of impairment of financial instruments and hedge accounting, with a view to replacing IAS 39 in its entirety. IFRS 9 applies to all financial instruments within the scope of IAS 39.

The main modifications are:

**Financial assets:**

All financial assets are measured at fair value on initial recognition.

Debt instruments may be subsequently measured at amortised cost if:

- if the fair value option is not invoked;
- the aim of holding the asset within the business model is to receive the contractual cash flows; and
- under the terms agreed, the financial assets give rise on specified dates to cash flows that are solely payments of principal and interests on the principal outstanding.

The other debt instruments are subsequently measured at fair value.

All financial investments of equity are measured at fair value either through the Statement of Comprehensive Income or through profit and loss. Each equity financial instrument must be measured at fair value through **i) the Statement of Comprehensive Income or ii) Profit and loss** (equity financial instruments held for trading must be measured at fair value with any changes, and are always recognised through profit and loss).

**Financial liabilities:**

Differences in the fair value of financial liabilities through profit and loss that arise from changes in the credit risk of the entity must be presented in the Comprehensive Statement of Income. All other changes in fair value must be recognised in profit and loss, unless presentation of the fair value differences arising from the financial liability's credit risk would create or enlarge a significant accounting mismatch in the profit or loss for the period.

All other IAS 39 classification and measurement rules for financial liabilities remain unchanged in IFRS 9, including the embedded derivative separation rules and the criterion for recognising them at fair value through profit and loss.

*This standard applies to all reporting periods beginning on or after 1 January 2015. It may be applied earlier provided such is duly disclosed. The provisions relating to financial liabilities can also be applied earlier provided that the provisions relating to financial assets are applied simultaneously.*

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- Standards and interpretations recently issued by the IASB, whose application is mandatory only for the periods beginning after 1 January 2013:

#### **IAS 19 (Revised) - Employee Benefits**

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#### **Impacting on the subsidiary EPAL**

- The removal of the option to defer recognition of actuarial gains and losses, known as the corridor approach; actuarial gains and losses are recognised in the Statement of Comprehensive Income when they occur. The amounts recognised in profit or loss are limited: to the cost of current and past services (including gains and losses in curtailments), gains and losses in settlement and net interest expenses (income). All other changes in the net worth of the asset (liability) arising from the defined benefit plan must be recorded in the Statement of Comprehensive Income, with no subsequent reclassifying to profit or loss.
  - Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosures. These new disclosures include quantitative information about the sensitivity analyses as to the susceptibility of the defined benefits to possible changes in each main actuarial assumption.
  - Termination of employment benefits should be recognised at the earlier of: (i) when the commitment to their assignment cannot be withdrawn and (ii) when the restructuring provision is established under IAS 37.
  - The distinction between short and long term benefits will be based on the timing of the settlement of the benefit, regardless of whether the right to the benefit has already been granted to the employee.
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No significant impacts are expected on the financial statements of AdP SGPS due to the application of the above described standards (standards that were not adopted and those with mandatory application solely in future years), with the exception of the application of IAS 19 - Employees' benefits, and relative to EPAL.

No gains and losses exist in the estimate of expenditure for 2013, using the actuarial, financial and population assumptions of 31 December 2012. The net cost of the financial year estimated for 2013 changes to a cost of 340,000 euros, insofar as annual amortisations of profits and losses due to the corridor method cease to exist and the expected rate of return is no longer used.

In comparison with 2012, the gain of 473,000 euros is no longer amortised. Moreover, the expected rate of return is no longer considered and we now solely use the discount rate on the excess or shortfall of funding for the calculation of net interest costs. This fact generates a loss of 281,000 euros.

- Annual improvements to the 2009-2011 cycle, issued by the IASB

#### **IFRS 1 (Amendment) - First-time adoption of international financial reporting standards**

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#### **No Impact on the Group**

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It clarifies that an entity that has stopped applying the IFRS may choose to either: (i) re-apply IFRS 1, even if the entity has applied IFRS 1 in a previous reporting period, or (ii) apply it retrospectively in accordance with IAS 8, as if it had never stopped applying the IFRS. If an entity re-applies IFRS 1 or applies IAS 8, it must disclose the reasons why it previously stopped applying IFRS and subsequently resumed applying them.

It clarifies that, upon adoption of IFRS, an entity that capitalised borrowing costs in accordance with the previous standard, may carry forward, without adjustment, the amount previously capitalised in the Statement of financial position at the date of transition.

<b>IAS 1 (Amendment) - Presentation of financial statements</b>	It clarifies the difference between additional comparative information and minimum comparative information. Generally, the minimum comparative information required corresponds to the previous period.
<b>No Impact on the Group</b>	An entity must include comparative information in the notes to the financial statements when it voluntarily discloses comparative information beyond the minimum information required. The additional comparative information for the period does not need to contain a complete set of financial statements.
<b>IAS 16 - Tangible fixed assets</b>	Additionally, the opening balance sheet of the financial position (third balance sheet) must be presented in the following circumstances: <b>i)</b> when an entity applies an accounting policy retrospectively or carries out retrospective restatements or reclassifications of items in its financial statements; or <b>ii)</b> when it reclassifies items in its financial statements and these changes have a material effect on the statement of the financial position. The opening balance sheet must be the opening balance sheet of the comparative period. However, unlike the voluntary comparative information, the notes are not required to support the third statement of the financial position.
<b>No Impact on the Group</b>	It clarifies that spare parts and servicing equipment that meet the definition of tangible fixed assets should be classified as such and they are not inventories.
<b>IAS 32 - Financial instruments</b>	It clarifies that income tax resulting from distributions to shareholders should be accounted in accordance with IAS 12 Income taxes.
<b>No Impact on the Group</b>	
<b>IAS 34 - Interim financial reporting</b>	It clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments.
<b>No Impact on the Group</b>	In accordance with this amendment the total of assets and liabilities for each reportable segment need to be disclosed only when the amounts are regularly provided to the segment managers.
	<i>The improvements to the IFRS apply to the reporting periods beginning on or after 1 January 2013 They can be applied earlier provided they are duly disclosed. The application is retrospective.</i>
<b>Guide to applying IFRS 10, IFRS 11 and IFRS 12</b>	It clarifies some temporary provisions of IFRS 10, IFRS 11 and IFRS 12.
<b>No Impact on the Group</b>	<i>This guide will apply to reporting periods beginning on or after 1 January 2013 and may be applied earlier if the entity is applying IFRS 10, IFRS 11, IFRS 12 in advance.</i>

## 2.2 Consolidation

### 2.2.1 Dates

The consolidated financial statements reflect the assets, liabilities, profits and cash flows of AdP SGPS and subsidiary companies, as well as the profit proportional to the shareholding in associates, relative to the financial years ended on 31 December 2012 (and comparison with 31 December 2011).

### 2.2.2 Shareholdings in subsidiaries

The shareholdings in subsidiaries and companies in which the Group directly or indirectly holds more than 50% of voting rights in the General Meeting of Shareholders or has the power to define the company's operating and financial policy, were enclosed in the financial statements by the full consolidation method. Subsidiaries are consolidated on the date on which control is acquired until the date on which it effectively terminates. The purchase method is used to report in accounts the acquisition of subsidiaries.

#### Acquisitions after 2010:

The difference between: (i) the consideration transferred together with the interests not controlled and the fair value of the equity interests already held and (ii) the net amount of the acquired identifiable assets and the assumed liabilities is recognised as goodwill if positive or as profit if negative, according to the acquisition method at the date of the acquisition. The transferred consideration is measured by fair value, calculated as being the aggregate value of the fair values, at the acquisition date, of the transferred assets, incurred liabilities and equity instruments issued by the Group. For the purpose of ascertaining goodwill/ profits of the combination, the transferred consideration is purged of any part of consideration relating to another transaction (e.g. remuneration for the future provision of services or for the settlement of pre-existing relations), the profit margin of which is separately recognised in income. 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 expenses or revenue in the income statement or as another comprehensive income if the contingent consideration is classified as a financial asset or liability according to IAS 39, and (iii) as expenses pursuant to IAS 37 or other applicable standards, in remaining 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, with the exception of 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 compensation from the seller regarding the outcome of contingencies wholly or partly related with a specific liability of the combined entity, now have to be recognised and measured using the same principles and assumptions as the related liabilities. The calculation of 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), whether or not an outflow is expected. The Group can choose to measure the "non-controlling interests" for each acquisition, at the respective fair value or respective share in the assets and liabilities transferred from the acquired entity. The choice on one method or the other influences the amount of goodwill to be recognised. When a business combination is undertaken in stages, the fair value at the acquisition date of the previous interest held is remeasured for fair value at the date on which control is obtained, reported in the profit/ loss of the period in which control is achieved, impacting on the calculation of goodwill. Goodwill is considered to have an indefinite life and is therefore not amortised. It is annually tested for impairment, irrespective of whether or not there are signs of being impaired. Whenever a combination is not completed at the reporting date, the provisional amounts recognised at the acquisition date are adjusted retrospectively during the maximum period of one year from the date of acquisition. The same is true for additional assets and liabilities if new information is obtained on facts and circumstances that existed at the acquisition date and which, if it had been known, would have resulted in the recognition of those assets and liabilities on that date.

#### Acquisitions prior to 2010:

The main differences compared to the above-described treatment from 1 January 2010 are as follows:

- the cost of an acquisition included the costs directly attributable to the acquisition, therefore they impact on the calculation of goodwill;

The non-controlling interests of the acquired entity (formerly known as "minority interests") were measured only according to their share of the identifiable net assets of the acquired entity but were not included in the calculation of the goodwill/ gain from the combination.

- when the combination of business activities was undertaken in stages, the fair value calculated on the acquisition date of interests already held was not remeasured on the date control was obtained, therefore previously recognised goodwill remained unchanged;
- any contingent acquisition value was only recognised if the Group had a present obligation, the outflow was probable and the estimate could be reliably ascertained; subsequent changes in this value were recognised against goodwill;
- the intra-group balances and transactions and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated except if the transaction discloses evidence of impairment of a transferred good. The accounting policies of the subsidiary are modified whenever necessary in order to guarantee consistency with the policies adopted by the Group. In situations where the Group holds, in substance, the 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 inside the consolidation perimeter (full consolidation method) are detailed below:

Business Unit/ Company	Head office	% share capital held	Currency	Share capital	Equity	Net profit/ (loss) in financial year
<b>UNA-PD</b>						
Aguas do Algarve, S.A.	Faro	54.44%	EUR	29,230,875	38,555,874	3,441,306
Aguas do Centro Alentejo, S.A.	Évora	51.00%	EUR	5,000,000	2,619,858	(30,904)
Aguas do Centro, S.A.	Castelo Branco	70.00%	EUR	24,000,000	10,958,877	(2,654,449)
Aguas do Douro e Paiva, S.A.	Porto	51.00%	EUR	20,902,500	30,812,470	2,404,636
Aguas do Mondego, S.A.	Coimbra	51.00%	EUR	18,262,743	20,769,968	1,049,359
Aguas do Norte Alentejano, S.A.	Portalegre	51.00%	EUR	7,500,000	(5,206,349)	(1,335,116)
Aguas do Noroeste, S.A.	Barcelos	56.66%	EUR	63,479,158	53,176,875	457,296
Aguas do Oeste, S.A.	Óbidos	51.00%	EUR	30,000,000	20,654,305	(3,168,668)
Aguas de Santo André, S.A.	Vila Nova de Santo André	100.00%	EUR	1,000,000	11,448,140	4,566,228
Aguas de Trás-os-Montes e Alto Douro, S.A.	Vila Real	70.08%	EUR	26,966,250	4,083,357	3,423,237
Águas do Zêzere e Côa, S.A.	Guarda	87.46%	EUR	26,607,560	11,269,916	(1,252,835)
AgdA - Águas Públicas Alentejo, S.A.	Beja	51.00%	EUR	500,000	559,796	54,982
Sanest, S.A.	Cascais	51.00%	EUR	11,000,000	27,673,665	166,817
Simarsul, S.A.	Setúbal	51.00%	EUR	25,000,000	23,815,022	(714,283)
Simdouro, S.A.	Vila Nova de Gaia	51.00%	EUR	13,062,228	13,306,258	72,219
Simlis, S.A.	Leiria	70.16%	EUR	5,000,000	(2,103,349)	662,420
Simria, S.A.	Aveiro	67.72%	EUR	16,712,225	18,218,502	1,395,394
Simtejo, S.A.	Lisboa	50.50%	EUR	38,700,000	66,853,766	8,924,383
<b>EPAL</b>						
EPAL, S.A.	Lisboa	100.00%	EUR	150,000,000	532,963,376	43,852,247
<b>UNA-DR</b>						
AdRA - Águas da Região de Aveiro, S.A.	Aveiro	51.00%	EUR	15,000,000	18,813,501	1,743,387
<b>UNR</b>						
Algar, S.A.	Faro	56.00%	EUR	7,500,000	11,548,748	970,353
Amarsul, S.A.	Moita	51.00%	EUR	7,750,000	14,051,925	1,477,765
Empresa Geral do Fomento, S.A.	Lisboa	100.00%	EUR	56,000,000	94,270,758	5,149,650
Ersuc, S.A.	Coimbra	51.46%	EUR	8,500,000	17,130,581	1,034,827
Resiestrela, S.A.	Fundão	62.95%	EUR	3,750,875	6,163,448	851,923
Resinorte, S.A.	Coimbra	51.00%	EUR	8,000,000	12,556,955	489,286
Resulima, S.A.	Viana do Castelo	51.00%	EUR	2,500,000	4,722,371	778,293
Suldouro, S.A.	Sermonde	60.00%	EUR	3,400,000	9,204,469	1,508,293
Valnor, S.A.	Alter-do-Chão	53.33%	EUR	10,000,000	14,350,302	1,518,448
Valorlis, S.A.	Leiria	51.00%	EUR	2,000,000	4,133,403	483,158
Valorminho, S.A.	Valença	51.00%	EUR	900,000	2,060,095	282,276
Valorsul, S.A.	S.João da Talha	56.17%	EUR	25,200,000	58,167,108	5,912,989
<b>International</b>						
AdP Internacional, S.A.	Lisboa	100.00%	EUR	175,000	(826,659)	(914,159)
Aguas do Brasil, S.A.	Rio de Janeiro - Brazil	100.00%	BRL	2,050,100	(1,331,794)	-
Aquatec, Lda.	Maputo - Mozambique	100.00%	MZN	2,476,580	(26,637,777)	1,019,028
<b>Corporate</b>						
AdP Serviços, S.A.	Lisboa	100.00%	EUR	50,000	4,929,091	2,243,616
Aquasis, S.A.	Lisboa	55.00%	EUR	50,000	295,231	(129,915)
AdP Energias, S.A.	Lisboa	100.00%	EUR	250,000	2,830,946	145,515

## 2.2.3 Shareholdings in associates

Investments in associates are presented as the value resulting from applying 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 such effectively ends. Associates are entities in which the Group holds between 20% and 50% of the voting rights, or on which the Group has significant influence but cannot exert its control. Unrealised gains or losses in transactions between the Group and its associates are eliminated. The dividends paid out by the subsidiary 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 concerning 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, which 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 goods 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 capital	Share capital	Assets	Liabilities	Equity	Sales	Net profit
Trevo Oeste, S.A. (i)	Alcobaça	43.24%	1,336,085	3,201,206	787,045	2,414,161	-	(39,880)
Clube de Golf das Amoreiras, S.A.	Lisboa	100.00%	350,000	1,388,077	1,393,353	(5,277)	-	(34,275)
Miese	Vila Real	40.00%	200,000	31,541	12,504	19,037	-	(13,378)
Águas de Timor, S.A. (ii)	Timor	100.00%	5,000	-	-	-	-	-

(i) Amounts reporting to 30 November 2012.

(ii) Company not operating.

## 2.2.4 Shareholdings in subsidiaries resident abroad

The value of the assets and liabilities of subsidiaries residing abroad is recorded in consolidated financial statements at its equivalent in euros at the official exchange rates in force on the balance sheet date. The profits of these subsidiaries are integrated as their equivalent in euros at the average monthly exchange rate for the financial year. Exchange rate differences resulting from the conversion into euros of the assets at the beginning of the year and the year's profits, at the official exchange rate on the balance sheet date, are recognised in equity.

## 2.2.5 Goodwill

Goodwill represents the surplus of acquisition cost over the fair value of identifiable assets and liabilities attributable to the Group at the date of acquisition or the first-time consolidation. If the acquisition cost is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement for the year. Goodwill is not amortised. Annually, or whenever there is reference to such, the Group assesses whether there is any indication of impairment. If such indication exists, an evaluation is made of the recoverability of the net amount of goodwill. An impairment loss is recognised whenever the carrying amount of goodwill exceeds its recoverable amount. Goodwill, for the purposes of impairment testing, is allocated to the most basic cash flow generating units to which it relates and it is compared with the present value of future cash flows generated by the same. The gain or loss on disposal of an entity include the carrying value of goodwill related to that entity, unless the business to which that goodwill is associated continues generating benefits for the Group.

## 2.2.6 Balances and transaction

Intra-group transactions, dividends paid between Group companies, unrealised balances and 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 providing products or services with risks and returns that are different from other business areas. A business area is committed to supplying products or services in a specific economic environment that is the object of risks and benefits different from those that influence the business areas operating in other economic environments. The AdP

Group presents this current report by business area, since the transactions made by the Group's international companies are presented as a separate business area.

The identified business areas are:

**I - Regulated business activities**

- a. UNA-PD
- b. UNR
- c. UNA-DR

**II - Unregulated business activities**

- a. EPAL
- b. International
- c. Corporate

## 2.4 Currency conversion

### 2.4.1 Functional and presentation currency

The items included in the financial statements of each entity of the AdP Group are measured in the currency of the economic environment in which the Group operates (functional currency). The consolidated financial statements of the AdP Group and notes thereto are presented in euros, unless otherwise stated.

### 2.4.2 Transactions and balances

Transactions in currencies other than the euro are converted into the functional currency using the exchange rates on the transaction date. Exchange rate gains or losses from the settlement of transactions as well as from conversion at the rate on the balance sheet date of monetary assets and liabilities denominated in foreign currency are recognised in the consolidated income statement, except when they relate to the extension of an investment in a foreign operation. In this case they will be deferred under equity, in accordance with IAS 21. Non-monetary items valued at fair value are updated using the exchange rate on the date of their calculation. The exchange rate variation effect is recorded together with the change recorded in the fair value of such items. The exchange rate differences calculated are thus recorded in "Income for the financial year" or in "Other reserves", depending on the appropriate entry for recognising gains or losses for the non-monetary item in question. Non-monetary items valued at historic cost are converted into the AdP Group's functional currency using the transaction date exchange rate.

### 2.4.3 Group companies

The profits and financial position of all entities of the AdP Group that have a functional currency different from the presentation currency and which is not the currency of an overinflated economy are converted 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 consolidated balance sheet date; (ii) the income and expenses of each income statement are converted at the average exchange rate (unless the average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the income and expenses are converted at the exchange rates in force on the dates of the transactions); (iii) the resulting exchange rate differences are recognised as a separate component of "Other reserves".

In the consolidation, the exchange rate 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 rate differences are recognised in the consolidated income statement as part of the gain or loss on the sale. Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets or liabilities of the subsidiary and converted at the exchange rate of the consolidated balance sheet date.

## 2.4.4 Exchange rates used

The foreign currency exchange rates used to convert financial statements expressed in currencies other than the euro or to update balance sheets expressed in foreign currency were:

Source: Banco de Portugal (Portuguese Central Bank)

Country	Currency	31.12.2012		31.12.2011	
		average	final	average	final
Angola i)	Kwanza	95.67	96.07	0.00	0.00
Brazil	Real	2.53	2.70	2.34	2.42
Cape Verde	Cape Verde Escudo (CVE)	110.27	110.27	110.27	110.27
Mozambique	Metical	36.49	39.24	40.51	34.96
Japan	Yen	103.49	113.61	111.32	100.20
USA	USD	1.29	1.32	1.40	1.29

i) Kwanza/ Dollar rate

## 2.5 Regulated activity - recognition of regulatory assets and liabilities

### 2.5.1 Introduction

The multi-municipal systems (MMS) managing companies act in the regulated business activities area. The most significant impact of regulation on the business activity of the companies is in the analysis that the Regulatory Authority (ERSAR - Decree-Law 362/98 of 18 November, amended by Decree-Law 151/2002 of 23 May, and Decree-Law 277/2009 of 2 October) makes of the tariff to be paid for the services delivered to users as well as the respective annual budget.

Under this analysis, the tariffs to be charged by the companies require the approval of the Concession Granter, following the Regulatory Authority's opinion of their appropriateness.

Regarding the hierarchy defined in IAS 8 and the specific circumstances of the concession agreements in force, the Group companies with regulated activities have adopted the rules internationally applied to companies operating in markets with such characteristics (namely FAS 71, issued by FASB and ED/2009/8 issued by IASB).

Thus, a set of criteria are defined for the recognition of assets and liabilities related to regulatory requirements. These rules establish that a company should recognise in its financial statements the effects of its operating activities, providing it supplies services with prices that are subject to regulation.

Regulatory assets and liabilities are only likely to be recognised if, and only if: (i) an accredited body (for example, the Regulatory Authority) sets the price that an entity must charge their customers for the goods or services it provides, and that this price binds the customer to accept it, and (ii) the price set by regulation (the tariff) is determined so as to recover specific costs incurred with delivering the goods or services and to obtain a certain remuneration.

The activity of the MMS management companies of the Águas de Portugal Group is regulated, in the sense that the prices are set by a third party (Ministry of Agriculture, Sea, Environment and Spatial Planning) based on the opinion of the Regulatory Authority, ERSAR - Entidade Reguladora dos Serviços de Água e Resíduos, I.P., and thus falls under the scope of this instrument.

In summary, a company is required to recognise regulatory assets or regulatory liabilities if the Regulatory Authority allows the recovery of costs previously incurred or the refund of amounts previously charged, and it may be remunerated for its regulated activities through adjustments to the price charged to its customers. In other words, when there is the right to increase or an obligation to decrease tariffs in future periods as a result of the current or expected practice of the Regulatory Authority: (i) an entity must recognise a regulatory asset in order to recover a previously incurred cost and obtain a certain remuneration, or (ii) an entity must recognise a regulatory liability in order to repay amounts previously charged and pay a certain remuneration. The effect of applying the requirements referred to in the previous paragraph corresponds to the initial recognition of an asset (or liability) which would otherwise be recognised in profit or loss as an expense (or income).

The Board of Directors considers that this category includes not only tariff deviations but also increased costs for contracted investment. Thus, according to the rule of recognition of regulatory assets and liabilities, such assets (and/or liabilities) should be recognised on the balance sheet since the recovery of their cost (and/or repayment of the liabilities) is compulsorily eligible for the purpose of defining the tariff by the Regulatory Authority in subsequent periods, ensuring the correct balance between revenue and expenses.

### 2.5.2 Tariff deviation assets and liabilities

In legal terms, the shareholders of the subsidiaries obtain a guaranteed return on the invested capital as provided for by law and as defined in the concession agreements, which set the criteria for fixing the tariffs or amounts guaranteed on an annual basis, ensuring the full recovery of investment, operating, 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.

Thus, the calculation is made, each year, of the difference between the profits generated by operations and the guaranteed return for shareholder capital invested. The gross value is recorded in an income account - tariff deviations - and the tax generated by such in a deferred tax account, against the balance sheet and in the light of recognition of regulatory assets and liabilities.

The value of the tariff deviation corresponds to the credit or debit to make on the revenue of regulated activities so that it may demonstrate the income necessary for complying with the contract provisions regarding the full recovery of costs, including corporate income tax (IRC) and the annual guaranteed return.

If the tariff is higher than required, a tariff surplus is generated (negative tariff deviation), which must be debited from income. This register also gives rise to the recognition of a deferred tax asset relating to the correction of the tax associated with the income debit. The net effect corresponds to the correction of the net income for the full recovery of expenses and the guaranteed shareholder return for each year.

If the tariff is lower than that required, a tariff deficit is generated (positive tariff deviation), which must be credited to income. This registering also gives rise to the recognition of a deferred tax liability relating to the correction of the tax associated with the income credit. The net effect corresponds to the correction of the net income for the full recovery of costs and the guaranteed shareholder return for each year.

### 2.5.3 Accrued expenses for contracted investment and amortisation policy

In compliance with the provisions of the concession contracts and management of partnerships, and in accordance with the regulatory rules, and whenever applicable, the tariffs charged aim to recover the costs incurred with the investments realised and of the costs to incur with investments not yet realised (regulated) or with investments to expand and modernise (regulated) in the concession and 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 goods (which will be embodied in rights 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 Concession Granter and which embody the expansion or modernisation of the initial obligations, should normally be for 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 flow of effluents billed in that year and the effluent to be billed by 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 ensure 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 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 with the State are in force.

These accruals are recognised in expenditure in the item amortisations of the financial year and in the liabilities (non-current). The liabilities are then transferred to accumulated amortisations on completion of the underlying investment.

## 2.6 Concession activity - IFRIC 12

### 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 segment and 19 in the water and sewerage segment). These activities are developed in a framing 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 treatment 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 with the State and the provisions and recommendations issued by the Regulatory Authority.

The AdP Group concession holding companies, as suppliers of a public service, operate in a highly regulated environment. The Regulatory Authority pursuant to legislation in force, regulates the tariff to be charged for services rendered, among other aspects. The Regulatory Authority can, in balancing the public interest with the economic and financial equilibrium of the companies, pursuant to the concession agreement, 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 period these infrastructures are transferred back to the Concession Granter 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 wastewater sanitation	Concession/ Partnership	Term	Period	Addenda delivered to the Concession Grantor and under analysis	Shareholder remuneration Rate	Applying to (I)
Aguas do Algarve	Concession	35 years	2001-2037	37 years	10-year Gov.bond+3%	Share Cap+ Legal Res.
Aguas do Centro	Concession	30 years	2001-2031	50 years	10-year Gov.bond+3%	Share Cap+ Legal Res.
Aguas do Centro Alentejo	Concession	30 years	2003-2032	50 years	10-year Gov.bond+3%	Share Cap+ Legal Res.
Aguas do Douro e Paiva	Concession	30 years	1996-2026	-	10-year Gov.bond+3%	Share Cap+ Legal Res.
Aguas do Mondego	Concession	35 years	2004-2039	50 years	10-year Gov.bond+3%	Share Cap+ Legal Res.
Aguas do Norte Alentejano	Concession	30 years	2001-2030	50 years	10-year Gov.bond+3%	Share Cap+ Legal Res.
Aguas do Noroeste	Concession	50 years	2010-2060	-	10-year Gov.bond+3%	Share Cap+ Legal Res.
Aguas do Oeste	Concession	35 years	2001-2035	-	10-year Gov.bond+3%	Share Cap+ Legal Res.
AdRA - Águas da Região de Aveiro	Partnership	50 years	2009-2059	-	10-year Gov.bond+3%	Share Cap+ Legal Res.
Aguas de Santo André	Concession	30 years	2001-2030	-	10-year Gov.bond+3%	Share Cap+ Legal Res.
Aguas de Trás-os-Montes e Alto Douro	Concession	30 years	2001-2031	50 years	10-year Gov.bond+3%	Share Cap+ Legal Res.
Aguas do Zêzere e Côa	Concession	30 years	2000-2030	50 years	10-year Gov.bond+3%	Share Cap+ Legal Res.
AgdA - Águas Públicas do Alentejo	Partnership	50 years	2009-2059	-	10-year Gov.bond+3%	Share Cap+ Legal Res.
Sanest	Concession	25 years	1995-2020	-	TBA + 3%	Share Cap+ Legal Res.
Simarsul	Concession	30 years	2004-2034	-	10-year Gov.bond+3%	Share Cap+ Legal Res.
Simdouro	Concession	50 years	2009-2059	-	10-year Gov.bond+3%	Share Cap+ Legal Res.
Simlis	Concession	30 years	2000-2029	50 years	6-month Euribor + 3%	Share Cap+ Legal Res.
Simria	Concession	50 years	2000-2049	-	10-year Gov.bond+3%	Share Cap+ Legal Res.
Simtejo	Concession	43 years	2001-2044	-	10-year Gov.bond+3%	Share Cap+ Legal Res.

Waste	Concession/ Partnership	Term	Period	Shareholder remuneration Rate	Applying to (I)
Algar	Concession	25 years	1996-2021	TBA + 3%	Share Cap.+Legal Res
Amarsul	Concession	25 years	1997-2022	TBA + 3%	Share Cap.+Legal Res
Ersuc	Concession	33 years	1997-2030	TBA + 3%	Share Cap.+Legal Res
Resiestrela	Concession	25 years	2003-2027	TBA + 3%	Share Cap.+Legal Res
Resinorte	Concession	30 years	2009-2039	10-year Gov.bond+ 3%	Share Cap.+Legal Res
Resulima	Concession	25 years	1996-2021	TBA + 3%	Share Cap.+Legal Res
Suldouro	Concession	25 years	1996-2021	TBA + 3%	Share Cap.+Legal Res
Valorlis	Concession	25 years	1996-2021	TBA + 3%	Share Cap.+Legal Res
Valorminho	Concession	25 years	1996-2021	TBA + 3%	Share Cap.+Legal Res
Valorsul	Concession	25 years	2011-2034	10-year Gov.bond+ 3%	Share Cap.+Legal Res
Valnor	Concession	35 years	2001-2036	10-year Gov.bond+ 3%	Share Cap.+Legal Res

(I) Shareholder remuneration is defined, besides share capital and the legal reserve, where applicable, on remuneration and debt (dividends not paid out).

## 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 assets of the concession. Pursuant to this standard, the concessionary 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 consisting of the infrastructure, necessary for the delivery of the services to users. Thus, the company should 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 (i.e. construction or modernisation of the services and operation) under one single concession contract, the value (prices or tariffs) receivable should be distributed according to their fair values, when these are individually (separately) identifiable. The nature of the price and the tariff determines their accounting handling. 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. It also 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 Concession Granter in accordance with the terms of the contract. Under the terms of 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 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 (price) received or receivable by the operator must be recognised at fair value, and this corresponds to a value that is embodied in a right which corresponds 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 Granter for the construction services. The Concession Granter may not avoid payment, since the contract is enforceable in law. The operator (or concession holder) has an unconditional right to receive money if the Concession Granter contractually guarantees 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 on the fact that the operator (or concession holder) ensures the infrastructure is in accordance with quality and efficiency requirements. The operator (or concession holder) must recognise an intangible asset to the extent it receives a right (licence) to charge the users for a public service. The right to charge users for a public service is not an unconditional right of collection, since the amounts are dependent on the fact that the users use the service.

## 2.6.3 Classification of the infrastructure

Contractually, the Group companies are 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 financial asset established by IAS 32 is not associated with the risk but with the present and unconditional right to receive money or another financial asset. Of the various mechanisms for re-equilibrium of the contracts of concession of the

companies of the AdP Group: the increase of tariffs, direct indemnity payable to the Concession Granter and/or extension of the concession period, the extension of 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 concessionary 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 the undertaking of investments. The operating costs spent are tied 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 available for use.

Investments deemed to be for expansion or modernization, through economic regulation of the concessions, are specifically remunerated to the extent they are a component of the calculation of the tariff (i.e. they have a recovery that is implicit in the acceptance of the amortisation by the Regulatory Authority). Therefore, they are reported in accounts as part of intangible assets. Upkeep and maintenance costs are recognised as expenses in the financial year in which they occur.

#### 2.6.4 Amortisation

Intangible assets, rights of use of infrastructures, are amortised on a systematic basis according to the trend for obtaining economic benefits associated thereto, and are determined by economic regulation and by the approval of amortisation expenses in the annual calculation of the tariffs by the Regulatory Authority.

Amortisation in the companies of UNA-PD and Partnerships are calculated by the sum of the units method, i.e. by amortisation of the contracted investments that are established in the economic and financial feasibility study that is used, based on the flow of effluent billed that year and the effluent to be billed until the end of the concession period, as forecast in the economic and financial feasibility study attached to the concession contract. The amortisations in the companies of the UNR are calculated based on the concession period provided for in the concession agreement.

#### 2.6.5 Residual value

Additional investments for expansion or modernisation approved or imposed by the Concession Granter, which have a useful life that extends beyond the term of the concession period, may give rise to an indemnity equivalent to the unamortised value at that date. Investments in such a situation are classified as 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 - Service concession arrangements, revenue from construction services must be recognised in accordance with IAS 11 - Construction contracts. It is also to 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. Therefore, the revenue and cost of the acquisition of infrastructure record 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 application of the tariffs approved by the Concession Granter and assessed by the Regulatory Authority, more or less the underlying tariff deviation, as provided for in the concession agreements. Thus, revenue from construction services is not recognised.

### 2.7 Tangible fixed assets

Tangible fixed assets are generally measured at cost, less any impairment losses, and are depreciated in terms of their estimated useful life. Expenditure directly due to the acquisition of assets and their 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 cost or deemed cost, which includes the effects of revaluations made under the law and the effect of free revaluations, based on an assessment carried out by an independent specialised entity, with reference to the transition date (1 January 2009).

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. These assets are depreciated during their remaining useful life or until the next repair; whichever happens first. The replacement component of the good is identified and recognised in the income statement.

Additional 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.

Estimated useful lives for tangible fixed assets are expressed in the following percentages:

Nature	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 for which there is an intention to sell is suspended and these are classified as assets held for sale.

Whenever there are signs of loss of value of tangible fixed assets, impairment tests are carried out to estimate the recoverable value of the asset and record an impairment loss if necessary. Recoverable value is determined as the higher of the net selling price and the value in use of the asset, the latter being 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 so that the consumption patterns of the benefits of the assets in the years they are used by AdP Group are faithfully reflected. Any changes to these assumptions will be treated as a change in an accounting estimate and earmarked for prospective application.

Gains or losses from write-downs or disposals are determined by the difference between receipts from disposals and the accounting amount of the asset and are recognised in the consolidated 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 rewards inherent to the ownership of the asset are classified as financial leases. Also classified as finance leases are those in which the analysis of one or more particular points of the contract indicate such a nature. All the other leases are classified as operating leases. Financial 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, net of financial charges, in other long-term liabilities. Assets acquired through finance lease agreements are depreciated over the period of the asset's useful life and/or the term of the lease agreement.

## 2.8 Intangible assets

### 2.8.1 Rights to use infrastructure

See section 2.6.3.

### 2.8.2 Goodwill

See section 2.2.5.

### **2.8.3 Other intangible assets**

Other 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 by 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. The corporate and transactional systems of the Group developed on SAP platforms are amortised using the straight-line basis according to the useful life of 10 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 transaction expenses that are directly attributable to them. After initial recognition, investment properties are measured at depreciated cost. 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, to have equivalent treatment to tangible fixed assets.

## **2.10 Financial assets and liabilities**

### **2.10.1 Classification of financial assets (except investments in shareholdings)**

The financial assets of the AdP Group are classified in the categories below. Classification depends on the purpose for acquiring the investment and is determined at the time of initial recognition (trade date) of investments and revalued on 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.

### **2.10.2 Loans and receivables**

These are financial assets other than derivatives, with fixed or determinable receipts for which there is no active listed market. Such assets may be: **(i)** assets originating from normal operating activities and other associated services, and there is no intention to trade them; and **(ii)** investments in companies holding multi-municipal concessions which, according to the special terms and conditions in 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 balance sheet date, so that they reflect their net realisable value.

Adjustments for impairment in respect of trade receivables are recorded when there are impartial indicators that the AdP Group will not collect all the amounts that are due according to the original terms of the contract established. Indicators such as the following are used to identify impairment situations: analysis for breach; 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 due and are treated as new credits.

### **2.10.3 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, being recorded in this heading as investments with fixed maturity with AdP Group having the intention and ability to keep them until such date. Investments held to maturity are recorded at amortised cost, less any impairment losses.

### **2.10.4 Financial assets measured at fair value through profit or loss**

This category encompasses: **(i)** financial assets for trading which are acquired with the main aim of transacting them 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 encompasses derivatives that do not qualify for the purposes of hedge accounting.

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.

#### 2.10.5 Financial assets available for sale

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.

After initial recognition, the assets available for sale are recorded at fair value by reference to their market value at the balance sheet date, without any deduction for transaction expenses which may occur prior to their sale. The respective changes in fair value are recognised directly in equity under "Fair value reserve", until the assets are derecognised or identified as an impairment loss, at which time the accumulated value of potential gains and losses recorded in reserves is transferred to the income statement. In the case of equity instruments, a significant or prolonged decrease of fair value below the cost is indicative in determining the existence of impairment.

Equity instruments that are not shareholdings in subsidiaries, joint ventures or associates are classified as financial assets available for sale, in accordance with IAS 39. In the absence of market value these assets remain reported at acquisition cost, subject to impairment tests.

#### 2.10.6 Financial liabilities

Financial liabilities are classified according to the substance of the contract, regardless of the legal form they take. IAS 39 - Financial Instruments: recognition and measurement, envisages the classification of financial liabilities in two categories: (i) financial liabilities at fair value through profit or loss; (ii) other financial liabilities. Other financial liabilities include loans and trade payables and other account payables.

#### 2.10.7 Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss include non-derivative liabilities intended for sale in the short term and derivatives that do not qualify for hedge accounting purposes, and they are classified as such on initial recognition. Gains and losses arising from changes in the fair value of liabilities measured at fair value through profit or loss are recognised in the income statement for the period.

#### 2.10.8 Bank loans

Loans are initially recognised at fair value less any transaction expenses incurred, and afterwards they are measured at amortised cost. Any difference between the issue value (net of any transaction expenses incurred) and the par value is recognised in the income statement for the lifetime of the loans according to the effective interest rate method. Loans are classified in non-current liabilities, unless they are settled at least 12 months after the balance sheet date, in which case they are classified as current liabilities.

#### 2.10.9 Trade payables and other account payables

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 rate method. Financial liabilities are derecognised when the underlying obligations are extinguished by payment, are cancelled or expire.

#### 2.10.10 Equity instruments

Equity instruments are classified according to the substance of the contract, regardless of the legal form they take. Equity instruments issued by Group companies are registered at the value received, net of expenses incurred with the issue.

### 2.11 Derivatives 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 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 their changes 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 by 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 in relation to hedge derivatives. Recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

#### **Hedge accounting**

Hedge accounting is used whenever there is a relationship between the hedged item and the hedging instrument, subject to 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.

As at 1 January 2012, all the requirements demanded by IAS 39 were in place for the Company to classify two of the derivatives it holds as hedges.

Changes in the fair value of the derivatives classified as hedges are recognised directly in equity.

#### **2.12 Fair value hierarchy**

The AdP Group's financial assets and liabilities measured at fair value are classified in accordance with the following fair value hierarchy levels, as defined by IFRS 7:

**Level 1:** fair value of financial instruments is based on active liquid market quotations at the balance sheet reference date. This level includes equity instruments, debt (e.g. NYSE, Euronext) and futures listed on active markets;

**Level 2:** the fair value of financial instruments is not determined based on active market quotations, but from evaluation models. The main inputs of the models used are observable on the market. This level includes, for example, over-the-counter derivatives; and

**Level 3:** the fair value of financial instruments is not determined based on active market quotations, but from evaluation models whose main inputs are not observable on the market.

The table showing financial assets and liabilities at fair value classified by level is provided in note 7.2.

#### **2.13 Trade receivables and other account receivables**

The balances of trade receivables and other account receivables are amounts received for the sale of good 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 rate method, less impairment losses.

#### **2.14 Inventories**

Inventories are valued at the lower of cost (which includes all expenses until its entry in the warehouse) and net realisable value. The net realisable value results from the estimated sale price during 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, at no significant risk of changing in value. Bank overdrafts are shown on the balance sheet as current liabilities under "Debt to credit institutions - short-term", which are also considered in the preparation of the consolidated cash flow statement.

## **2.16 Impairment**

### **2.16.1 Impairment of financial assets**

At each reporting date, the Group analysis for objective evidence for either a financial asset or group of financial assets is impaired.

#### **2.16.2 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 in the financial asset that has been recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses in equity instruments recognised in the income statement are not reversed through the income statement.

#### **2.16.3 Trade receivables, debtors and other financial assets**

Impairment losses are recognised when there are objective indicators that the Group will not receive all amounts it is entitled to under the terms of the original contracts established. Various indicators are used for the identification of impairment, such as: (i) analysis for breach; (ii) debtor's financial difficulties; and (iii) probability of bankruptcy of the debtor.

The amount of the impairment loss is determined by the difference between the recoverable amount and the carrying amount of the financial asset, and it is registered against the profit/loss for the period. The book value of these assets is reduced to the recoverable value through the use of an account of impairment losses. When a sum receivable from customers and debtors is held to be irrecoverable it is written down via the accumulated impairment losses account. Subsequent recoveries of amounts that have been written down are recorded in the income statement. When the sums receivable from customers or other debtors are overdue, their terms are subject to renegotiation, and they are no longer regarded as overdue but treated as new credits.

Generally the Group does not recognise impairment losses on public entities, as it considers that the risk of them becoming insolvent is remote.

#### **2.16.4 Impairment of non-financial assets**

The assets of the Group are analysed at each balance sheet date for signs 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 of 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 Regulatory Authority. Whenever there are indications of potential losses for 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 year.

The Group performs impairment tests on cash generating units that recently started business operations within a certain period of time of the recent past (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 its recoverability is considered remote.

#### **2.16.5 Determination of assets' recoverable amount**

The recoverable amount of receivables in the medium and long run corresponds to the present value of estimated 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 the recognition of the impairment loss. An impairment loss that is recognised for goodwill is not reversed. 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 Investment grants

Investment grants 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 receiving such. Investment grants for the acquisition and/or construction of tangible and/or intangible assets are included in the non-current liabilities and are credited in the income statement based on the same amortisation method as 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 discharge 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 is conditional 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 discharge 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 in the same class of obligations may be small.

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 (note 26). The discount rate used to calculate the current value reflects the current expectation of the market for the period of the discount and 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; they are disclosed in the 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 Company's system of pension benefits embodies two types of pension plan, 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 benefits**

A defined benefits plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, normally dependant 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 assumed.

The liabilities recognised on the balance sheet relative to the defined benefits plan 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 immediately recognised in the income statement, except if the alterations to the pension plan depend on the employees remaining employed for a specific period of time. In this case, past service expenses are amortised on a straight line basis over the relevant period. The actuarial profits and losses are recognised in accordance with the "corridor method".

### **EPAL**

The benefits plan of EPAL is restricted to the payment of a retirement pension top-up (for old age or disability) awarded by the Social Security system, and to 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 provides a retirement top-up plan for its employees, providing a defined benefits plan with an independent fund. The Company changed the defined benefits pension plan on 22 March 2008 for a mixed defined benefit and defined contribution plan.

### **EGF**

The benefits plan of EGF refers to the payment of a retirement pension top-up (old-age or disability) awarded by the Social Security system. The liabilities with the retirement top-up are financed through an independent fund managed by BPI Pensions. 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 are totally covered.

## **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 remaining 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 rates of tax.

The parent and subsidiary 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 10 million euros, and taxable profits over 10 million euros pay a 5% rate.

Income tax for the period includes current 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 by the balance sheet liabilities method, taking the temporary differences between the tax base of assets and liabilities and their carrying amount on the consolidated financial statements. Deferred tax that arises from the initial recognition of an

asset or liability in a transaction that is not a merger, which on the transaction date has affected neither the accounting outcome nor the tax outcome, is not recorded. Deferred tax assets are recognised to the extent that 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 that already 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 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 services, net of taxes and discounts and after eliminating internal sales. As referred to in note 2.6.5, concession and regulated holding companies only recognise revenue that results from the charging of the tariffs approved by the Concession Granter and examined by the Regulatory Authority. Revenue is recognised as follows:

### 2.23.1 Provision of services

#### Regulated activity - Upstream services - Wastewater sanitation 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 – sale of products unsorted urban waste

Revenue is recognised based on consumptions, i.e. revenue is the product of the approved tariff and measured and/or estimated consumption.

#### Unregulated business 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 recovery of waste is registered at the time of the transaction.

#### Regulated activity - Downstream Services - Partnerships

Revenue is composed of two components, fixed and variable. Revenue is registered at the product of the approved tariff for each bracket and the measured and/or estimated consumptions of that bracket (variable component). The fixed component corresponds to the availability of the service and it is indexed to the meter's debit capacity. The amount is recognised in twelfths.

#### Unregulated business activity

Water supply – end consumer: the sale of water to end consumers is based on m<sup>3</sup> 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 2.5.3.

### **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, while 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 capitalised when it is concluded that they are recoverable through the realisation of those assets. Capitalised financial expenses as well as 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, therefore meaning that 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 the 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 consolidated 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 consolidated financial statements.

# **3. Financial risk management policies**

## **3.1 Risk factors**

The AdP Group 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 the company 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 the potential adverse effects on the financial performance of AdP SGPS and its subsidiaries. Risk management is the responsibility of the central treasury department, based on policies approved by the Board of Directors. The treasury pinpoints, assesses and undertakes operations designed to minimise the financial risks in close cooperation with the AdP Group's operational units. The Board of Directors drafts the principles underpinning 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 principles for risk management and 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 their 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 AdP 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 outstanding 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 economic and financial situation of the country over the last two years, with direct consequences on local government, the amount of overdue balances has been growing significantly (see notes 16 and 18 – trade receivables).

Impairment losses for receivables are calculated with the following in mind: **i)** the customer's risk profile, depending on whether they are corporate or business customers; **ii)** the average collection period, which varies from business to business; and **iii)** the customer's financial circumstances.

The AdP Group has been warning Central Government of the unsustainability of the current arrears situation of some municipalities, with the aim of trying to find alternative ways of collecting the overdue amounts. Article 58(1) of the State Budget of 2012 establishes that local government with outstanding debts to the managing entities of the multi-municipal systems of the water, wastewater and waste sector must present to the ministry in charge of the sector, by 15 February 2012, the situation regarding settlement of those debts.

A Programme to Support the Local Economy (PAEL) was approved by the Council of Ministers of 14 June 2012. This plan aims to settle the debts of municipalities that are more than 90 days overdue, registered with the Directorate-General of Local Government by 31 March 2012.

The PAEL covers all payments of the municipalities more than 90 days overdue, irrespective of their commercial or administrative nature. The municipalities agreeing to sign this programme conclude a loan agreement with the State pursuant to the terms and conditions defined in this program.

The general limits of medium and long-term indebtedness, as established in the Local Finances Law, do not restrict the contracting of loans under this law. The fund available for the financing of the PAEL is of 1,000,000,000 euros. There are 263 municipalities that may benefit from the agreement signed between the Government and local government.

The PAEL is divided in two programmes: the first is directed at local governments in a situation of structural disequilibrium and with a request for financial re-equilibrium presented to the State. In this case, the amount loaned can be up to 100 percent of the debts. The second is directed at debts behind schedule, at least 90 days overdue, and the contracts can cover between 50 and 90 percent of the debts.

The local governments signing a contract under the PAEL have to comply with a set of obligations, including fines in the event the debt increases while the contract is in force.

The Board of Directors of the AdP Group has closely accompanied these negotiations, and it is optimistic as regards the outcome of this process. It is expected that significant parts of municipalities' debts prior to 31 December 2011 may be paid off when these contracts are signed and the money made available to the municipalities by Central Government, although it is not yet possible to accurately determine the amounts that will be paid to the AdP Group.

The Board of Directors has been informed that the Court of Auditors is analysing the accounts of several municipalities, to give an opinion to the Government. Hence, the Board of Directors expects that these debts will be paid during 2013, through this assistance programme to the municipalities.

Moreover, the Board of Directors of AdP SGPS is evaluating the adoption of other measures that aim to ensure the recovery of the balances to receive from the municipalities, which include activating the mechanism associated with preferential claims over current debts and the establishment of debt payment agreements.

It is still the understanding of the Board of Directors of AdP SGPS that there are no indicators to date that lead to the recognition of impairment losses, despite the uncertainty that exists regarding when the municipality customers will ensure compliance with their obligations.

The table below represents the maximum exposure of the Group to credit risk (not including customers' and other debtors' balances) as at 31 December 2012, not taking into consideration any collateral held or other credit enhancements. For assets in the balance sheet, exposure is based on their carrying amount as reported on the face of the balance sheet.

<b>Banking financial assets</b>	<b>31.12.2012</b>
Current accounts	55,374,838
Term deposits	211,293,197
Other securities	66,600,000
Equipment renewal fund	2,677,885
Capital replenishment fund	114,828,974
Other	162,041
	<b>450,936,935</b>
<hr/>	
<b>Rating (Moodys)</b>	<b>31.12.2012</b>
A2	52,528
A3	248,854
B1	50,234,186
B2	23,522,282
Ba1	39,994,965
Ba3	331,145,203
Baa3	5,048,043
No known rating	690,874
	<b>450,936,935</b>

Note: Rating obtained from sites of the financial institutions in January 2013.

### 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 whose net assets are exposed to exchange rate risk through conversion, and funding in foreign currency exposed to exchange rate risk. The exchange rate risk inherent in 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 the floating debt through an adequate amount of credit facilities and the ability to liquidate market positions. The AdP Group's treasury, 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 with high credit ratings, allowing immediate access to funds. This practice has been greatly influenced in this last financial year by Portugal's well-known difficulties in gaining access to the credit markets, and by the relentless rise in customer debt.

The AdP Group, like the country, is going through a phase of reduced liquidity. 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 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	619,910,904	478,208,927	1,997,921,621
Trade payables and other liabilities	269,901,117	97,554,554	45,819,983

The AdP Group does not foresee difficulties in complying with its short-term liabilities. The AdP Group considers it is in a condition to assure the renewal of its main credit facilities, particularly short-term bank loans. Therefore, their immediate repayment is not expected. Furthermore, the AdP Group strengthened the line of financing from BEI III by 108 million euros, at the end of 2012. The inflow of funds from applications made for investment grants is also expected.

### 3.5 Cash flow and fair value risk linked to interest rates

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 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. Also associated with the volatility of interest rates is the guaranteed remuneration of concession contracts, and consequently the tariff deviation.

The table below presents the sensitivity analysis of the financial costs of the AdP Group.

	31.12.2012	Average rate + 1%	Average rate - 1%
Interest paid	113,752,942	130,325,683	93,554,180
	<b>113,752,942</b>	<b>130,325,683</b>	<b>93,554,180</b>

### 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 contract loans with financial corporations (except for EPAL and investment loans), which in turn makes loans to its subsidiaries. This policy aims to optimise the capital structure for greater tax efficiency and to reduce the average cost of capital.

	31.12.2012	31.12.2011
Non-current loans	2,476,130,548	2,365,063,667
Current loans	619,910,904	612,837,601
Liquid assets	(335,280,411)	(286,273,575)
<b>Debt</b>	<b>2,760,761,041</b>	<b>2,691,627,693</b>
Investment grants	1,925,337,858	1,950,784,151
Total equity	1,135,901,831	1,034,439,083
<b>Capital and grants</b>	<b>5,822,000,730</b>	<b>5,676,850,928</b>
<b>Debt/ total capital</b>	<b>0.47</b>	<b>0.47</b>

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 BEI, and equity and non-repayable investment grants.

### **3.7 Regulatory risk**

Regulation is the most significant restriction on the profit of the economic activities developed by the Group. The Regulatory Authority can take measures that have a negative impact on cash-flow, with all the resulting adverse consequences. AdP has sought to accompany the activities of the Regulatory Authority 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 19<sup>th</sup> Constitutional Government, as well as the Plan for Economic and Financial Assistance, foresee the autonomisation of the waste sub-sector of the AdP Group and the need to implement the necessary measures to open it up to private investment. Thus, during the first half of 2012, several working groups began to study the legal-economic review of the existing regulatory model, particularly in terms of regulation of the multi-municipal systems for urban solid waste treatment.

To this date, the Board of Directors of AdP SGPS has no knowledge of any decisions taken by the Concession Granter as regards the probable restructuring of the sector. It does acknowledge, however, that should such occur it will have a significant impact on the consolidated financial statements of the AdP Group.

The preparation of the new organisational law of ERSAR was undertaken during 2012, with its 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**

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, turn out to differ from the estimated amounts. The estimates and judgments that have a significant risk of giving rise to a material adjustment in the book value of assets and liabilities in 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 there should be a provision for these contingencies (note 41).

The subjectivity inherent in determining the likelihood and amount of the internal resources outflows needed to discharge obligations may lead to significant adjustments, either through the change of such 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 on the basis of the value of use, what requires the use of estimates.

## **4.3 Impairment of receivables**

The determination of an impairment loss can be triggered by a number of events, many of which cannot be influenced by 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 network infrastructure, the expected rate of change 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 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 for the year. In addition to the uncertainties mentioned above 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 companies of the AdP Group.

## **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 judgment to choose the evaluation techniques and assumptions to be used to assess the derivatives contracted at the financial reporting date.

Changes in the fair value of derivative financial instruments that do not qualify as hedges are recognised in the profit/loss and those classified as hedges are recognised in equity.

## **5. Relevant facts**

The profits of the AdP Group in the 2012 financial year are influenced by some important facts.

### **5.1 Order of the Ministry of Agriculture, the Sea, the Environment and Spatial Planning, that limits the rate of 10-year Treasury Bonds**

On 25 January 2013, the AdP Group received the Order issued by the Ministry of Agriculture, the Sea, the Environment and Spatial Planning, which is based on the following recitals:

- the importance of the concession contracts of the multi-municipal systems of water and waste services, particularly regarding the permitted shareholder remuneration;
- the majority of contracts established between the State and the concession holders of the AdP Group foresees that the calculation of the annual shareholder remuneration corresponds to the product of the share capital, with the retained remuneration, by the rate of return of 10-year treasury bonds, plus three percentage points;
- the agency that manages the Treasury and Public Debt - IGCP, E.P.E., the official entity managing the public debt of the Portuguese Republic, recommended the use of 7.46% as the reference rate for the "profitability rate of 10-year Treasury bonds" while the secondary market of public debt will be undermined by the absence of new financing operations by the Portuguese Republic in international markets, specifically while the Economic and Financial Adjustment Plan (EFAP) is in force.

It established that the following be complied with:

- the reference value of 7.46% indicated by IGCP is considered the maximum level for the calculation of this rate of return on the Treasury Bonds during the period the EFAP is in force;
- the closing of the accounts of the concession holders of the AdP Group for the 2012 financial year and during the time period of the EFAP is conducted according to the provisions of this order.

The AdP Group applied the above referred to order in the closing of its accounts for 2012.

## 5.2 Hedging instruments

In the 2012 financial year, the changes in fair value of the financial instruments had a negative impact on the profits of 14,693,777 euros (negative 25,769,228 euros in 2011), as presented in the table below:

Swap	Hedged risk	Notional	Mat.	Fair value 31.12.2012	Fair value 31.12.2011	Change	In profits	In equity
Exchange rate	EUR/Jpy exchange rate	100,000,000	2015	(1,124,899)	16,248,188	(17,373,087)	(17,373,087)	-
Exchange rate update		100,000,000	2015	(3,930,832)	(17,840,138)	13,909,305	13,909,305	-
<b>Sub-total</b>				<b>(5,055,731)</b>	<b>(1,591,950)</b>	<b>(3,463,782)</b>	<b>(3,463,782)</b>	-
Interest rate	Interest rate	50,000,000	2022	(11,150,000)	(9,725,000)	(1,425,000)	(1,425,000)	-
Interest rate	Interest rate	75,000,000	2022	(28,275,433)	(18,470,438)	(9,804,995)	(9,804,995)	-
Interest rate	Interest rate	50,000,000	2023	(10,875,039)	(6,230,560)	(4,644,479)	-	(4,644,479)
Interest rate	Interest rate	20,000,000	2023	(4,323,611)	(2,438,386)	(1,885,225)	-	(1,885,225)
<b>Sub-total</b>				<b>(54,624,083)</b>	<b>(36,864,384)</b>	<b>(17,759,699)</b>	<b>(11,229,995)</b>	<b>(6,529,704)</b>
<b>Total</b>				<b>(59,679,814)</b>	<b>(38,456,333)</b>	<b>(21,223,481)</b>	<b>(14,693,778)</b>	<b>(6,529,704)</b>

The Group has opted to assure significant immunity to the fluctuations of interest rates of its loans exposed to floating rates. It has contracted derivatives for this purpose that does not qualify in the accounts as hedging instruments. The significant fall in fixed rates in the market which occurred during 2012 is largely responsible for this change in fair value.

Moreover, the financial instruments associated with the loans of Depfa (Notional, 50 million euros and 20 million euros) are considered cash flow hedging instruments, therefore the respective change in fair value is entered directly in equity from 1 January 2012 (in 2011 they were registered in financial expenses with a loss of 7,272,716 euros). Assessments of the effectiveness of the instruments and the documentation required by the applicable regulations was prepared, the results of which were within the 80% to 125% range.

The table below shows the effect in 2011 if the instruments had already been regarded as hedges, the effect on comprehensive income was:

Swap	Risk hedged	Notional	Maturity	31.12.2012	31.12.2011
BNP - interest rate	Interest rate	50,000,000	2023	(4,644,479)	(5,098,090)
BBVA - interest rate	Interest rate	20,000,000	2023	(1,885,225)	(2,174,626)
<b>Sub-total</b>				<b>(6,529,704)</b>	<b>(7,272,716)</b>

## 5.3 Tariff deviations

A significant variation of tariff deviations was verified in the 2012 financial year, namely:

- i) change in the rate used to calculate guaranteed income, which reduced from 10.24% in 2011 (plus 3%) to 7.46% in 2012 (plus 3%);
- ii) allocation of tariff surpluses in several Group subsidiaries (in particular the UNR) totalling 9,085,713 euros, the most significant being Amarsul (1,032,675 euros), Ersuc (6,020,408 euros) and Valnor (1,908,303 euros). This allocation, decided on in previous years, served for share capital increases duly authorised by the Concession Granter;

iii) correction of the historical deviations of the waste business unit, with respect to the tax associated with tariff deviations;

The table below shows the total of tariff deviations compared with the previous financial year:

Tariff deviations	<b>31.12.2012</b>	<b>31.12.2011</b>
Deviations and surplus of the financial year	55,651,694	68,634,866
Tariff deviations - productivity profits	9,085,713	43,662,480
Other	495,045	-
<b>Gross tariff deviations</b>	<b>65,232,452</b>	<b>112,297,346</b>

## 6. Information by business areas

<b>31.12.2012</b>	Regulated activity Water - Production and Purification	Regulated activity Waste	Unregulated business activity Water - Distribution and Collection	Unregulated business activity EPAL	Unregulated business activity International	Unregulated business activity Corporate	Adjustments	Total Consolidated
External sales	457,734,494	148,026,054	47,146,950	132,892,322	3,816,040	1,786,117	-	791,401,977
Inter-segmental sales	12,863,069	557,536	245,689	11,312,946	5,028	17,903,690	(42,887,958)	-
<b>Total revenue</b>	<b>470,597,563</b>	<b>148,583,590</b>	<b>47,392,639</b>	<b>144,205,268</b>	<b>3,821,068</b>	<b>19,689,807</b>	<b>(42,887,958)</b>	<b>791,401,977</b>
Sales costs/inventory change	(13,381,882)	(12,156,048)	(4,422,965)	(2,876,184)	-	(257,897)	-	(33,094,976)
External supplies and services	(132,029,012)	(44,394,032)	(6,649,982)	(30,573,125)	(3,064,187)	(5,639,893)	-	(222,350,231)
Personnel costs	(44,041,426)	(39,861,483)	(5,083,448)	(22,872,647)	(815,413)	(8,090,744)	-	(120,765,161)
Amort., dep. and rev. in financial year	(147,258,528)	(51,086,265)	(7,908,827)	(27,675,107)	(44,757)	(1,638,177)	-	(235,611,661)
Provisions and reversals in financial year	495,875	59,878	-	806,671	(177,192)	696,549	-	1,881,781
Impairment losses and reversals	(4,206,891)	(408,243)	(887,208)	(2,015,507)	-	(76,608)	-	(7,594,457)
Fair value gains/ losses	-	-	-	-	-	-	-	-
Investment grants	49,447,706	17,857,831	335,183	(6,649)	-	6,462	-	67,640,533
Other operating expenses and losses	(7,304,869)	(5,187,249)	(391,079)	(1,842,336)	(189,144)	(411,822)	-	(15,326,499)
Other operating income and gains	9,202,229	6,702,119	301,838	5,749,778	87,832	542,347	-	22,586,143
Inter-segmental operating profit	(23,675,207)	(2,412,517)	(14,089,005)	(3,681,491)	(382,805)	1,294,583	42,946,442	-
<b>Total operating profit</b>	<b>157,845,558</b>	<b>17,697,581</b>	<b>8,597,146</b>	<b>59,218,671</b>	<b>(764,598)</b>	<b>6,114,607</b>	<b>58,484</b>	<b>248,767,449</b>
External financial profit	(43,380,514)	4,073,565	(3,934,644)	(2,439,687)	(281,696)	(30,329,802)	-	(76,292,778)
Inter-segmental financial profit	(30,948,377)	(1,916,620)	(183,726)	434,359	(17,218)	32,690,066	(58,484)	-
<b>Pre-tax profit</b>	<b>83,516,667</b>	<b>19,854,526</b>	<b>4,478,776</b>	<b>57,213,343</b>	<b>(1,063,512)</b>	<b>8,474,871</b>	<b>-</b>	<b>172,474,671</b>
Income tax for financial year	(22,276,301)	(5,881,522)	(2,693,459)	(16,161,821)	177,279	(1,269,014)	-	(48,104,838)
<b>Net profit for financial year</b>	<b>61,240,366</b>	<b>13,973,004</b>	<b>1,785,317</b>	<b>41,051,522</b>	<b>(886,233)</b>	<b>7,205,857</b>	<b>-</b>	<b>124,369,833</b>
Attributable to non-controlling interests	22,384,746	7,327,909	874,817	-	-	(58,730)	-	30,528,742
Attributable to shareholders of AdP SGPS	38,855,620	6,645,095	910,500	41,051,522	(886,233)	7,264,587	-	93,841,091
<b>Total</b>	<b>61,240,366</b>	<b>13,973,004</b>	<b>1,785,317</b>	<b>41,051,522</b>	<b>(886,233)</b>	<b>7,205,857</b>	<b>-</b>	<b>124,369,833</b>

Note: Total revenue includes tariff deviations of the period.

31.12.2011	Regulated activity Water - Production and Purification	Regulated activity Waste	Unregulated business activity Water - Distribution and Collection	Unregulated business activity EPAL	Unregulated business activity International	Unregulated business activity Corporate	Adjustments	Total Consolidated
External sales	462,201,245	186,267,922	47,198,922	135,024,530	1,656,195	1,899,772	-	834,248,588
Inter-segmental Sales	12,056,909	537,176	186,054	12,013,615	-	18,205,832	(42,999,585)	-
<b>Total revenue</b>	<b>474,258,154</b>	<b>186,805,098</b>	<b>47,384,976</b>	<b>147,038,145</b>	<b>1,656,195</b>	<b>20,105,604</b>	<b>(42,999,585)</b>	<b>834,248,588</b>
Sales costs/inventory change	(11,786,109)	(12,683,731)	(5,013,884)	(2,949,696)	-	(466,841)	-	(32,900,261)
External supplies and services	(126,299,055)	(44,469,317)	(6,953,106)	(31,253,516)	(1,528,199)	(5,761,451)	-	(216,264,644)
Personnel costs	(46,677,899)	(43,031,891)	(5,504,655)	(25,630,494)	(1,022,995)	(9,877,494)	-	(131,745,428)
Amort., dep. and rev. in financial year	(154,304,403)	(55,015,929)	(8,328,453)	(23,947,621)	(47,588)	(1,572,542)	-	(243,216,536)
Provisions and reversals in financial year	(2,418,149)	(510,904)	-	168,189	-	399,553	-	(2,361,311)
Impairment losses and reversals	(4,481,235)	89,362	(325,112)	(421,828)	-	(549,779)	-	(5,688,592)
Fair value gains/losses	-	191	-	-	-	-	-	191
Investment grants	60,151,773	18,265,720	346,851	2,026,992	-	31,912	-	80,823,249
Other operating expenses and losses	(6,215,829)	(3,703,874)	(317,094)	(1,228,244)	(149,264)	(1,249,597)	-	(12,863,902)
Other operating income and gains	11,888,363	2,411,865	118,367	2,780,450	334,755	61,380	-	17,595,181
Inter-segmental operating profit	(25,054,153)	(2,553,482)	(13,499,099)	(3,717,492)	(415,344)	2,173,103	43,066,467	-
<b>Total operating profit</b>	<b>169,061,457</b>	<b>45,603,110</b>	<b>7,908,791</b>	<b>62,864,885</b>	<b>(1,172,439)</b>	<b>3,293,849</b>	<b>66,882</b>	<b>287,626,536</b>
External financial profit	(42,936,562)	(4,287,271)	(3,027,159)	(2,713,280)	(164,713)	(37,476,532)	-	(90,605,517)
Inter-segmental financial profit	(22,405,968)	(1,502,337)	(261,491)	168,539	(17,359)	24,085,498	(66,882)	-
<b>Pre-tax profit</b>	<b>103,718,927</b>	<b>39,813,502</b>	<b>4,620,141</b>	<b>60,320,144</b>	<b>(1,354,511)</b>	<b>(10,097,185)</b>	<b>-</b>	<b>197,021,018</b>
Income tax for financial year	(28,785,686)	(9,885,534)	(2,617,032)	(17,374,188)	341,827	1,295,199	-	(57,025,413)
<b>Net profit for financial year</b>	<b>74,933,242</b>	<b>29,927,968</b>	<b>2,003,109</b>	<b>42,945,956</b>	<b>(1,012,684)</b>	<b>(8,801,986)</b>	<b>-</b>	<b>139,995,605</b>
Attributable to non-controlling interests	28,100,788	21,298,014	981,531	-	-	12,761	-	50,393,094
Attributable to shareholders of AdP SGPS	46,832,454	8,629,954	1,021,578	42,945,956	(1,012,684)	(8,814,746)	-	89,602,511
<b>Total</b>	<b>74,933,242</b>	<b>29,927,968</b>	<b>2,003,109</b>	<b>42,945,956</b>	<b>(1,012,684)</b>	<b>(8,801,986)</b>	<b>-</b>	<b>139,995,605</b>

Note: Total revenue includes tariff deviations of the period.

## 7. Financial instruments

### 7.1 Classification of financial assets and liabilities according to IAS 39

<b>31.12.2012</b>	Financial assets at fair value through profit or loss	Loans 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	Consolidated balance sheet total
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
Investments in associates	-	-	-	-	-	-	213,784	213,784
Deferred tax assets	-	-	-	-	-	-	267,531,026	267,531,026
Derivatives	-	-	-	-	-	-	-	-
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 financial assets	-	-	-	-	-	-	-	-
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 loans	-	-	-	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
Loans	-	-	-	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 for year	-	-	-	-	-	-	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 categorised in three levels, defined as follows:

	<b>31.12.2012</b>			<b>31.12.2011</b>		
	level 1	level 2	level 3	level 1	level 2	level 3
<b>Financial assets at fair value through profit or loss</b>						
Investment in shares	28,232	-	-	41,309	-	-
Derivatives	-	-	-	-	-	-
<b>Financial liabilities at fair value through profit or loss</b>						
Derivatives	-	44,481,154	-	-	38,456,333	-
<b>Financial liabilities at fair value through comprehensive income</b>						
Derivatives	-	15,198,660	-	-	-	-

## 8. Intangible assets

	<b>31.12.2012</b>	<b>31.12.2011</b>
Right of use of infrastructures - IFRIC 12	4,314,006,593	3,902,087,857
Goodwill and right to lease	3,785,877	3,785,877
Development expenses	4,927,045	5,196,063
Industrial property and other rights	26,046,323	23,953,305
Computer software	69,236	32,995
Other intangible assets	22,146,538	16,051,459
Intangible assets in progress - IFRIC 12	351,962,912	843,967,078
	<b>4,722,944,524</b>	<b>4,795,074,634</b>

The Group does not recognise internally generated intangible assets.

### 8.1 Movements in the period

Gross value	31.12.2011	Increases	Currency Conv.	Reduction/Disposals	Reclassif.	Transf.	Reversals	<b>31.12.2012</b>
Right of use of infrastructures	5,068,859,832	30,059,953	-	(5,889,300)	13,456,197	662,125,048	-	5,768,611,730
Goodwill	3,785,877	-	-	-	-	-	-	3,785,877
Development projects	10,913,371	-	(989)	-	-	14,115	-	10,926,497
Industrial property	37,835,143	35,021	-	(1,352)	275,229	237,628	-	38,381,669
Computer software	233,892	19,750	-	-	-	21,280	-	274,922
Other intangible assets	30,498,956	68,694	669	(341,305)	4,475,840	579,997	-	35,282,851
Intangible assets in progress	843,967,078	183,844,241	-	(471,622)	(16,513,392)	(658,863,393)	-	351,962,912
	5,996,094,149	214,027,659	(320)	(6,703,579)	1,693,874	4,114,675	-	6,209,226,458
Accumulated amortisation	31.12.2011	Increases	Currency Conv.	Reduction/Disposals	Reclassif.	Transf.	Reversals	<b>31.12.2012</b>
Right of use of infrastructure	(1,166,771,975)	(153,941,788)	-	167,159	(126,058,274)	(8,317,674)	317,415	(1,454,605,137)
Development projects	(5,717,308)	(269,018)	989	-	-	(14,115)	-	(5,999,452)
Industrial property	(13,881,838)	(1,186,163)	-	1,352	(47,685)	2,778,988	-	(12,335,346)
Computer software	(200,897)	(982)	-	-	(3,807)	-	-	(205,686)
Other intangible assets	(14,447,497)	(1,339,813)	(669)	313,831	2,867	2,334,968	-	(13,136,313)
	(1,201,019,514)	(156,737,764)	320	482,342	(126,106,899)	(3,217,833)	317,415	(1,486,281,934)
Net value	4,795,074,634	57,289,895	-	(6,221,237)	(124,413,025)	896,842	317,415	4,722,944,524

### 8.2 Right of use of infrastructure and intangible assets in progress

Gross value	31.12.2011	Increases	Currency Conv.	Reduction/Disposals	Reclassif.	Transf.	Reversals	<b>31.12.2012</b>
Right of use of infrastructure	5,068,859,832	30,059,953	-	(5,889,300)	13,456,197	662,125,048	-	5,768,611,730
Intangible assets in progress	843,967,078	183,844,241	-	(471,622)	(16,513,392)	(658,863,393)	-	351,962,912
	5,912,826,910	213,904,194	-	(6,360,922)	(3,057,195)	3,261,655	-	6,120,574,642
Accumulated amortisation	31.12.2011	Increases	Currency Conv.	Reduction/Disposals	Reclassif.	Transf.	Reversals	<b>31.12.2012</b>
Right of use of infrastructure	(1,166,771,975)	(153,941,788)	-	167,159	(126,058,274)	(8,317,674)	317,415	(1,454,605,137)
	(1,166,771,975)	(153,941,788)	-	167,159	(126,058,274)	(8,317,674)	317,415	(1,454,605,137)
Net value	4,746,054,935	59,962,406	-	(6,193,763)	(129,115,469)	(5,056,019)	317,415	4,665,969,505

In 2012 there was a significant reduction in investment undertaken by the companies of the AdP Group (around 50% compared to 2011). This reduction is due to the constraints arising from the international financial crisis 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 program.

These constraints were in addition to the obligations arising from the Stability and Growth Pact (SGP) 2010-2013, which imposed annual limits on the growth of borrowing by the companies of the State Business Sector during this period.

It should be noted that the constraints resulting from the lack of access to credit, a situation exacerbated by increased financial difficulties resulting from increased average collection period from municipal customers of the companies, made investment funding especially difficult.

The business units that most contributed to the investment total were UNA-PD (business unit for water production and purification) and UNR (waste business unit).

The main investments made or in progress (UNA-PD) are:

(the sums are rounded off)

Company	Water Supply						Total
	Water intakes	Treatment Plants	Mains	Pumping stations	Storage facilities	Other	
Águas do Noroeste	-	-	4,697,000	94,000	554,000	585,000	5,930,000
Águas de Trás-os-Montes e Alto Douro	650,000	209,000	692,000	-	288,000	122,000	1,961,000
Águas do Douro e Paiva	8,000	592,000	945,000	273,000	429,000	783,000	3,030,000
Águas do Mondego	8,000	817,000	3,361,000	787,000	2,386,000	-	7,359,000
Águas do Zêzere e Côa	28,000	156,000	58,000	398,000	34,000	231,000	905,000
Águas do Centro	61,000	-	1,177,000	-	412,000	343,000	1,993,000
Águas do Norte Alentejano	-	514,000	267,000	-	-	305,000	1,086,000
Águas do Algarve	4,000	-	398,000	-	565,000	4,488,000	5,455,000
Águas de Santo André	-	1,127,000	-	-	21,000	438,000	1,586,000
Águas Públcas do Alentejo	303,000	415,000	1,990,000	53,000	1,599,000	276,000	4,636,000
Águas da Região de Aveiro	42,000	-	335,000	91,000	123,000	961,000	1,552,000
<b>Total</b>	<b>1,104,000</b>	<b>3,830,000</b>	<b>13,920,000</b>	<b>1,696,000</b>	<b>6,411,000</b>	<b>8,532,000</b>	<b>35,493,000</b>

(the sums are rounded off)

Company	Wastewater Treatment				Total
	Wastewater Treatment Plants	Sewers	Pumping stations	Other	
Águas do Noroeste	10,025,000	19,188,000	5,381,000	583,000	35,177,000
Águas de Trás-os-Montes e Alto Douro	542,000	1,184,000	405,000	26,000	2,157,000
Simria	710,000	-	-	4,071,000	4,781,000
Águas do Mondego	438,000	869,000	440,000	9,000	1,756,000
Águas do Zêzere e Côa	2,857,000	1,253,000	382,000	529,000	5,021,000
Águas do Centro	8,218,000	740,000	514,000	-	9,472,000
Águas do Oeste	1,362,000	1,003,000	818,000	657,000	3,840,000
Sanest	21,923,000	2,711,000	324,000	322,000	25,280,000
Simtejo	7,485,000	6,100,000	3,508,000	1,032,000	18,125,000
Simarsul	6,363,000	801,000	451,000	-	7,615,000
Águas do Norte Alentejano	741,000	88,000	60,000	61,000	950,000
Águas do Algarve	1,952,000	921,000	630,000	309,000	3,812,000
Águas de Santo André	298,000	701,000	310,000	2,000	1,311,000
Águas Públcas do Alentejo	3,445,000	254,000	228,000	-	3,927,000
Simdouro	2,332,000	2,239,000	403,000	332,000	5,306,000
Águas da Região de Aveiro	16,000	181,000	671,000	2,740,000	3,608,000
<b>Total</b>	<b>68,707,000</b>	<b>38,233,000</b>	<b>14,525,000</b>	<b>10,673,000</b>	<b>132,138,000</b>

The main investments of the UNR in 2012 were made by the following subsidiaries:

	Sanitary landfills	Biogas landfill	Organic recovery plants	Waste to energy plants	Transfer of waste	Selective collection	Sorting	Other	Total
Resinorte	440,259	256,122	62,001	-	1,214	409,275	40,714	37,460	1,247,045
Suldouro	503,162	294,728	1,465,205	-	-	391,089	73,038	3,330	2,730,552
Ersuc	754,480	420	15,302,079	-	1,466,904	8,690	518,875	67,825	18,119,273
Resiestrela	-	770,896	142,907	-	-	267,733	-	30,113	1,211,649
Valorlis	174,074	444,844	-	-	41,375	83,681	2,499,743	195,665	3,439,382
Amarsul	1,455,327	81,952	2,725,426	-	155,457	226,314	178,441	90,365	4,913,282
Valnor	193,300	-	1,417,829	-	632,164	23,020	-	491,022	2,757,335
Algar	385,639	800,054	3,263,109	-	219,080	155,962	6,306	-	4,830,150
Valorsul	218,431	32,770	194,032	988,826	-	1,038,255	-	4,312,037	6,784,351
<b>Total</b>	<b>4,124,672</b>	<b>2,681,786</b>	<b>24,572,588</b>	<b>988,826</b>	<b>2,516,194</b>	<b>2,604,019</b>	<b>3,317,117</b>	<b>5,227,817</b>	<b>46,033,019</b>

## 8.3 Goodwill

	<b>31.12.2012</b>	<b>31.12.2011</b>
Goodwill		
Valorsul	3,306,807	3,306,807
Algar	130,604	130,604
Aquasis	209,965	209,965
	<b>3,647,376</b>	<b>3,647,376</b>
Right to lease		
Empresa Geral do Fomento	138,501	138,501
	<b>138,501</b>	<b>138,501</b>
	<b>3,785,877</b>	<b>3,785,877</b>

Impairment tests of goodwill were undertaken on 31 December 2012, with the recoverable value of the cash generating unit generating that goodwill as the reference value. The recoverable value corresponds to its value of use, and this in turn corresponds to the guaranteed return (dividend) in each one of the years over the concession term. These amounts form part of the EFFS (economic and financial feasibility study) attached to the concession contracts. The guaranteed return is calculated based on the risk-free interest rate corresponding to the 10-year treasury bonds yield (7.46% as at 31 December 2012, and 10.4% as at 31 December 2011) 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. In the relevant companies, the generated cash-flow (remuneration) has been higher than that contractually agreed. Additional remuneration has already been paid as productivity gains.

## 9. Tangible fixed assets

	<b>31.12.2012</b>	<b>31.12.2011</b>
Land and natural resources	121,661,594	121,578,380
Buildings and other constructions	120,151,363	124,784,225
Basic equipment	537,198,186	544,112,562
Transport equipment	643,572	847,614
Office equipment	2,583,500	3,173,492
Other	2,251,550	3,299,529
Investments in progress	6,645,665	10,770,785
	<b>791,135,430</b>	<b>808,566,586</b>

## 9.1 Movements in the period

Gross value	31.12.2011	Increases	Currency Conv.	Reduction/ disposals	Reclassif.	Transf.	31.12.2012
Land and natural resources	121,578,380	-	-	-	-	83,214	121,661,594
Buildings and other constructions	218,313,079	69,394	-	(12,692)	(10,461)	581,456	218,940,776
Basic equipment	1,028,518,549	1,876,904	-	(545,917)	(188,572)	14,124,927	1,043,785,891
Transport equipment	4,361,886	141,495	-	(482,508)	-	(117,972)	3,902,901
Office equipment	29,523,088	218,507	(6,942)	(47,597)	(514,334)	(563,215)	28,609,507
Other	26,175,719	53,017	(4,571)	(725,109)	(65,800)	(827,497)	24,605,759
Investments in progress	10,770,785	12,613,534	-	(421,687)	-	(16,316,967)	6,645,665
	1,439,241,484	14,972,851	(11,513)	(2,235,510)	(779,167)	(3,036,054)	1,448,152,093
Accumulated amortisation	31.12.2011	Increases	Currency Conv.	Reduction/ disposals	Reclassif.	Transf.	31.12.2012
Land and natural resources	-	-	-	-	-	-	-
Buildings and other constructions	(93,528,854)	(5,240,232)	-	-	1,596	(21,923)	(98,789,413)
Basic equipment	(484,405,987)	(22,418,421)	-	543,295	32,961	1,201,743	(505,046,409)
Transport equipment	(3,514,272)	(310,315)	-	454,486	-	110,772	(3,259,329)
Office equipment	(26,349,596)	(961,420)	3,921	46,962	76,657	1,157,469	(26,026,007)
Other	(22,876,190)	(582,425)	4,571	230,658	12,665	856,512	(22,354,209)
	(630,674,898)	(29,512,813)	8,492	1,275,401	123,879	3,304,573	(655,475,367)
Impairment losses	31.12.2011	Increases	Currency Conv.	Reduction/ disposals	Reclassif.	Transf.	31.12.2012
Basic equipment	-	(1,541,296)	-	-	-	-	(1,541,296)
	-	(1,541,296)	-	-	-	-	(1,541,296)
Net value	808,566,586	(16,081,258)	(3,021)	(960,109)	(655,288)	268,519	791,135,430

Almost all the AdP Group's tangible assets originate from EPAL.

The acquisition of tangible fixed assets by EPAL in the 2012 financial year were approximately 13,000,000 euros. These acquisitions essentially refer to the project to change the course of the Circunvalação main pipeline, next to the new hospital in Vila Franca de Xira, the replacement of three main pipelines at Reguengo bridge, maintenance work on the pipeline in Avenida Carolina Michaelis de Vasconcelos road and the replacement of metallic sections of the pipelines between Valada Tejo and the Vale da Pedra Water Treatment Plant.

The reduction of the "Tangible fixed assets in progress" item in 2012, in the amount of approximately 15,452,000 euros, is essentially due to the conclusion of the projects to expand the Castelo de Bode mains pipeline, the replacement of mains and branch mains and the expropriation of land. The amounts relative to these projects are approximately 3,725,000 euros, 1,962,000 euros and 4,002,000 euros, respectively.

The "Tangible fixed assets in progress" item essentially refers to, as at 31 December 2012, the projects to renovate major pipelines, Olivais electricity substation, renovation of tunnels and siphons of the Alviela Aqueduct and upgrading of the Vale da Pedra facilities.

The impairment loss of 1,541,296 euros refers to the deactivation of a section of the Circunvalação main pipeline. This amount corresponds to its net book value, which is offset in the income statement by virtue of the amounts received from the Ministry of Health as compensation.

## 9.2 Financial leasing

Net book values of intangible assets acquired by means of leasing:

	<b>31.12.2012</b>
DUI - Land and natural resources	1,180,326
DUI - Buildings and other constructions	3,523,103
DUI - Basic equipment	1,173,640
DUI - Transport equipment	883,536
	<b>6,760,605</b>

Net book values of tangible fixed assets acquired by means of leasing:

	<b>31.12.2012</b>	<b>31.12.2011</b>
Land and natural resources	5,050,000	5,351,841
Buildings and other constructions	15,879,054	15,577,914
Transport equipment	-	68,620
Office equipment	117,600	-
	<b>21,046,654</b>	<b>20,998,375</b>

## 10. Investment properties

	<b>31.12.2012</b>	<b>31.12.2011</b>
Land	7,347	7,347
Buildings	2,576,989	2,490,218
Accumulated depreciations	(1,515,064)	(1,332,414)
	<b>1,069,272</b>	<b>1,165,151</b>

Goods that were classified as tangible fixed assets (gross value and respective accumulated depreciations) were transferred to investment properties during the period.

The fair value of investment properties is equivalent to the book value. The fair value of each investment property was determined by valuation performed by an independent entity, which has a recognised and relevant professional qualification. 31 December 2009 is the reference date of the evaluations. The management of the Group considers that no significant changes had occurred as at 31 December 2012 and 31 December 2011.

## 11. Financial investments

	<b>31.12.2012</b>	<b>31.12.2011</b>
Renewal fund	i) 2,677,885	4,315,685
Capital replenishment fund	ii) 114,828,974	105,635,394
Other financial investments	700,814	657,255
Impairment losses on financial investments	11.1 (206,745)	(193,668)
	<b>118,000,928</b>	<b>110,414,665</b>

i) 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, must 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.

- ii) The concession holding and regulated companies are obliged, in accordance with the concession contracts, to set up 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 -, since 2010, in compliance with the principle of unity of the State's treasury.

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:

	31.12.2012		31.12.2011	
	Capital Replenishment Fund	Equipment Renewal Fund	Capital Replenishment Fund	Equipment Renewal Fund
<b>UNA-PD</b>				
Águas do Algarve	8,267,571	-	8,267,571	-
Águas do Centro Alentejo	1,136,390	-	1,136,390	-
Águas do Centro	6,988,101	-	6,550,949	-
Águas do Douro e Paiva	10,393,840	-	9,585,482	-
Águas do Mondego	4,174,341	-	3,652,549	-
Águas do Norte Alentejano	2,177,301	-	2,177,301	-
Aguas do Noroeste	11,584,853	-	11,584,853	-
Águas do Oeste	7,734,118	-	6,502,943	-
Aguas de Santo André	279,868	2,677,885	171,739	3,828,261
Águas de Trás-os-Montes e Alto Douro	6,444,684	-	6,444,684	-
Águas do Zêzere e Côa	5,275,587	-	4,714,624	-
AgdA - Águas Públicas Alentejo	-	-	-	-
Sanest.	7,543,503	-	7,092,656	-
Simarsul	4,865,147	-	4,865,147	-
Simdouro	468,043	-	224,510	-
Simlis	1,917,709	-	1,834,404	-
Simria	4,170,419	-	3,831,452	-
Simtejo	6,870,161	-	5,875,479	-
	<b>90,291,636</b>	<b>2,677,885</b>	<b>84,512,733</b>	<b>3,828,261</b>
<b>UNR</b>				
Algar	4,773,414	-	4,452,226	-
Amarsul	4,363,612	-	3,987,340	-
Empresa Geral do Fomento	-	-	-	-
Ersuc	2,763,479	-	2,444,784	-
Resiestrela	817,021	-	612,766	-
Resinorte	918,033	-	655,738	-
Resulima	1,504,572	-	1,391,882	-
Suldouro	2,003,424	-	1,848,249	-
Valnor	2,174,007	-	1,847,924	-
Valorlis	1,226,907	-	1,142,817	487,424
Valorminho	553,911	-	515,457	-
Valorsul	3,024,000	-	2,016,000	-
	<b>24,122,380</b>	<b>-</b>	<b>20,915,183</b>	<b>487,424</b>
<b>Corporate</b>				
AdP SGPS	414,958	-	207,478	-
	<b>414,958</b>	<b>-</b>	<b>207,478</b>	<b>-</b>
	<b>114,828,974</b>	<b>2,677,885</b>	<b>105,635,394</b>	<b>4,315,685</b>

(I) The amount presented in AdP SGPS refers to the sums received from the subsidiaries Simlis, Valorminho and Valorlis and which were invested with IGCP - Instituto de Gestão e Crédito Público (Agency that manages the Treasury and Public Debt). 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

	<b>31.12.2012</b>
Opening balance	(193,668)
Increase	(13,077)
<b>Closing balance</b>	<b>(206,745)</b>

## 12. Investments in associates

	<b>31.12.2012</b>	<b>31.12.2011</b>
Miese	208,783	186,783
Águas de Timor	5,001	5,001
<b>213,784</b>	<b>191,784</b>	

Investments in associates are presented as 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 such effectively ends. Associates are entities in which the Group holds between 20% and 50% of the voting rights, or on which the Group has significant influence but cannot exert its control.

The increase in the associate Miese refers to shareholder loans that were later transferred to additional capital contributions in the amount of 22,000 euros.

## 13. Deferred taxes

	<b>31.12.2012</b>	<b>31.12.2011</b>
Deferred tax asset	267,531,026	251,961,551
Deferred tax liability	319,475,539	308,535,750
	<b>319,475,539</b>	<b>308,535,750</b>

## 13.1 Movements in the period

	Opening balance	Corrections	Allocation	Utilisation	Closing balance
<b>Deferred Tax Assets</b>					
Provisions					
Provisions - risks and charges	34,046,041	(29,199,781)	340,851	(2,068,822)	3,118,289
Provisions - impairment losses	-	13,216,235	4,117,033	(6,633,006)	10,700,262
Provisions - pensions	-	9,390,910	106,000	(2,378,868)	7,118,042
Provisions - others	-	1,193,661	47,656	(42,673)	1,198,644
Losses					
Other	-	-	-	-	-
Amortisation not accepted as valid/ unrealised contractual investment	716,719,987	(26,681,555)	68,279,896	(12,827,880)	745,490,448
Tax/ accounting/ grant amortisation difference	21,229,150	95,322,228	10,238,393	(17,624,863)	109,164,908
Amortised cost					-
Tariff deviation	121,678,168	(26,060,678)	24,927,908	-	120,545,398
Transition Adjustments - Investment Grants	-	9,101,606	4,270	(406,915)	8,698,961
Others (detail others in commentary)	288,631	3,898,956	1,851,345	(230,803)	5,808,129
<b>Assessment base</b>	<b>906,248,500</b>	<b>50,060,571</b>	<b>117,597,800</b>	<b>(47,095,458)</b>	<b>1,026,811,413</b>
Corporate income tax	233,859,774	(9,233,017)	29,807,710	(11,877,534)	242,556,933
Municipal surtax	18,101,777	5,254,257	2,908,092	(1,290,033)	24,974,093
<b>Recognised deferred tax assets</b>	<b>251,961,551</b>	<b>(3,978,760)</b>	<b>32,715,802</b>	<b>(13,167,567)</b>	<b>267,531,026</b>
Deferred tax liabilities	-	-	-	-	-
Revaluations	-	-	-	-	-
Tax revaluations	26,832,551	(86)	618,172	(1,409,879)	26,040,758
Free revaluations	-	118,595,359	-	(6,063,045)	112,532,314
Reinvestment of capital gains	174,527	-	-	(4,877)	169,650
Other	-	-	-	-	-
Amortisation not accepted as valid/ unrealised contractual investment	543,222,131	(65,465,779)	14,289,795	(36,257,420)	455,788,727
Tax/ accounting/ grant amortisation difference	10,116,993	52,128,802	1,829,375	(13,203,293)	50,871,877
Tariff deviation	430,200,078	5,246,378	81,223,604	(547,986)	516,122,074
Others (detail others in commentary)	135,954,322	(128,063,779)	126,042	(2,378,098)	5,638,487
<b>Assessment base</b>	<b>1,146,500,602</b>	<b>(17,559,105)</b>	<b>98,086,988</b>	<b>(59,864,598)</b>	<b>1,167,163,887</b>
Corporate income tax	287,081,388	(6,260,208)	24,399,169	(13,764,154)	291,456,195
Municipal surtax	21,454,362	6,543,962	1,636,646	(1,615,626)	28,019,344
<b>Recognised deferred tax liabilities</b>	<b>308,535,750</b>	<b>283,754</b>	<b>26,035,815</b>	<b>(15,379,780)</b>	<b>319,475,539</b>

The significant increase in deferred tax assets and liabilities is explained, in addition to the normal variations of the provisions, revaluations and tax losses headings, by the application of IFRIC 12, where there are significant timing differences between accounting and tax amortisation, and with equivalent impact on the deferred tax associated with investment grants. It should also be noted in this item that the deferred tax assets and liabilities of tariff deviations are registered (see note 15). The "deferred tax liabilities - others" heading reports a significant value from the EPAL subsidiary, resulting from the revaluation of the tangible fixed assets in 2010, in the transition to international standards.

The following table shows the reconciliation of deferred taxes on the balance sheet with the deferred taxes reported on the income statement in the amount of 9,921,629 euros.

	<b>31.12.2012</b>
Tax asset movements in the year	15,569,475
Tax liabilities movement in the year	(10,939,789)
Reclassification of tariff deviation tax without impact on profit	i) 5,291,943
<b>Tax recognised in profit</b>	<b>9,921,629</b>

- i) The Company, in the 2012 financial year, recalculated deferred taxes on tariff deviations and tariff surpluses with respect to the tax rate applied. This recalculation did not affect the profit. The outcome was a reclassification of the deferred tax and tariff deviation/ surplus (see note 15.1).

There are a number of Group companies with expected profits in the future that will not permit the recovery of the deferred tax assets generated by the reported losses, therefore no deferred tax assets were calculated:

Tax losses not indicated as deferred taxes (by expiry date)	<b>31.12.2012</b>
2013	3,824,745
2014	16,134,090
2015	12,712,540
2016	184,485
2017	10,339,922
2018	3,699,627
	<b>46,895,409</b>

## 14. Derivatives

	<b>31.12.2012</b>	<b>31.12.2011</b>
Asset swaps	(1,124,899)	16,248,188
Exchange impact of JPY's	(3,930,822)	(17,840,138)
<b>Net impact</b>	<b>(5,055,721)</b>	<b>(1,591,950)</b>
Liability swaps	(54,624,093)	(36,864,383)
	<b>(59,679,814)</b>	<b>(38,456,333)</b>

Swap	Hedged risk	Notional	Mat.	Fair value <b>31.12.2012</b>	Fair value 31.12.2011	Change	In profits	In equity
Exchange rate	EUR/jpy exchange rate	100,000,000	2015	(1,124,899)	16,248,188	(17,373,087)	(17,373,087)	-
Currency exchange rate update		100,000,000	2015	(3,930,832)	(17,840,138)	13,909,305	13,909,305	-
<b>Sub-total</b>				<b>(5,055,731)</b>	<b>(1,591,950)</b>	<b>(3,463,782)</b>	<b>(3,463,782)</b>	-
Interest rate	Interest rate	50,000,000	2022	(11,150,000)	(9,725,000)	(1,425,000)	(1,425,000)	-
Interest rate	Interest rate	75,000,000	2022	(28,275,433)	(18,470,438)	(9,804,995)	(9,804,995)	-
Interest rate	Interest rate	50,000,000	2023	(10,875,039)	(6,230,560)	(4,644,479)	-	(4,644,479)
Interest rate	Interest rate	20,000,000	2023	(4,323,611)	(2,438,386)	(1,885,225)	-	(1,885,225)
<b>Sub-total</b>				<b>(54,624,083)</b>	<b>(36,864,384)</b>	<b>(17,759,699)</b>	<b>(11,229,995)</b>	<b>(6,529,704)</b>
<b>Total</b>				<b>(59,679,814)</b>	<b>(38,456,333)</b>	<b>(21,223,481)</b>	<b>(14,693,778)</b>	<b>(6,529,704)</b>

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 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 their changes 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 by the discounted cash flow method determined by outside entities, based on accepted market valuing techniques. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is revalued on a regular basis and any resulting gains or losses are recorded directly in the income statement for the period, except in relation to hedge derivatives. Recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

## 15. Tariff deviation

	<b>31.12.2012</b>	<b>31.12.2011</b>
Regulatory asset - gross tariff deviation	508,207,171	430,171,545
Regulatory liabilities - gross tariff	(120,156,451)	(112,488,776)
<b>Total</b>	<b>388,050,720</b>	<b>317,682,770</b>

### 15.1 Reconciliation of gross tariff deviations

It was observed in 2012 that some subsidiaries had made direct prior-year adjustments to equity. The calculation of tariff deviations was not applied to these adjustments in the same period, so the Company undertook their recalculation and respective reporting in the accounts. The table below shows the impact of these corrections on the Group's financial statements.

The movements of reclassification and for the year were as follows:

Reconciliation of gross tariff deviations	Tariff deviation - assets	Tariff deviation - liabilities	Net total deviation	In sales
<b>Balance as at 31.12.2011</b>	<b>430,171,545</b>	<b>(112,488,776)</b>	<b>317,682,770</b>	
2012 deficit and surplus	35.1.2	80,380,771	(24,729,077)	55,651,694 (55,651,694)
Corrections of share capital increase	35.1.2	9,854,720	(769,007)	9,085,713 (9,085,713)
Historical/ reclassification corrections		(12,199,865)	17,830,409	5,630,544 (495,045)
<b>Movements in 2012 financial year</b>	<b>78,035,626</b>	<b>(7,667,675)</b>	<b>70,367,951</b>	<b>(65,232,452)</b>
<b>Balance as at 31.12.2012</b>	<b>508,207,171</b>	<b>(120,156,451)</b>	<b>388,050,720</b>	<b>(65,232,452)</b>

The calculation methodology adopted by the Company to 31 December 2010 for determining the deferred tax assets and liabilities related to the tariff deviations considered the rate of income tax in force at the date of each year. Given that the deferred tax assets and liabilities must be wholly measured at the income tax rate in force on the closing date of each financial year, the Company considered the respective adjustment to be a reclassification in the financial year, by virtue of the contractual clauses that define the guaranteed income for the Group companies. This adjustment only affects the financial position of the AdP Group, namely through the reclassification of deferred tax assets and liabilities against the corresponding tariff deviation. Reclassifications were also made of the deviations in the year. The reason for these reclassifications is the fact that the subsidiaries have a prior-year balance that is opposite in nature to that generated in the same year; i.e. if a company has a tariff deviation liability accrued from previous years and in 2012 is records a tariff deviation asset, this is reclassified to liabilities, giving, in this way, the net accumulated amount to date. The same is true if the deviations are the contrary.

	ASSETS assets deficit	ASSETS deferred tax	LIABILITIES liabilities deficit	LIABILITIES deferred tax	Net impact on balance sheet	Impact on sales
<b>Water - Production and Purification</b>						
Águas do Algarve	14,025,858	-	-	(3,716,852)	10,309,006	1,745,788
Águas do Centro Alentejo	8,716,356	-	-	(2,309,834)	6,406,522	1,225,739
Águas do Centro	59,734,968	-	-	(15,829,767)	43,905,201	11,645,854
Águas do Douro e Paiva	1,218,911	-	-	(323,012)	895,899	942,372
Águas do Mondego	10,068,059	-	-	(2,668,036)	7,400,023	2,239,190
Águas do Norte Alentejano	30,616,882	-	-	(8,113,474)	22,503,408	3,986,864
Águas do Noroeste	95,410,389	-	-	(25,283,753)	70,126,636	15,186,091
Águas do Oeste	56,052,657	-	-	(14,853,954)	41,198,703	13,213,297
Águas de Trás-os-Montes e Alto Douro	69,843,795	-	-	(18,508,606)	51,335,189	2,483,039
Águas do Zêzere e Côa	49,674,725	-	-	(13,163,802)	36,510,923	7,841,729
Águas Públicas Alentejo	-	104,242	(393,366)	-	(289,124)	(1,397,302)
Sanest	-	6,712,013	(25,328,351)	-	(18,616,338)	378,627
Simarsul	33,955,462	-	-	(8,998,197)	24,957,265	7,406,731
Simdouro	6,093,039	-	-	(1,614,655)	4,478,384	2,920,351
Simlis	16,411,541	-	-	(4,349,058)	12,062,483	(413,982)
Simria	31,529,134	-	-	(8,355,221)	23,173,913	3,426,793
Simtejo	-	8,216,724	(31,006,504)	-	(22,789,780)	(6,290,636)
<b>Total Water - Production and Purification</b>	<b>483,351,776</b>	<b>15,032,979</b>	<b>(56,728,221)</b>	<b>(128,088,221)</b>	<b>313,568,313</b>	<b>66,540,545</b>
<b>Waste</b>						
Algar	-	1,317,219	(4,970,634)	-	(3,653,415)	479,626
Amarsul	-	1,939,483	(7,318,805)	-	(5,379,322)	(5,955,210)
Ersuc	-	1,303,136	(4,917,491)	-	(3,614,355)	2,843,592
Resiestrela	-	819,271	(3,091,590)	-	(2,272,319)	(913,506)
Resinorte	193,573	-	-	(51,296)	142,277	(1,725,846)
Resulima	-	808,674	(3,051,602)	-	(2,242,928)	(1,285,142)
Suldouro	-	2,071,772	(7,818,007)	-	(5,746,235)	(2,578,390)
Valnor	-	1,265,842	(4,776,761)	-	(3,510,919)	(491,047)
Valorlis	-	722,425	(2,726,132)	-	(2,003,707)	273,895
Valorminho	-	378,989	(1,430,145)	-	(1,051,156)	(300,171)
Valorsul	-	6,181,671	(23,327,063)	-	(17,145,392)	1,106,233
<b>Total Waste</b>	<b>193,573</b>	<b>16,808,482</b>	<b>(63,428,230)</b>	<b>(51,296)</b>	<b>(46,477,471)</b>	<b>(8,545,966)</b>
<b>Water - Distribution and Collection</b>						
AdRA - Águas Região de Aveiro	24,661,822	-	-	(6,536,515)	18,125,307	7,237,873
<b>Total Water - Distribution and Collection</b>	<b>24,661,822</b>	<b>-</b>	<b>-</b>	<b>(6,536,515)</b>	<b>18,125,307</b>	<b>7,237,873</b>
<b>Total</b>	<b>508,207,171</b>	<b>31,841,461</b>	<b>(120,156,451)</b>	<b>(134,676,032)</b>	<b>285,216,149</b>	<b>65,232,452</b>

## 16. Trade receivables and other non-current assets

		<b>31.12.2012</b>	<b>31.12.2011</b>
Trade receivables	16.1	106,433,659	50,435,802
Investment grants - Cohesion Funds and others	31	33,962,440	50,852,766
Concession charges - additional investment	i)	37,863	17,744,251
Other	ii)	46,899,661	26,153,270
		<b>187,333,623</b>	<b>145,186,089</b>
Impairment losses	ii)/16.2	(1,355,551)	(2,524,489)
		<b>185,978,072</b>	<b>142,661,600</b>

i) Valorsul reported in the 2011 financial year concession charges that were being deferred for the concession period. These charges were reclassified as intangible assets in 2012, and are to be amortised in the same way.

ii) As a result of changes in the volume of investment stated in the initial concession contracts, the so-called modernisation or expansion investments arise in some cases that may provide residual value at the end of the concession period. The amounts shall be reimbursed by the Concession Granter or other entity that acquires the goods on this date. The recognised amounts mostly relate to Águas do Algarve in the amount of 9,529,182 euros (8,303,697 euros in 2011), Águas do Douro e Paiva in the amount of 10,881,860 euros (9,155,202 euros in 2011), Sanest in the amount of 13,771,063 euros (0 in 2011) and Valorlis in the amount of 4,362,651 euros (this latter was recorded in current assets in 2011). This item also includes the amount of 2,521,037 euros (2,729,037 euros in 2011) concerning the hedging excess of the pension plan (EPAL).

## 16.1 Trade receivables

	<b>31.12.2012</b>	<b>31.12.2011</b>
General	3,149,116	-
Municipalities	104,548,941	55,564,049
	<b>107,698,057</b>	<b>55,564,049</b>
Amortised cost (effective interest rate)	18.3	(1,264,398)
	<b>(1,264,398)</b>	<b>(5,128,248)</b>
	<b>106,433,659</b>	<b>50,435,802</b>

There was an increase in the non-current balance of trade accounts at the end of 2012 due to the increase in the number of payment arrangements concluded by the Group with its customers (municipalities).

In some cases and given the absence of interest payments on the arrears, the amortised cost was used and the effective discount rate of 8.0% used (8.4% on 31 December 2011).

The age of the balances of municipality customers is presented in note 18.3.

The table below shows the main subsidiaries with debts under the non-current customers heading, i.e. those amounts resulting from agreements signed with customers:

	<b>31.12.2012</b>	<b>31.12.2011</b>
Águas de Trás-os-Montes e Alto Douro	24,536,741	786,285
Simria	16,407,086	18,184,355
Simtejo	12,683,526	-
Amarsul	9,365,543	17,854,480
Simarsul	8,643,105	1,345,737
Águas do Oeste	5,619,907	-
Águas do Zêzere e Côa	4,395,111	1,704,591
AgdA - Águas Públicas Alentejo	3,932,662	-
Águas do Norte Alentejano	3,784,250	2,372,757
Simlis	3,427,534	220,048
Algar	2,859,095	1,345,028
Águas do Noroeste	2,278,133	76,052
Resiestrela	1,926,995	2,226,995
Valorsul	1,862,669	-
Águas do Centro	1,609,941	-
Resinorte	1,282,300	7,651,335
Valnor	1,004,231	842,927
Other subsidiaries with amounts less than 1,000,000 euros	2,079,228	953,461
	<b>107,698,057</b>	<b>55,564,049</b>
Amortised cost (effective interest rate)	(1,264,398)	(5,128,248)
	<b>106,433,659</b>	<b>50,435,802</b>

We can observe in the table above that the amount of non-current customer debts of the subsidiary Amarsul e Resinorte decreased significantly. This is due to agreements signed in 2011 not being complied with, meaning that these debts are now considered as current, as well as the reversal of the effect of amortised cost recognised in 2011.

## 16.2 Accumulated impairment losses on other non-current assets

	<b>31.12.2012</b>
<b>Opening balance</b>	(2,524,489)
Direct cancellation	i) 2,524,489
Reclassification	ii) (1,355,551)
<b>Closing balance</b>	<b>(1,355,551)</b>

- i) the amount of 2,524,489 euros was directly cancelled as an asset;
- ii) the amount of 1,355,551 euros relates to the subsidiary Simlis, that reclassified the impairment reported in previous years from current to non-current, in accordance with note 20.1.

## 17. Inventories

	<b>31.12.2012</b>	<b>31.12.2011</b>
Goods	234,710	368,002
Raw materials and consumables	6,716,012	6,742,519
Finished and intermediate products	978,372	982,450
Reclassification and correction of stocks	4,716	(7,691)
Accumulated impairment losses on inventories	17.1	(356,819)
	<b>7,576,991</b>	<b>(370,746)</b>
	<b>7,576,991</b>	<b>7,714,534</b>

## 17.1 Accumulated impairment losses on inventories

	<b>31.12.2012</b>
<b>Opening balance</b>	(370,746)
Increase	(8,570)
Reversals	22,497
<b>Closing balance</b>	<b>(356,819)</b>

## 18. Current trade receivables

	<b>31.12.2012</b>	<b>31.12.2011</b>
Trade receivables - current account	426,616,015	367,763,312
Trade receivables - interests on arrears	18.2	20,132,700
Doubtful debts	18,224,557	15,029,017
Estimate of services to be billed	26,048,870	21,127,756
Impairment losses on trade receivables	(16,210,672)	(12,969,464)
	<b>474,811,470</b>	<b>408,813,873</b>

## 18.1 Trade receivables

Current trade receivables		<b>31.12.2012</b>	<b>31.12.2011</b>
General	i)	53,219,154	54,873,214
Municipalities	18.3	411,754,118	345,782,366
Estimate of services to be billed		26,048,870	21,127,756
		<b>491,022,142</b>	<b>421,783,336</b>
Impairment losses on trade receivables	18.4	(16,210,672)	(12,969,464)
		<b>474,811,470</b>	<b>408,813,873</b>

A significant increase of customers' debts was found in 2012, as in the previous 2 years,, with the consequent worsening of the average maturity of receivables.This increase is essentially due to the added difficulties that customers – municipalities – have in the payment of their debts. Note 18.3 indicates the most significant debts by municipality as at 31 December 2012.The subsidiaries where there was a more significant increase in the average maturity of receivables were Simtejo, Águas do Algarve, Águas do Zêzere e Côa, Águas de Trás-os-Montes e Alto Douro, Simarsul, Águas do Centro Alentejo, Amarsul, Águas Públicas do Alentejo and Algar-

i) In terms of general trade accounts, the main subsidiaries that contributed to this balance are:

General trade receivables		<b>31.12.2012</b>	<b>31.12.2011</b>
EPAL		15,226,214	16,763,307
Valorsul		7,971,130	8,511,988
AdRA - Águas da Região de Aveiro		5,139,350	6,756,415
Amarsul		4,297,812	4,590,989
Águas de Santo André		2,714,806	2,493,083
AdP Internacional		2,397,400	1,838,687
Valnor		1,595,191	1,244,120
Other		13,877,251	12,674,625
		<b>53,219,154</b>	<b>54,873,214</b>

It is to be noted that a large portion or almost all of the business operations of EPAL, AdRA - Águas da Região de Aveiro and Águas de Santo André are with end customers. Also, part of the debt of the waste companies is with private customers, such as Sociedade Ponto Verde,Tratolixo and/or companies of the energy sector.

## 18.2 Interest on arrears

Trade receivables - interests on arrears		<b>31.12.2012</b>	<b>31.12.2011</b>
General		64,187	1,175,963
Municipalities		20,068,513	16,687,288
		<b>20,132,700</b>	<b>17,863,251</b>

## 18.3 Trade receivables - Municipalities

Reconciliation of the debts of current and non-current trade accounts with the table of debts by municipality:

	<b>31.12.2012</b>	<b>31.12.2011</b>
<b>Non-current municipality trade receivables</b>		
Municipality trade receivables - Water Resource Levy	-	487,482
Municipality trade receivables - Agreements	104,548,941	55,076,567
Municipality trade receivables - Others	-	-
<b>Total non-current municipality trade receivables</b>	<b>104,548,941</b>	<b>55,564,049</b>
Discount of trade receivables debts	(1,264,398)	(5,128,248)
<b>Total non-current municipalities at discounted value</b>	<b>103,284,543</b>	<b>50,435,802</b>
<b>Current municipality trade receivables</b>		
Municipality trade receivables - Water Resource Levy	4,948,063	6,368,434
Municipality trade receivables - Agreements	37,583,268	36,816,750
Municipality trade receivables - Injunctions	62,319,285	76,106,521
Municipality trade receivables - Others	279,091,626	202,611,200
Municipality trade receivables - Interest on arrears	20,068,513	16,687,288
Municipality trade receivables - Doubtful collection	7,386,976	7,171,070
Municipality trade receivables	356,387	21,102
	<b>411,754,118</b>	<b>345,782,365</b>
Impairment on trade receivables - Municipalities	(7,386,976)	(7,171,070)
<b>Total current municipality trade receivables</b>	<b>404,367,142</b>	<b>338,611,295</b>
<b>Net total municipalities</b>	<b>507,651,685</b>	<b>389,047,097</b>
<b>Total municipality trade receivables nominal value</b>	<b>508,916,083</b>	<b>394,175,344</b>

Debts by municipal entities owing more than 2,000,000 euros:

	Outstanding N-2	Outstanding N-1	Outstanding at N	Total Outstanding	Total not yet matured	Total debt <b>31.12.2012</b>	Total debt 31.12.2011
Lisboa	79,643	13,745,372	28,209,742	42,034,758	6,015,396	48,050,154	22,987,924
Albufeira	276,846	8,148,245	7,944,615	16,369,705	4,399,174	20,768,879	15,827,491
Évora	6,123,018	7,069,974	6,316,475	19,509,468	1,186,668	20,696,136	14,389,181
Chaves	3,752,642	1,538,969	4,342,507	9,634,117	9,510,523	19,144,640	13,456,521
Seixal	2,941,003	3,145,178	6,944,062	13,030,242	3,871,025	16,901,267	11,804,199
Loures	-	-	1,649,808	1,649,808	12,108,307	13,758,115	14,374,247
Ambiolhão, EM	-	1,408,473	4,630,539	6,039,012	7,367,448	13,406,460	1,670,267
Fundão	5,746,304	2,566,636	2,539,343	10,852,284	1,374,559	12,226,843	9,799,605
Loulé	436,272	5,185,726	2,919,297	8,541,295	2,726,196	11,267,491	8,666,279
Lagos	-	5,349,480	4,734,262	10,083,741	918,864	11,002,605	6,798,524
Guarda	864,187	2,711,325	3,542,160	7,117,671	3,841,410	10,959,081	8,081,999
Setúbal	4,093,616	2,487,715	2,112,596	8,693,927	407,204	9,101,131	7,242,019
Barreiro	-	213,000	289,158	502,158	7,605,610	8,107,768	7,017,668
Aveiro	13,727	55,382	499,620	568,730	6,981,551	7,550,281	7,406,373
Vila Real	848,558	183,634	902,546	1,934,738	5,197,111	7,131,849	5,718,687
Alenquer	2,258,736	1,881,167	1,954,560	6,094,463	642,161	6,736,624	6,528,070
VRSA SGU EM, SA	-	2,715,502	3,268,038	5,983,540	371,358	6,354,898	3,111,247
Vila Real Santo António	560,111	4,846,923	672,468	6,079,503	91,539	6,171,042	5,818,476
Palmela	-	-	492	492	5,869,339	5,869,831	4,499,339
Lagoa	2,227,120	2,788,628	159,143	5,174,892	608,443	5,783,335	7,209,245
Santa Maria da Feira	2,668	-	-	2,668	5,699,283	5,701,951	4,177,647
Macedo de Cavaleiros	552,719	169,311	1,214,949	1,936,978	3,708,742	5,645,720	3,174,475
Trofa	2,070,104	1,027,216	1,975,663	5,072,983	415,650	5,488,633	2,977,854
Leiria	-	127,366	311,827	439,192	5,038,207	5,477,399	1,593,492
Alcobaça	2,066,535	593,386	498,332	3,158,253	2,270,345	5,428,598	5,234,510
Águas da Covilhã, EM	3,055,691	1,045,975	1,118,425	5,220,091	162,989	5,383,080	i)
Mirandela	-	282,831	1,491,470	1,774,301	3,552,721	5,327,022	2,975,667
Nazaré	2,064,263	1,246,280	1,331,539	4,642,083	606,912	5,248,995	4,009,711
Lamego	1,505	331,724	1,923,091	2,256,320	2,796,681	5,053,001	1,568,543
Tavira verde, EM	1,982,683	586,228	1,877,117	4,446,028	388,196	4,834,224	4,764,232
Odivelas	-	-	23,015	23,015	4,763,116	4,786,131	3,485,897
Sesimbra	-	-	261,324	261,324	4,366,390	4,627,714	4,002,556
Portalegre	29,740	348,271	204,690	582,700	3,918,449	4,501,149	3,458,098
FAGAR, EM	-	176,705	1,041,953	1,218,658	3,181,619	4,400,277	4,282,303
Caminha	2,070,115	349,266	323,256	2,742,637	1,524,610	4,267,247	4,474,682
Coimbra	975,770	7,635	11,499	994,904	3,107,119	4,102,023	2,886,354
Sintra	2,185,656	-	-	2,185,656	1,665,250	3,850,906	5,001,755
Vila Nova de Gaia	-	-	2,075,415	2,075,415	1,726,995	3,802,410	2,289,727
Reguengos de Monsaraz	1,129,868	1,178,244	1,109,367	3,417,479	183,966	3,601,445	2,518,342
Azambuja	656,530	896,324	514,760	2,067,614	1,474,734	3,542,348	3,583,371
Arruda dos Vinhos	862,182	1,359,423	773,643	2,995,249	249,191	3,244,440	2,778,619
Valpaços	1,046,391	720,526	1,116,617	2,883,534	263,610	3,147,144	2,529,375
Alcochete	391,629	906,539	1,097,506	2,395,675	726,313	3,121,988	2,285,331
Alijó	129,205	148,979	84,424	362,608	2,659,615	3,022,223	1,898,039
Seia	-	1,527,624	1,143,668	2,671,292	342,520	3,013,812	2,044,331
Sabugal	-	1,629,008	858,711	2,487,719	258,925	2,746,644	1,991,984
Moita	-	2,273	218,233	220,505	2,342,697	2,563,202	1,833,474
Viana do Castelo	-	-	533,517	533,517	1,900,929	2,434,446	955,793
Ovar	-	(1,542)	39,459	37,918	2,395,333	2,433,251	2,397,410
Gouveia	980,520	899,662	378,004	2,258,186	169,219	2,427,405	2,157,380
Peso da Régua	163,901	196,199	997,936	1,358,037	1,063,686	2,421,723	1,289,206
Bombarral	-	11,833	63,429	75,262	2,270,333	2,345,595	1,815,370
Torres Vedras	-	454,910	567,667	1,022,577	1,280,258	2,302,835	1,776,914
Estarreja	34,010	73	20,433	54,515	2,145,777	2,200,292	2,249,997
Vendas Novas	-	-	520,441	520,441	1,671,804	2,192,245	961,383
Moimenta da Beira	2,903	245,181	494,488	742,572	1,446,043	2,188,615	1,422,178
Figueira C Rodrigo	219,779	1,222,320	506,827	1,948,926	186,754	2,135,680	2,263,959
Penamacor	18,550	-	187,152	205,702	1,909,520	2,115,222	2,142,483
Sobral de Monte Agraço	300,193	821,180	802,176	1,923,549	150,495	2,074,044	1,520,228
Óbidos	110,403	793,660	285,605	1,189,668	851,849	2,041,517	2,572,513
Trade accounts with balance of less than 2,000,000 euros	9,124,666	14,037,692	26,629,844	49,792,202	52,892,855	102,685,057	106,422,801
	<b>62,449,962</b>	<b>99,383,631</b>	<b>138,258,903</b>	<b>300,092,497</b>	<b>208,823,586</b>	<b>508,916,083</b>	<b>394,175,344</b>

When applicable, the balances presented also include the outstanding balances of municipal companies.

i) In December 2011, Covilhã Municipality had a debt totalling 4,249,011 euros that was classified under General Trade Receivables.

Given the maturity of debt (2 years) the Group companies have been using the legal mechanisms available to ensure the recoverability of the amounts in question.

A Programme to Support the Local Economy (PAEL) was approved by the Council of Ministers of 14 June 2012. This plan aims to settle the debts of municipalities that are more than 90 days overdue, registered with the Directorate-General of Local Government by 31 March 2012.

The PAEL covers all payments of the municipalities more than 90 days overdue, irrespective of their commercial or administrative nature. The municipalities agreeing to sign this programme conclude a loan agreement with the State pursuant to the terms and conditions defined in this program.

The general limits of medium and long-term indebtedness, as established in the Local Finances Law, do not restrict the contracting of loans under this law. The fund available for the financing of the PAEL is 1,000,000,000 euros. There are 263 municipalities that may benefit from the agreement signed between the Government and local government.

The PAEL is divided in two programs: the first is directed at local governments in a situation of structural disequilibrium and with a request for financial re-equilibrium presented to the State. In this case, the amount loaned can be up to 100 percent of the debts. The second is directed at debts behind schedule, at least 90 days overdue, and the contracts can cover between 50 and 90 percent of the debts.

The local governments signing a contract under the PAEL have to comply with a set of obligations, including fines in the event the debt increases while the contract is in force.

The Board of Directors of the AdP Group has closely monitored (together with the "interested parties") these negotiations, and it is optimistic regarding the outcome of this process. It is expected that a significant portion of the debts of customers of the Group are settled when these contracts are signed and the funds made available to the municipalities by Central Government.

## 18.4 Impairment losses on trade receivables

Impairment losses on trade receivables	31.12.2012	31.12.2011
<b>Opening balance</b>	<b>(12,969,464)</b>	<b>(9,139,322)</b>
Increase	(4,834,892)	(4,052,437)
Decrease	2,468	5,748
Reclassification	1,159	-
Reversals	1,589,301	216,196
Conversion differences	756	351
<b>Closing balance</b>	<b>(16,210,672)</b>	<b>(12,969,464)</b>

The increase of the impairment of current trade receivables in 2012 primarily occurred in the following subsidiaries:

	<b>31.12.2012</b>	<b>31.12.2011</b>
Águas do Algarve	(1,081,294)	-
Águas de Santo André	(929,675)	(1,204,798)
AdRA - Águas da Região de Aveiro	(887,208)	(325,112)
Águas do Noroeste	(721,386)	(1,257,503)
EPAL	(569,110)	(505,853)
Resinorte	(357,662)	-
Águas do Centro	(118,351)	(158,190)
Águas do Mondego	-	(350,119)
Other subsidiaries	(170,206)	(250,863)
	<b>(4,834,892)</b>	<b>(4,052,437)</b>

## 19. State and other public entities

	<b>31.12.2012</b>	<b>31.12.2011</b>
Income tax of third parties withheld at source	2,698,206	2,451,170
VAT receivable	6,831,105	11,462,049
Other	432,681	292,134
State and other public entities - Assets	9,961,992	14,205,353
Tax withheld on behalf of third parties - Income Tax	(1,129,460)	(1,453,010)
VAT payable	(2,131,444)	(2,401,796)
Social security contributions	(1,809,444)	(1,817,644)
Local government contribution	(58,209)	(45,469)
Water Resource Levy/ Waste Management Tax	(22,151,649)	(21,951,149)
Other taxes and other duties	(1,298,295)	(1,531,248)
State and other public entities - Liabilities	(28,578,501)	(29,200,317)
<b>Net value of State and other public entities balances</b>	<b>(18,616,509)</b>	<b>(14,994,964)</b>

A sharp increase was recorded in the "State and other public entities - assets" item, specifically in relation to value added tax (VAT recoverable), which is directly linked to the reduction in investment in infrastructure in the 2012 financial year.

## 20. Other current assets

	<b>31.12.2012</b>	<b>31.12.2011</b>
Advances to trade payables	1,095,729	747,692
Personnel	500,053	314,387
Financial leasing	40,357	37,063
Loans to associates not consolidated	1,397,809	1,819,945
Other receivables	i) 81,389,826	89,171,110
Investment grants - Cohesion Fund and other	ii) 86,952,951	138,446,050
Advance payments to investment suppliers	iii) 567,451	1,711,731
Deferrals	iv) 9,892,814	8,271,280
Accumulated impairment losses	20.1 (6,485,446)	(7,535,991)
	<b>175,351,544</b>	<b>232,983,266</b>
Debt discount	-	2,753,711
	<b>175,351,544</b>	<b>235,736,978</b>

i) The “Other receivables” item includes the increase in accrued interest income on debts that are in litigation, and which will be billed based on the decision of the courts. It includes, in particular, the subsidiaries Águas do Centro Alentejo in the amount of 1,814,744 euros in 2012 (729,524 euros in 2011) and Águas do Zêzere e Côa in the amount of 2,059,383 euros (930,327 euros in 2011). The recognition of funds receivable for the removal of sludge, amounting to 3,085,674 euros was also found in the subsidiary Águas de Santo André; in the subsidiary Simtejo two fines were charged to the construction consortium of the Alcântara Wastewater Treatment Plant, in the amount of 1,826,965 euros.

Moreover, this item decreased through the receipt in the first half of 2012 by the Group's holding of the gain receivable through the Special Tax Scheme amounting to 2,102,305 euros; the subsidiary Amarsul cancelled the debt of AGNI amounting to 2,064,344 euros, against the impairment that had already been established in previous years; the subsidiary Resiestrela reclassified the amount of 1,580,390 euros to the Cohesion Fund, which was incorrectly recorded in other debtors; the subsidiary Sanest received the amount of 852,672 euros from SMAS Sintra relative to the protocol to eradicate discharges in the bays of Carenque, Barcarena and Jamor and it received 1,486,327 euros from Cascais, Sintra and Oeiras municipal councils for the settlement agreement signed by both parties; the subsidiary Simlis reclassified to “non-current debts” those of the municipalities related with the downstream agreements, in the amount of 2,786,303 euros; and the subsidiary Valorlis undertook the reclassification to “other non-current assets” of the amount of 4,362,651 euros relative to the residual value of expansion and modernisation equipment (see note 16 ii)).

ii) The subsidiaries with sums receivable from the Cohesion Fund are the following:

Investment grants - Cohesion Fund and other	31.12.2012	31.12.2011
Águas do Algarve	6,933,622	10,779,621
Águas do Centro Alentejo	4,271,925	10,641,126
Águas do Centro	2,013,617	2,507,742
Águas do Mondego	6,229,307	-
Águas do Norte Alentejano	2,032,555	12,228,913
Águas do Noroeste	19,877,509	31,495,550
Águas do Oeste	13,494,319	20,201,463
Águas de Trás-os-Montes e Alto Douro	2,991,470	4,648,285
Águas do Zêzere e Côa	5,966,506	10,513,131
AgdA - Águas Públicas Alentejo	4,544,004	5,000,201
Algar	1,578,645	1,490,333
Amarsul	2,418,048	820,936
Ersuc	856,944	5,274,514
Resiestrela	866,995	-
Resinorte	928,504	3,037,261
Simarsul	766,649	1,446,185
Simdouro	1,814,160	-
Simria	2,762,566	2,759,380
Simtejo	2,067,938	9,138,068
Suldouro	1,994,805	2,141,118
Valorlis	2,542,863	4,322,223
	<b>86,952,951</b>	<b>138,446,050</b>

The change in this item is due to the receipt of part of the funds in 2012 (see note 31.i) and the recognition in 2012 of funds to be received in the future.

iii) A decrease in advances to investment suppliers has been observed since 2011 because part of the investments that were planned for 2012 were postponed to 2014 and 2015. Accordingly, the advances that existed in 2010 and 2011 were cancelled on the termination of these investments. In the table below we see details per subsidiary of the advances existing as at 31 December 2012:

Advance payments to investment suppliers	31.12.2012	31.12.2011
Águas do Algarve	-	61,677
Águas do Noroeste	206,230	206,230
Águas do Oeste	13,156	514,174
Algar	-	186,352
Amarsul	348,065	569,961
Resulima	-	101,027
Suldouro	-	72,311
	<b>567,451</b>	<b>1,711,731</b>

iv) Registered in the "deferrals" item are the deferrals of expenditure on insurance, rent, maintenance, etc.

## 20.1 Impairment losses on other current assets

	31.12.2012
<b>Opening balance</b>	<b>(7,535,991)</b>
Increases	(2,807,291)
Reversals	-
Reduction (direct to debt)	i) 3,407,009
Reclassification	ii) 450,827
<b>Closing balance</b>	<b>(6,485,446)</b>

i) The reductions refer to the uses of impairment directly to debt.

	31.12.2012
Amarsul	2,064,344
Algar	1,342,665
	<b>3,407,009</b>

ii) The reclassifications relate to the following subsidiaries:

	31.12.2012
Águas do Algarve	a) (904,724)
Simlis	b) 1,355,551
	<b>450,827</b>

- a) The Águas do Algarve subsidiary reclassified the sum of 904,724 euros that was registered in "impairment of other current assets" to "provisions for other risks and charges" (see note 26.1);
- b) Since the debt balance is recorded in "other non-current assets", the subsidiary Simlis reclassified the impairment of this amount to the non-current item (see note 16.2).

## 21. Cash and cash equivalents

	<b>31.12.2012</b>	31.12.2011
Cash	2,012,376	678,249
Current accounts	55,374,838	47,586,672
Term deposits	211,293,197	238,008,654
Other securities	66,600,000	-
	<b>335,280,411</b>	<b>286,273,575</b>

The increase of the cash balance is directly related to cheques that had not been drawn at the time of the accounting close.

Recorded under the "other securities" item is the purchase of bonds from BES at 3 to 6 months with a fixed interest rate.

The increased cash resources is largely due to the Cohesion Fund receipts at the end of the year by some subsidiaries, which will be used to cut the short-term bank debt. It is also due, to a lesser degree, to funds received from EIB III.

## 22. Share capital

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

	<b>31.12.2012</b>	31.12.2011		
	Value	%	Value	%
Parpública, SGPS, S.A.	313,613,590	72.18%	313,613,590	72.18%
Parcaixa, SGPS, S.A.	82,555,000	19.00%	82,555,000	19.00%
Direção-Geral do Tesouro	38,331,410	8.82%	38,331,410	8.82%
	<b>434,500,000</b>	<b>100.00%</b>	<b>434,500,000</b>	<b>100.00%</b>

### 22.2 Earnings per share

	<b>31.12.2012</b>	31.12.2011
Net profit for financial year	93,841,091	89,602,511
Average number of shares	86,900,000	86,900,000
Earnings per share (basic and diluted)	<b>1.08</b>	<b>1.03</b>

## 23. Reserves and other adjustments

	<b>31.12.2012</b>	31.12.2011
Legal Reserve	12,888,142	11,530,460
Free Reserve	-	-
Fair value reserve negative hedging instruments	i) (6,529,704)	-
Currency conversion reserve	ii) 109,687	(33,308)
	<b>6,468,125</b>	<b>11,497,153</b>

i) The financial instruments linked with Depfa loans (Notional 50 million euros and 20 million euros), are regarded as cash flow hedging instruments, and thus the relevant change in fair value is recognised directly in equity from 1 January 2012. The effectiveness of the instruments was evaluated and the results were within the 80% to 125% range.

	<b>31.12.2011</b>	<b>Increases/ Reductions</b>	<b>Dividends</b>	<b>Appropriation of net profit</b>	<b>31.12.2012</b>
Legal Reserve	11,530,460	-	-	1,357,682	12,888,142
Free Reserve	-	-	-	-	-
Fair value reserve negative hedging instruments	(6,529,704)				(6,529,704)
Currency conversion reserve	(33,308)	142,995	-	-	109,687
	<b>11,497,153</b>	<b>(6,386,709)</b>		<b>1,357,682</b>	<b>6,468,125</b>
Retained earnings	220,702,587	97,280	(15,000,000)	88,244,829	294,044,696
Net profit	89,602,511	93,841,091	-	(89,602,511)	93,841,091
	<b>310,305,098</b>	<b>93,938,371</b>	<b>(15,000,000)</b>	<b>(1,357,682)</b>	<b>387,885,787</b>
	<b>321,802,251</b>	<b>87,551,662</b>	<b>(15,000,000)</b>		<b>394,353,912</b>

ii) Currency conversion reserve

	<b>31.12.2012</b>	<b>31.12.2011</b>
<b>Opening balance</b>	<b>(33,308)</b>	<b>89,429</b>
Movements in the year:		
- Águas do Brasil	58,665	49,267
- Aquatec	84,330	(172,004)
<b>Closing balance</b>	<b>109,687</b>	<b>(33,308)</b>

## 24. Retained earnings

	<b>31.12.2012</b>
<b>Opening balance</b>	<b>220,702,587</b>
Appropriation of net profit of 2011	88,244,829
Dividends paid	(15,000,000)
Other changes	97,280
<b>Closing balance</b>	<b>294,044,696</b>

## 25. Non-controlling interests

	<b>31.12.2012</b>
<b>Opening balance</b>	<b>278,136,832</b>
Dividends paid out	(6,029,178)
Appropriation of net profit of 2011	30,528,742
Historical deviation correction	(97,280)
Capital paid in	4,508,803
<b>Closing balance</b>	<b>307,047,919</b>

i) The following table shows the subsidiaries where share capital increases occurred:

	Capital paid in
Águas do Douro e Paiva	735,000
Águas do Noroeste	909,861
Águas do Oeste	266,030
Simdouro	2,597,912
	<b>4,508,803</b>

## 26. Provisions

	31.12.2012	31.12.2011
Taxes	30,000	95,183
Legal proceedings	575,554	557,673
Industrial accidents	147,406	154,578
Other	12,152,014	14,892,263
	<b>12,904,974</b>	<b>15,699,696</b>

### 26.1 Movements in the period

	31.12.2011	Increases	Reclassification	Reversals	Exchange rate	31.12.2012
Taxes	95,183	32,027	-	(97,210)	-	30,000
Legal proceedings	557,673	253,625	23,767	(257,845)	(1,666)	575,554
Industrial accidents	154,578	-	-	(7,172)	-	147,406
Other	14,892,263	1,608,913	(926,882)	(3,421,291)	(989)	12,152,014
	<b>15,699,696</b>	<b>1,894,565</b>	<b>(903,115)</b>	<b>(3,783,518)</b>	<b>(2,655)</b>	<b>12,904,974</b>

The companies that contributed to the movements under provisions - other, were:

	<b>31.12.2011</b>	<b>Increase</b>	<b>Reclassification</b>	<b>Reversals</b>	<b>Exchange rate</b>	<b>31.12.2012</b>
Águas do Algarve	856,618	126,167	(904,274)	-	-	78,511
Águas do Douro e Paiva	-	81,938	-	-	-	81,938
Águas do Mondego	-	30,000	-	-	-	30,000
Águas do Norte Alentejano	46,918	-	-	-	-	46,918
AdP SGPS	5,528,774	956,210	-	(1,158,018)	-	5,326,966
AdP Internacional	1,327,455	177,192	-	-	-	1,504,647
AdP Serviços	833,637	-	-	(494,740)	-	338,897
Águas de Santo André	2,173,410	30,000	-	(724,082)	-	1,479,328
Algar	-	47,051	-	-	-	47,051
Aquatec	23,597	-	(22,608)	-	(989)	-
Empresa Geral do Fomento	1,751,130	-	-	(194,451)	-	1,556,679
EPAL	1,572,000	-	-	(850,000)	-	722,000
Ersuc	155,112	-	-	-	-	155,112
Sanest	340,378	30,000	-	-	-	370,378
Simlis	283,234	39,562	-	-	-	322,796
Simria	-	30,000	-	-	-	30,000
Suldouro	-	30,793	-	-	-	30,793
Valorlis	-	30,000	-	-	-	30,000
<b>Total</b>	<b>14,892,263</b>	<b>1,608,913</b>	<b>(926,882)</b>	<b>(3,421,291)</b>	<b>(989)</b>	<b>12,152,014</b>

The increase in other provisions is primarily due to the holding of the AdP Group, where the provision for other liabilities was increased by the amount of 956,210 euros; this is related to the existence of legal contingencies, which were reversed during the year in the amount of 1,158,018 euros, having been recorded in the subsidiaries themselves.

The other increases in the Group's subsidiaries relate to provisions for legal contingencies associated with the change in the tax period of some transition adjustments. The provision set up by the subsidiary AdP Internacional is for possible loss in the collection of a customer debt.

The AdP Serviços subsidiary reversed the provision in the amount of 494,740 euros regarding legal proceedings with a supplier, as both parties reached an agreement in the first half of 2012.

The EPAL subsidiary reduced provisions in the amount of 850,000 euros, after a detailed analysis of the legal proceedings it is party to, it found that these provisions were excessive for the existing liabilities.

## 27. Pension liabilities

	<b>31.12.2012</b>	<b>31.12.2011</b>
EPAL pensions fund	9,639,079	12,119,946
EGF pensions fund	-	-
	<b>9,639,079</b>	<b>12,119,946</b>

The overall liabilities (EPAL) are covered by assets of the pension fund and a specific provision recorded in liabilities, in the amount of 9,639,079 euros. Non-current assets (note 16) record an excess of coverage for the defined benefits plan in the amount of 2,521,037 euros. The difference between these two amounts corresponds to the value presented in note 27.1.2 as provision for liabilities.

## 27.1 Defined benefit

### 27.1.1 Actuarial assumptions

	EPAL 31.12.2012	EGF 31.12.2012	EPAL 31.12.2011	EGF 31.12.2011
Standard retirement age	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	3.75%	3.75%	4.50%	4.10%
Discount rate	3.75%	3.75%	4.75%	4.50%
Wage growth rate	0% in 2012 and 2013; 2.5% in subsequent years	-	0% in 2012 and 2013; 2.5% in subsequent years	-
Social security wage growth rate	0% in 2012 and 2013; 2.5% in subsequent years	-	0% in 2012 and 2013; 2.5% in subsequent years	-
Pensions growth rate	0% in 2012 and 2013; 1.25% in subsequent years	1.00%	0% in 2012 and 2013; 1.25% in subsequent years	1.00%
Pre-retirement contributions growth rate	0% in 2012 and 2013; 2.5% in subsequent years	-	0% in 2012 and 2013; 2.5% in subsequent years	-

### 27.1.2 Fund summary

	31 December 2012			31 December 2011		
	EPAL	EGF	Total	EPAL	EGF	Total
Liability at end of period	45,004,079	556,421	45,560,500	42,943,162	602,284	43,545,446
Value of assets at end of period	(37,480,000)	(559,037)	(38,039,037)	(35,360,261)	(602,308)	(35,962,569)
Actuarial gains/(losses) not recognised	(406,037)	-	(406,037)	1,808,008	-	1,808,008
<b>Provision for liabilities (a)</b>	<b>7,118,042</b>	<b>(2,616)</b>	<b>7,115,426</b>	<b>9,390,909</b>	<b>(24)</b>	<b>9,390,885</b>

(a) Value of EPAL broken down as follows:

EPAL	31.12.2012	31.12.2011
Other non-current assets	2,521,037	2,729,037
Pension liabilities	(9,639,079)	(12,119,946)
<b>Provision for liabilities (a)</b>	<b>(7,118,042)</b>	<b>(9,390,909)</b>

The EGF pension fund has a funding level greater than its liabilities. The difference does not contribute to the provision of the balance sheet.

### 27.1.3 Change in liabilities

	31 December 2012			31 December 2011		
	EPAL	EGF	Total	EPAL	EGF	Total
Liabilities at start of period	42,943,162	602,284	43,545,446	47,786,569	648,279	48,434,848
Change in discount rate	-	17,753	17,753	-	-	-
Current services cost	196,000	-	196,000	233,000	-	233,000
Interest costs	1,553,000	24,583	1,577,583	2,030,000	26,507	2,056,507
Recognition of new pre-retirements	(102,000)	-	(102,000)	584,000	-	584,000
Actuarial (gains)/losses	6,054,917	23,785	6,078,702	(2,476,806)	45,972	(2,430,834)
Benefits paid	(5,641,000)	(111,984)	(5,752,984)	(5,213,601)	(118,474)	(5,332,075)
<b>Liability at end of period</b>	<b>45,004,079</b>	<b>556,421</b>	<b>45,560,500</b>	<b>42,943,162</b>	<b>602,284</b>	<b>43,545,446</b>

## 27.1.4 Change in fund assets

	31 December 2012			31 December 2011		
	EPAL	EGF	Total	EPAL	EGF	Total
Value at start of period	35,360,261	602,308	35,962,569	36,267,749	651,211	36,918,960
Correction of fund's 2011 return	-	2,567	2,567	-	-	-
Fund's return	1,541,000	37,991	1,578,991	1,584,415	5,174	1,589,589
Contribution to fund	-	24,049	24,049	1,312,643	63,000	1,375,643
Actuarial gains and losses	3,891,000	-	3,891,000	(1,616,131)	-	(1,616,131)
Benefits paid	(3,312,261)	(107,878)	(3,420,139)	(2,188,415)	(117,077)	(2,305,492)
<b>Value at end of period</b>	<b>37,480,000</b>	<b>559,037</b>	<b>38,039,037</b>	<b>35,360,261</b>	<b>602,308</b>	<b>35,962,569</b>

The rate of return of the plan's assets is ascertained based on the expected return on the assets, in accordance with the established investment policy. The instruments used are long-term treasury bond yields, the 6-month Euribor (short-term yield), rates of return of equity instruments and investment properties that reflect real long-term rates, on the basis of the experience and maturity of the respective markets.

## 27.1.5 Costs for the period

	31 December 2012			31 December 2011		
	EPAL	EGF	Total	EPAL	EGF	Total
Current services cost	196,000	-	196,000	233,000	-	233,000
Interest costs	1,553,000	24,583	1,577,583	2,030,000	26,507	2,056,507
Return on assets	(1,541,000)	(40,558)	(1,581,558)	(1,584,000)	(5,174)	(1,589,174)
Recognition of new pre-retirements	(102,000)	-	(102,000)	584,000	-	584,000
Actuarial gains and losses	-	-	-	(175,000)	-	(175,000)
<b>Total</b>	<b>106,000</b>	<b>(15,975)</b>	<b>90,025</b>	<b>1,088,000</b>	<b>21,333</b>	<b>1,109,333</b>

## 27.1.6 Breakdown of fund assets

	31.12.2012	31.12.2011
Equity instruments	15,249,744	11,528,244
Debt instruments	21,492,936	22,243,485
Property	1,296,357	2,190,840
	<b>38,039,037</b>	<b>35,962,569</b>

## 27.1.7 Development of liabilities over last 5 financial years

	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Liability at end of period	45,004,079	42,943,162	48,434,848	49,550,207	51,360,779	89,158,229
Value of assets at end of period	37,480,000	35,360,261	36,918,960	35,742,744	33,931,212	49,255,217
Actuarial gains and losses not recognised	406,037	(1,808,008)	(1,121,918)	(1,745,126)	1,828,240	14,550,802
Hedging excess	-	(24)	(2,932)	(49,537)	(41,425)	(39,828)
Provision for Águas de Moçambique	-	-	-	110,351	-	-
Provision for liabilities	7,118,042	9,390,885	12,640,738	15,712,477	15,642,752	25,392,038

## 27.2 Defined contribution

The contributions of the Company during the financial year were 520,755 euros (493,895 euros in EPAL and 26,860 euros in EGF). In addition, employees made individual contributions in the amount of 27,999 euros (23,042 euros in EPAL and 4,957 euros in EGF).

## 28. Loans

<b>Non-current</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Bank loans - EIB	1,766,756,876	1,646,960,108
Bank loans - Commercial paper	-	-
Bond loans	500,000,000	500,000,000
Other bank loans and private placement of debt	190,816,611	196,548,746
Loans - Adjustment for amortised cost	(810,552)	(255,746)
Other loans	609,636	782,213
Bank loans	2,457,372,571	2,344,035,320
Debts to leasing companies	18,757,977	21,028,348
Total non-current loans	2,476,130,548	2,365,063,667
<b>Current</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Bank overdrafts	163,264,596	227,106,412
Bank loans	454,108,492	382,794,272
Other loans	172,578	175,911
Bank loans	617,545,666	610,076,595
Debts to leasing companies	2,365,238	2,761,006
Total current loans	619,910,904	612,837,601
<b>Total bank loans</b>	<b>3,074,918,237</b>	<b>2,954,111,915</b>
<b>Total loans</b>	<b>3,096,041,452</b>	<b>2,977,901,268</b>

Foreign currency loans and bond issues are subject to ownership clauses which state that changes in the major shareholder control of the company can lead to the immediate repayment of the debt.

In relation to loan agreements with the European Investment Bank, the AdP Group, besides the usual constraints (lack of payment, 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;
- negative impact due to spin-off, merger or sale of companies;
- disposal of companies' assets;
- change/ termination of businesses;
- changes in the major shareholder control of AdP/ EGF;
- operations performed with a guarantee of AdP/ EGF;
- compliance with obligations defined in the concession/ management agreements;
- major 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 Bank loans by maturity

	<b>31.12.2012</b>	31.12.2011
<b>Non-current</b>		
Bank loans - EIB	1,766,756,876	1,646,960,108
Bank loans - commercial banks	-	-
Bond loans	500,000,000	500,000,000
Other bank loans and private placement of debt	190,816,611	196,548,746
<b>Current</b>		
Bank loans	454,108,492	382,794,272
	<b>2,911,681,979</b>	<b>2,726,303,125</b>
<b>By maturity</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Less than 1 year	454,108,492	382,794,272
From 1 to 2 years	94,297,060	68,785,083
From 2 to 3 years	178,631,086	85,408,349
From 3 to 4 years	92,535,811	68,348,816
From 4 to 5 years	94,187,908	78,754,453
Over 5 years	1,997,921,622	2,042,212,153
	<b>2,911,681,979</b>	<b>2,726,303,125</b>

## 28.2 Bank loans by interest rate type

	<b>31.12.2012</b>	31.12.2011
<b>Floating interest rate</b>		
Less than 1 year	383,178,743	344,223,222
From 1 to 2 years	39,833,827	27,197,712
From 2 to 3 years	24,020,223	41,409,090
Over 3 years	975,971,406	1,221,810,884
	<b>1,423,004,199</b>	<b>1,634,640,907</b>
<b>Fixed interest rate</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Less than 1 year	70,929,749	38,571,050
From 1 to 2 years	54,463,233	41,587,371
From 2 to 3 years	154,610,863	43,999,259
Over 3 years	1,208,673,935	967,504,538
	<b>1,488,677,780</b>	<b>1,091,662,218</b>
	<b>2,911,681,979</b>	<b>2,726,303,125</b>

## 28.3 Financial leasing

	<b>31.12.2012</b>	31.12.2011
<b>Financial leasing</b>		
Current	2,365,238	2,761,006
Non-current	18,757,977	21,028,348
	<b>21,123,215</b>	<b>23,789,354</b>

<b>Outstanding principal by type of asset acquired</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Land and buildings and other constructions	19,983,349	21,531,158
Basic equipment	516,679	1,066,145
Transport equipment	622,535	1,162,511
Office equipment	652	29,540
	<b>21,123,215</b>	<b>23,789,354</b>
<b>Future minimum payments</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Less than 1 year	2,571,104	3,207,273
From 1 to 5 years	7,508,789	8,664,052
Over 5 years	12,185,992	14,729,801
	<b>22,265,885</b>	<b>26,601,126</b>
<b>Interest</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Less than 1 year	205,866	446,265
From 1 to 5 years	589,959	1,337,304
Over 5 years	346,845	1,028,199
	<b>1,142,670</b>	<b>2,811,768</b>
<b>Present value of minimum payments</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Less than 1 year	2,365,238	2,761,009
From 1 to 5 years	6,918,830	7,326,743
Over 5 years	11,839,147	13,701,602
	<b>21,123,215</b>	<b>23,789,354</b>

## 29. Trade payables and other non-current liabilities

	<b>31.12.2012</b>	<b>31.12.2011</b>
Investment suppliers	32,290,376	30,684,173
Other payables	i) 111,084,161	152,934,098
	<b>143,374,537</b>	<b>183,618,271</b>

i) The main subsidiaries with debts to other creditors are:

	<b>31.12.2012</b>	<b>31.12.2011</b>
AdRA - Águas da Região de Aveiro	41,246,023	50,106,061
Simdouro	24,425,862	41,796,210
Águas do Centro	16,608,270	26,493,415
Águas de Santo André	6,585,815	6,895,319
Simarsul	5,860,763	6,617,208
Águas do Mondego	4,775,897	6,367,862
AgdA - Águas Públicas Alentejo	3,975,134	6,908,761
Águas do Algarve	3,256,012	3,472,118
Águas do Centro Alentejo	2,226,142	2,209,278
Águas do Norte Alentejano	1,085,331	1,075,324
Other	1,038,912	992,542
	<b>111,084,161</b>	<b>152,934,098</b>

The payables relate to the amounts in debt to the municipalities for the integration of the assets into the multi-municipal systems.

The main changes refer to Simdouro, where part of the debt with the Vila Nova de Gaia Municipality was converted into EIB financing in the amount of 12,687,500 euros, and the reclassification of debt to the municipalities through the integration of assets in the amount of 4,682.848 euros to the current item; and also refer to Águas do Centro, which reclassified to the current item the payment due in June 2013 to the Castelo Branco Municipality, in the amount of 9,885,145 euros.

## 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 Granter. Thus, the accrued contractual investment expenses recognised are those expressed in the following table:

	<b>31.12.2012</b>	<b>31.12.2011</b>
<b>Water - Production and Purification</b>		
Águas do Algarve	44,068,330	40,970,257
Águas do Centro Alentejo	2,562,985	2,414,708
Águas do Centro	6,710,931	6,488,702
Águas do Douro e Paiva	22,228,896	22,420,069
Águas do Mondego	7,727,647	11,168,706
Águas do Norte Alentejano	5,031,602	7,518,636
Águas do Noroeste	31,377,275	37,149,085
Águas do Oeste	8,832,779	9,568,303
Águas de Santo André	10,901,621	11,549,658
Águas de Trás-os-Montes e Alto Douro	23,835,884	23,512,821
Águas do Zêzere e Côa	8,798,322	21,990,469
AgdA - Águas Públicas Alentejo	2,202,148	4,791,839
Sanest	36,515,498	50,208,003
Simarsul	6,882,192	7,363,739
Simdouro	2,633,042	1,326,892
Simlis	2,581,642	2,281,010
Simria	4,655,209	4,388,433
Simtejo	58,649,705	60,467,049
	<b>286,195,708</b>	<b>325,578,377</b>
<b>Water - Distribution and Collection</b>		
AdRA - Águas da Região de Aveiro	16,891,412	10,767,431
	<b>16,891,412</b>	<b>10,767,431</b>
<b>Waste</b>		
Algar	30,256,123	32,470,337
Amarsul	27,301,874	26,218,518
Ersuc	11,719,361	33,092,446
Resiestrela	2,103,489	2,864,276
Resinorte	7,747,719	10,844,996
Resulima	10,535,797	10,915,939
Suldouro	14,816,504	21,680,493
Valnor	5,832,098	7,847,508
Valorlis	3,275,745	6,890,233
Valorminho	1,803,094	3,326,486
Valorsul	46,970,117	53,512,406
	<b>162,361,921</b>	<b>209,663,638</b>
	<b>465,449,041</b>	<b>546,009,446</b>

## 31. Investment grants

	<b>31.12.2012</b>	<b>31.12.2011</b>
Investment grants - Cohesion Funds	1,643,519,187	1,659,095,185
Investment grants - Other	25,006,158	27,984,514
Integration of assets	256,812,513	263,704,453
	<b>1,925,337,858</b>	<b>1,950,784,151</b>

### 31.1 Movements in the period

	<b>31.12.2012</b>
Investment grants - opening balance	1,659,095,185
Recognition of entitlement to grants	50,099,670
Recognition of income	(54,666,085)
Corrections on recognitions	a) (549,259)
Corrections on recognition of entitlement	b) (10,460,324)
<b>Investment grants - closing balance</b>	<b>1,643,519,187</b>
Receivables in period	110,208,522

a) The subsidiaries that corrected the amortisation of their grants were:

	<b>31.12.2012</b>
Simarsul	276,811
Valnor	(843,706)
Other	17,636
	<b>(549,259)</b>

b) The subsidiaries that corrected the entitlement to grants were:

	<b>31.12.2012</b>
Águas de Trás-os-Montes e Alto Douro	(1,103,968)
Águas do Oeste	(4,134,508)
AdRA - Águas Região de Aveiro	(705,382)
Valorlis	(3,312,436)
Other	(1,204,030)
	<b>(10,460,324)</b>

These corrections are mainly due to the applications not being approved by Thematic Territorial Enhancement Operational Programme (POVT) and the reformulation of applications. The amount for the subsidiary Valorlis was written down off the residual value of the relevant asset.

The impact of this correction of the result is immaterial in that a significant portion is offset by the receivables.

### 31.2 Amounts imputed to profit for the period

	<b>31.12.2012</b>	<b>31.12.2011</b>
Investment grants - Cohesion Fund	54,666,085	62,245,900
Investment grants - Other	3,388,419	3,882,613
Integration of assets	9,586,029	14,694,736
	<b>67,640,533</b>	<b>80,823,249</b>

## 32. Trade payables

	<b>31.12.2012</b>	31.12.2011
General trade payables	48,654,321	41,887,767
Investment suppliers	55,730,298	79,029,050
Trade payables - invoices received and being checked	2,522,888	1,853,283
Other trade payables balances	1,958,477	2,418,865
	<b>108,865,984</b>	<b>125,188,965</b>

The amounts registered under Investment suppliers primarily refer to debts to municipalities through integration of assets in the multi-municipal systems (non-current debts are presented in note 29).

The table below shows the subsidiaries with the most significant values:

<b>Investment suppliers</b>	<b>31.12.2012</b>	31.12.2011
Simarsul	8,333,419	7,879,632
Águas do Noroeste	5,126,202	5,691,129
Águas do Algarve	4,032,450	4,808,127
Sanest	i)	307,742
Águas do Mondego	ii)	12,149,532
Suldouro	2,788,425	546,301
Águas de Trás-os-Montes e Alto Douro	ii)	8,638,617
Águas do Zêzere e Côa	ii)	8,643,841
Ersuc	1,844,390	1,110,879
Simtejo	ii)	6,357,765
Other subsidiaries	13,348,869	22,895,485
	<b>55,730,298</b>	<b>79,029,050</b>

i) The amount recorded in investment suppliers of the subsidiary Sanest is mainly related to the work of upgrading the wastewater treatment for the Estoril coast, totalling 10,009,879 euros; as at 31 December 2012, the amount outstanding was 3,203,161 euros;

ii) The significant decrease in the amounts of these subsidiaries is mainly due to the reduction of investment in 2012. The subsidiaries settled debts to suppliers from investments made in previous years. It should be noted that despite the cash difficulties of some subsidiaries, these payments were only possible because the companies received EIB financing in 2012.

## 33. Other current liabilities

	<b>31.12.2012</b>	31.12.2011
Advances on trade receivables	51,574	878,384
Accrued personnel expenses	i)	8,829,670
Shareholders/ Partners	ii)	2,213,481
Other payables	iii)	103,735,259
Deferrals	iv)	22,003,263
	<b>161,035,133</b>	<b>137,660,057</b>

i) The increase in current liabilities - personnel, does not correspond to an effective increase of liability, since in 2011 the subsidiaries Águas do Noroeste, Ersuc and Valorsul recorded estimated holiday pay to be paid in 2012 as other payables totalling 1,793,273 euros. If we add this amount to the amount of accrued personnel expenses of 2011, we find that this item changed by around 11%, corroborated by the wage decreases established by law.

ii) The change in shareholders is primarily due to dividends available but not yet paid. It is divided among the following Group companies:

<b>Shareholders/ Partners</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
AgdA - Águas Públicas Alentejo	31,318	7,218
Aquasis	12,368	1,118
Ersuc	37,595	8,681
Resinorte	258	258
Sanest	-	1,419,540
Simtejo	1,257,008	388,416
Valnor	617,893	280,263
Valorsul	42,526	107,987
	<b>1,998,966</b>	<b>2,213,481</b>

iii) The main items of other payables are:

<b>Other payables</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Other receivables/ payables - Creditors Accrued Expenses	a) 39,566,071	41,445,509
Other receivables/ payables - Guarantees Suppliers	5,614,028	5,243,297
Other receivables/ payables - ODC - Other Guarantees	1,264,735	2,626,519
Other receivables/ payables - Other Creditors	b) 69,089,073	54,419,934
<b>Total</b>	<b>115,533,907</b>	<b>103,735,259</b>

a) The "accrued expenses" item contains accrued interest, electricity, insurances, etc., as well as the estimate by EPAL of the subsoil rates to pay to Lisboa municipal council;

b) The main subsidiaries with amounts in "other creditors" are:

<b>Other payables - Other creditors - Other</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Águas do Centro	17,378,060	6,866,375
EPAL	14,896,013	13,545,710
AdRA - Águas da Região de Aveiro	14,152,275	8,265,794
Simtejo	7,148,237	9,744,120
Simdouro	3,438,121	3,107,468
Águas de Trás-os-Montes e Alto Douro	2,557,404	3,787,808
Other subsidiaries	9,518,963	9,102,660
<b>Total</b>	<b>69,089,073</b>	<b>54,419,934</b>

- The balance of Simtejo in "other creditors" refers to the amount payable to municipalities for the integration of assets;

- In the subsidiary Simdouro the amount of "current debt" relates to the rents payable in the short term, for the repayment of upstream wastewater sanitation activity;

- The increase in the subsidiary Águas do Centro refers to the reclassification by the Company of "other non-current creditors" to "current creditors" concerning the amount to pay to the Castelo Branco Municipality for integrating assets, which will occur in the 1<sup>st</sup> half of 2013;

- The amount recorded for Águas da Região de Aveiro is directly related to the update of reported liabilities against the intangible items. This was calculated based on EVEF and the consideration updated over the 50 years of the partnership and through the calculation of interest on advances to municipalities;

- The amounts recorded in EPAL are directly related to the amounts charged in water invoices on behalf of the Lisboa Municipality, with regard to sewerage;
  - The amount recorded in Águas de Trás-os-Montes e Alto Douro concerns the current amount to be paid to municipalities for the integration of assets;
  - The amount recorded for the subsidiary Águas do Mondego refers to the debt to the Coimbra Municipality, arising from the transfer of the business to Águas do Mondego when the company was established.
- iv) The “Deferrals” item contains income to be recognised. The main reason for this increase is the recognition by the subsidiary Sanest of the amount of 10,390,166 euros for the fine levied on the consortium regarding the upgrading of the wastewater treatment system of the Estoril Coast sewerage system.

## 34. Income tax

	<b>31.12.2012</b>	<b>31.12.2011</b>
Income tax - Asset	-	-
Income tax - Liabilities	11,622,421	20,849,772
	<b>11,622,421</b>	<b>20,849,772</b>

Corporate income tax value in the period. There are no outstanding debts to the tax authorities.

## 35. Sales and services rendered by business area

	<b>31.12.2012</b>	<b>31.12.2011</b>
<b>Sales</b>		
Water - Production and Purification	182,587,199	170,862,462
Waste	75,801,541	79,942,617
Water - Distribution and Collection	22,679,477	21,504,576
EPAL	131,658,540	133,640,562
Corporate	94,333	226,348
	<b>412,821,090</b>	<b>406,176,565</b>
<b>Services rendered</b>		
Water - Production and Purification	208,606,750	205,404,754
Waste	80,770,479	89,559,242
Water - Distribution and Collection	17,229,600	16,097,092
EPAL	1,233,782	1,383,969
International	3,816,040	1,656,195
Corporate	1,691,784	1,673,425
	<b>313,348,435</b>	<b>315,774,677</b>
<b>Tariff deviations</b>		
Water - Production and Purification	66,540,545	85,934,029
Waste	(8,545,966)	16,766,063
Water - Distribution and Collection	7,237,873	9,597,254
	<b>65,232,452</b>	<b>112,297,346</b>
	<b>791,401,977</b>	<b>834,248,588</b>

The sales and services rendered by the Group increased 0.6%, if we do not take into account the tariff deviations. The change of tariff deviations is explained in note 35.I.

## 35.I Tariff deviations

### 35.I.I By nature

Tariff deviations		<b>31.12.2012</b>	<b>31.12.2011</b>
Deviations and surplus of the financial year	i)	55,651,694	68,634,866
Tariff deviations - productivity profits	ii)	9,085,713	43,662,480
Other	iii)	495,045	-
<b>Gross tariff deviations</b>		<b>65,232,452</b>	<b>112,297,346</b>

A significant variation in tariff deviations was verified in the 2012 financial year, namely:

- i) change in the rate used to calculate guaranteed income, which reduced from 10.24% in 2011 (plus 3%) to 7.46% in 2012 (plus 3%);
- ii) allocation of tariff deviations in several subsidiaries of the Group (in particular the UNR) totalling 9,085,713 euros, the most significant being Amarsul (1,032,675 euros), Ersuc (6,020,408 euros) and Valnor (1,908,303 euros). This allocation served for share capital increases duly authorised by the Concession Granter;
- iii) correction of the historical deviations of the waste business unit, with respect to the tax associated with tariff deviations.

Gross tariff deviations	<b>31.12.2012</b>	<b>31.12.2011</b>
<b>Water - Production and Purification</b>		
Águas do Algarve	1,745,788	3,166,216
Águas do Centro Alentejo	1,225,739	146,433
Águas do Centro	11,645,854	11,498,782
Águas do Douro e Paiva	942,371	(1,699,901)
Águas do Mondego	2,239,190	2,577,108
Águas do Norte Alentejano	3,986,864	3,665,918
Águas do Noroeste	15,186,091	14,673,730
Águas do Oeste	13,213,297	16,170,356
Águas de Trás-os-Montes e Alto Douro	2,483,039	9,794,384
Águas do Zêzere e Côa	7,841,729	5,091,472
AgdA - Águas Públicas Alentejo	(1,421,178)	345,152
Sanest	378,627	(3,772,038)
Simarsul	7,406,731	8,284,625
Simdouro	2,920,351	2,477,860
Simlis	(413,982)	97,690
Simria	3,426,793	4,275,445
Simtejo	(6,290,636)	(4,148,825)
<b>Total Water - Production and Purification</b>	<b>66,516,668</b>	<b>72,644,406</b>
<b>Waste</b>		
Algar	(937,049)	(1,666,142)
Amarsul	(3,964,349)	1,272,602
Ersuc	(898,209)	(2,232,021)
Resiestrela	(961,757)	(725,578)
Resinorte	(4,390,395)	2,408,233
Resulima	(919,458)	(1,754,653)
Suldouro	(1,860,461)	(1,799,413)
Valnor	(559,894)	400,941
Valorlis	419,007	(1,103,765)
Valorminho	(333,749)	(610,714)
Valorsul	(3,937,729)	(7,796,282)
<b>Total Waste</b>	<b>(18,344,043)</b>	<b>(13,606,794)</b>
<b>Water - Distribution and Collection</b>		
AdRA - Águas da Região de Aveiro	7,479,069	9,597,254
<b>Total Water - Distribution and Collection</b>	<b>7,479,069</b>	<b>9,597,254</b>
<b>Total</b>	<b>55,651,694</b>	<b>68,634,866</b>

The decrease in the value of tariff deviations is directly related to the change in the value of one of the benchmarks used in the calculation of guaranteed income. The rate used in December 2012 was 7.46%, plus 3% (see note 5) and, in December 2011 the yield of 10-year treasury bonds was 10.24% plus 3%. However, if we only take into account this variation of the rate, the reduction of deviations should be even greater. The reduction of deviations was not as significant due to the decline in profits of the multi-municipal companies. This is explained by the increases of energy and financial expenses incurred by all the companies and by the fact that the tariffs approved for 2012 are, in some multi-municipal systems, rather lower than the tariffs necessary to cover all the charges inherent in the delivery of the service, including income tax and the guaranteed returns for shareholders.

## 36. Sales and services rendered by market

	National market	International market	Internal transactions	<b>31.12.2012</b>	<b>31.12.2011</b>
<b>Sales</b>					
Water - Production and Purification	184,585,618	2,125	(2,000,544)	182,587,199	170,862,462
Waste	76,269,551	42,623	(510,633)	75,801,541	79,942,617
Water - Distribution and Collection	22,717,742	-	(38,265)	22,679,477	21,504,576
EPAL	142,971,269	-	(11,312,729)	131,658,540	133,640,562
Corporate	232,220	-	(137,887)	94,333	
<b>Sub-total</b>	<b>426,776,400</b>	<b>44,748</b>	<b>(14,000,058)</b>	<b>412,821,090</b>	<b>405,950,217</b>
<b>Services rendered</b>					
Water - Production and Purification	220,372,628	-	(11,765,878)	208,606,750	205,404,754
Waste	81,683,790	-	(913,311)	80,770,479	89,559,242
Water - Distribution and Collection	17,437,024	-	(207,424)	17,229,600	16,097,092
EPAL	1,233,999	-	(217)	1,233,782	1,383,969
International	-	3,821,068	(5,028)	3,816,040	1,656,195
Corporate	21,254,702	633,435	(20,196,353)	1,691,784	1,899,773
<b>Sub-total</b>	<b>341,982,143</b>	<b>4,454,503</b>	<b>(33,088,211)</b>	<b>313,348,435</b>	<b>316,001,025</b>
Tariff deviations	65,232,452	-	-	65,232,452	112,297,346
<b>Sub-total</b>	<b>65,232,452</b>	<b>-</b>	<b>-</b>	<b>65,232,452</b>	<b>112,297,346</b>
<b>Total</b>	<b>833,990,995</b>	<b>4,499,251</b>	<b>(47,088,269)</b>	<b>791,401,977</b>	<b>834,248,588</b>

## 37. Cost of sales

	<b>31.12.2012</b>	<b>31.12.2011</b>
Cost of goods sold and materials consumed - Goods	6,563,423	6,779,915
Cost of goods sold and materials consumed - Raw materials	12,234,453	11,769,654
Cost of goods sold and materials consumed - Consumables	6,232,653	6,145,761
Cost of goods sold and materials consumed - Sundry materials	8,191,212	8,254,807
Prior year corrections	1,607	(13,161)
	<b>33,223,348</b>	<b>32,936,977</b>
Capitalisation of cost of goods sold and materials consumed	(128,838)	(129,602)
	<b>33,094,510</b>	<b>32,807,375</b>
Production variation	466	92,886
	<b>33,094,976</b>	<b>32,900,261</b>

## 38. External supplies and services

	<b>31.12.2012</b>	<b>31.12.2011</b>
Subcontracts	32,219,859	33,825,473
Specialised services	68,519,154	66,142,277
Materials	5,300,320	6,581,932
Energy and fluids	81,208,135	72,136,495
Travel and accommodation	3,381,287	3,110,062
Renting and hiring	10,124,820	10,796,494
Communication	5,729,678	6,120,949
Insurance	8,423,341	8,329,089
Other	10,529,963	14,088,746
Prior-year corrections	1,266,427	554,130
	<b>226,702,984</b>	<b>221,685,647</b>
External supplies and services capitalised	(4,352,753)	(5,421,003)
	<b>222,350,231</b>	<b>216,264,644</b>

The “external supplies and services” item shows an increase of about 2.8% over the previous year. This increase is explained by the significant increase in energy expenditure (12.6%) due to the significant increase of tariffs and commissioning of some infrastructure. The Group spent 68,415,295 euros (59,317,030 euros in 2011) on electricity in 2012. In specialised work, there was an increase in spending on maintenance and repair of basic equipment. That increase was about 14.5%, mainly caused by the repair undertaken in Valorsul as a result of a fire on its premises, which increased their spending on maintenance and repairs by about 1.5 million euros. Expenditure on external supplies and services by the Group, excluding these two items, decreased by 4.1%, continuing the reduction set forth by the guidelines issued by the responsible ministry for 2012.

## 39. Personnel costs

	<b>31.12.2012</b>	<b>31.12.2011</b>
Wages	i)	96,624,096
Social security contributions	20,382,503	21,911,985
Other personnel costs	10,216,099	12,067,642
Prior-year corrections	(222,930)	(167,613)
	<b>126,999,768</b>	<b>140,075,118</b>
Personnel costs capitalised	(6,234,607)	(8,329,691)
	<b>120,765,161</b>	<b>131,745,428</b>

i) The reduction of wage costs is fundamentally due to the implementation of Decree-Law 8/2012, of 18 January, that establishes the wages of public sector managers. Moreover, the companies of the AdP Group continued to implement in 2012 article 12 of Law 12-A/2010 and articles 20, 21 and 29 of Law 64-B/2011;

### 39.1 Remuneration of the governing bodies of AdP SGPS

	<b>31.12.2012</b>	<b>31.12.2011</b>
Board of Directors	i)	335,805
Audit Committee	ii)	47,441
Statutory Auditor	iii)	18,495
	<b>401,741</b>	<b>743,074</b>

- i) the significant reduction in remunerations of the Board of Directors is the result of implementation of Decree-Law 8/2012, of 18 January, defining the remuneration of public sector managers, and also due to the fact that the non-executive directors are not paid remuneration;
- ii) the reduction in the remunerations of the Audit Committee is due to the fact that these are index-linked to the remuneration of the Chairman of the Company, and since the remuneration of the Chairman declined for the reasons stated in the preceding paragraph, then the remunerations of the Audit Committee also decreased in the same proportion;
- iii) the Company received from the Ministry of Finance guidance from the Directorate-General of Treasury and Finance (DGTF) in 2012 that the remuneration of the Statutory Auditor (ROC) should be index-linked to that of the Company's Chairman, corresponding to 22.5% thereof. The Company thus estimated the amount (1,802.67 euros/month), subsequently applying the reductions provided for in Article 12(1) of Law 12-A/2010 of 30 June (corresponding to a reduction of 5% - 90.13 euros) and in Article 20(1) of Law 64-B/2011 of 30 December (corresponding to a reduction of 10% - 171.25 euros). The monthly remuneration after these reductions is 1,541.28 euros (18,495 euros per year).

## 39.2 Average number of employees

		<b>31.12.2012</b>	<b>31.12.2011</b>
Governing bodies	i)	155	148
Permanent employees and other	ii)	5,339	5,352
		<b>5,494</b>	<b>5,500</b>

- i) The Governing Bodies item includes non-executive directors. The number of executive directors of the AdP Group is 67, for the total of 38 operating companies;
- ii) Despite the fact that the average number of governing bodies and employees has only been reduced by six in net terms, in real terms various increases and reductions have occurred among the different subsidiaries. The table below shows the subsidiaries of the AdP Group that had the greatest variations, and the explanations for these:

<b>Greatest variations</b>		
Ersuc	i)	75
Resiestrela	ii)	12
Resinorte	iii)	(43)
Amarsul	iv)	(13)
Other		(37)
		<b>(6)</b>

- i) In the subsidiary Ersuc, two new urban solid waste treatment plants began operating;
- ii) The composting facility became operational in Resiestrela;
- iii) Resinorte reduced the number of employees due to the termination of the collection of urban solid waste business in the municipalities of Chaves, Vila Pouca de Aguiar and Valpaços;
- iv) Amarsul, taking into account the guidelines for cutting costs, has severed a number of employment contracts by mutual agreement and some retirements, thereby reducing the average number of employees.

## 40. Amortisations, depreciations and reversals in financial year

	<b>31.12.2012</b>	31.12.2011
Amortisations - investment property	95,882	95,882
Amortisations - tangible assets	29,512,812	26,401,480
Amortisations - intangible assets	2,795,976	2,534,729
Amortisations - DUI	153,941,788	157,384,569
Depreciation of contractual investment	49,510,793	57,441,884
	<b>235,857,251</b>	<b>243,858,544</b>
Reversals, depreciations and amortisations	(330,570)	(174,839)
	<b>235,526,681</b>	<b>243,683,705</b>
Prior-year corrections	84,980	(467,169)
	<b>235,611,661</b>	<b>243,216,536</b>

## 41. Provisions and reversals in financial year

	<b>31.12.2012</b>	31.12.2011
Provisions in financial year - taxes	32,027	11,794
Provisions in financial year - ongoing legal proceedings	253,625	186,212
Provisions in financial year - other	1,608,913	4,458,146
	<b>1,894,565</b>	<b>4,656,152</b>
Reversal of provisions - taxes	(97,210)	-
Reversal of provisions - ongoing legal proceedings	(257,845)	(165,135)
Reversal of provisions - pensions	-	-
Reversal of provisions - other	(3,421,291)	(2,129,705)
	<b>(3,776,346)</b>	<b>(2,294,840)</b>
	<b>(1,881,781)</b>	<b>2,361,311</b>

Consult in conjunction with note 26.

## 42. Impairment losses and reversals in financial year

	<b>31.12.2012</b>	31.12.2011
Impairment losses - Receivables - current trade receivables	4,834,892	4,052,437
Impairment losses - Receivables - other debtors	2,807,291	1,716,509
Impairment losses - Inventories - raw materials and consumables	8,570	3,879
Impairment losses - Investments	13,077	600,896
Impairment losses - Tangible fixed assets	1,541,296	-
Impairment losses - Prior-year corrections	1,129	748
	<b>9,206,255</b>	<b>6,374,469</b>
Reversals of impairment losses - trade receivables	(1,589,301)	(216,196)
Reversals of impairment losses - other debtors	-	(416,070)
Reversals of impairment losses - inventories - goods	(22,497)	(53,611)
	<b>(1,611,798)</b>	<b>(685,877)</b>
	<b>7,594,457</b>	<b>5,688,592</b>

## 43. Other operating expenses and losses

	<b>31.12.2012</b>	31.12.2011
Direct and indirect taxes	i)	10,080,966
Losses on inventories		17,988
Losses on non-financial investments		1,844,202
Donations		390,665
Exchange differences in non-financial operations		80,127
Other expenses and losses		2,261,493
Prior-year corrections		651,261
	<b>15,326,702</b>	<b>13,019,952</b>
Expenses capitalised		(203)
	<b>15,326,499</b>	<b>12,863,902</b>

i) The most significant amounts registered in direct and indirect taxes are:

	<b>31.12.2012</b>	31.12.2011
Stamp duty	2,592,309	2,236,679
Water and Waste Services Regulator duty	4,612,250	4,637,787
Water Resource Levy duty	481,741	570,723
Duties	1,185,955	1,083,644
Other	1,208,711	787,235
	<b>10,080,966</b>	<b>9,316,068</b>

## 44. Other operating income and gains

	<b>31.12.2012</b>	31.12.2011
Additional income	i)	5,497,996
Operating grants		248,939
Other income and gains	ii)	9,548,443
Prior-year corrections		2,326,432
	<b>22,586,593</b>	<b>17,621,809</b>
Income and gains capitalised		(26,629)
	<b>22,586,143</b>	<b>17,595,181</b>

i) The "additional income" item comprises the following:

<b>Additional income</b>	<b>31.12.2012</b>	31.12.2011
Equipment hiring	169,735	185,199
Sale of energy	686,833	490,203
Studies, projects and technological assistance	1,775	11,888
Holding corporate posts	6,890	3,007
Social services	12,021	12,294
Other	6,487,637	4,795,405
	<b>7,364,891</b>	<b>5,497,996</b>

ii) The "additional income - other" item includes works carried out by Group companies on behalf of third parties, as well as some fees charged to those third parties.

## 45. Financial expenses

		<b>31.12.2012</b>	<b>31.12.2011</b>
Interest paid	i)	113,752,942	103,598,068
Unfavourable exchange rate differences		-	46
Other financial expenses	ii)	21,026,503	38,842,051
Prior-year corrections		840,767	1,580,892
		<b>135,620,212</b>	<b>144,021,057</b>
Financial expenses capitalised		(13,720,894)	(16,512,745)
		<b>121,899,318</b>	<b>127,508,312</b>

i) The interest paid is analysed in the following table:

<b>Interest paid</b>		<b>31.12.2012</b>	<b>31.12.2011</b>
Interest paid - commercial paper		574,770	122,592
Interest paid - EIB	a)	47,643,883	50,595,469
Interest paid - leasing operations		795,888	399,922
Interest paid - bonds	b)	12,100,639	8,806,092
Interest paid - arrears		1,218,156	687,798
Interest paid - other	c)	51,419,606	42,986,195
		<b>113,752,942</b>	<b>103,598,068</b>

- a) Despite the increase in loans from the EIB, these loans were primarily contracted at the end of the year. A decrease in the average rates of financing from 2.9% in 2011 to 2.8% in 2012 was also recorded.
- b) With regard to the increase in bond loans, there was an increase in interest rates, thereby causing the related financial expenses to increase.
- c) The increase in the other interest expense item is the result of the significant increase in interest rates (in particular the spreads charged by banks) as well as the increase in short-term financing, which increased by about 7.6 million euros overall at the end of 2012. However, the use of short-term financing during the year was quite significant, and it decreased at the end of the year as the funding obtained from the EIB (with interest rates much lower than those charged by commercial banks) was used to pay them off. The following table indicates the main subsidiaries with significant values in "other interest expenses":

<b>Other interest expenses</b>		<b>31.12.2012</b>	<b>31.12.2011</b>
Águas de Trás-os-Montes e Alto Douro		8,210,675	6,778,873
Águas do Noroeste		6,074,991	5,002,133
Águas do Douro e Paiva		4,074,523	3,030,746
AdRA - Águas da Região de Aveiro		3,929,069	2,901,248
Águas do Centro		3,178,683	2,342,502
Águas do Mondego		2,951,057	1,882,294
Águas do Zêzere e Côa		2,933,388	2,583,980
AdP SGPS		2,854,171	2,829,641
Águas do Algarve		2,496,108	1,904,705
Simria		1,919,852	1,279,789
Águas do Centro Alentejo		1,670,880	1,285,128
Resinorte		1,494,941	1,519,372
Simdouro		1,489,566	1,583,393
Simarsul		1,473,999	1,615,460
Other subsidiaries		6,667,703	6,446,931
		<b>51,419,606</b>	<b>42,986,195</b>

ii) Also recorded in other financial expenses are:

<b>Other financial expenses</b>		<b>31.12.2012</b>	<b>31.12.2011</b>
Loans - Commissions/ guarantees	a)	3,853,061	5,472,130
Losses on financial instruments at fair value	b)	14,693,778	25,769,228
Other	c)	2,479,664	7,600,694
		<b>21,026,503</b>	<b>38,842,051</b>

- a) the recorded amount refers to surety commissions paid to the Portuguese State for the guarantees given on the AdP loans from the EIB, as well as other banking fees and guarantees;
- b) the change in fair value of financial instruments for the year breaks down as follows (also see note 14):

	<b>31.12.2012</b>	<b>31.12.2011</b>
Exchange rate swaps	(3,463,782)	(3,819,535)
Interest rate swaps (negative)	(11,229,996)	(21,949,693)
	<b>(14,693,778)</b>	<b>(25,769,228)</b>

The financial instruments linked with Depfa loans (Notional of 50 million euros and 20 million euros), are regarded as cash flow hedging instruments, and thus the change in fair value is recognised directly in equity from 2012. The effectiveness of the instruments was evaluated and the results were within the 80% to 125% range. If these derivatives were not considered as hedges, the impact on profit as at 31 December 2012 would be negative 6,529,704 euros.

- c) The main change recorded in "other financial expenses" relates to the discount of the customer debts processed in 2011 by the following subsidiaries, Resinorte in the amount of 97,089 euros in 2012 (1,582,909 euros in 2011), Amarsul in the amount of 815 euros in 2012 (3,545,359 euros in 2011) and Valorlis in the amount of 535,190 euros in 2012 (0 in 2011).

## 46. Financial income

		<b>31.12.2012</b>	<b>31.12.2011</b>
Interest earned	i)	41,783,940	37,057,691
Other financial income and gains	ii)	4,032,256	84,128
Prior-year corrections		(216,401)	(3,519)
		<b>45,599,795</b>	<b>37,138,302</b>

- i) The following are registered under "interest":

<b>Interest earned</b>		<b>31.12.2012</b>	<b>31.12.2011</b>
Deposits	a)	5,866,887	12,783,621
Financial investments	a)	9,744,165	8,711,104
Interest on arrears	b)	21,791,082	14,009,715
Other interest	a)	4,381,806	1,553,250
		<b>41,783,940</b>	<b>37,057,691</b>

- a) these three headings must be analysed together. Overall, there was a reduction of income from interest earned due to a decreased level of liquidity among subsidiaries, owing to increased average collection periods and the resulting use of cash resources to fund the day-to-day business and also some ongoing investments that are considered to not be postponable. Although the Group registered a higher volume of term deposits and securities at the end of 2012 than in the previous year, the average number of investments over

2012 was much lower, which only increased in December 2012. The average of these financial investments was 3.38% in 2012, compared with an average rate of 5.11% in 2011. It should be noted that these investments result mainly from temporary cash surpluses that the Group uses, as a rule, as a negotiating chip for obtaining credit ceilings.

- b) interest on arrears increased by around 55%. This increase reflects the growth of the average collection period for receivables among the Group companies. The following table shows the values of interest on arrears per subsidiary:

Interest on arrears	31.12.2012	31.12.2011
Águas do Algarve	3,798,962	2,822,270
Simtejo	3,223,709	415,942
Águas do Zêzere e Côa	2,579,890	1,854,743
Águas de Trás-os-Montes e Alto Douro	2,455,359	1,463,268
Águas do Noroeste	1,518,335	587,829
Simarsul	1,453,524	1,008,284
Águas do Oeste	1,163,261	1,374,012
Resinorte	846,443	416,973
Algar	790,207	455,219
AgdA - Águas Públicas Alentejo	656,245	246,853
Other subsidiaries	3,305,147	3,364,322
	<b>21,791,082</b>	<b>14,009,715</b>

- ii) The major amounts of the other financial income and gains item concern the reversal of the update of non-current debts of customers of Amarsul (2,378,038 euros) and Resinorte (1,582,909 euros), which was undertaken in December 2011. Since the agreements were not complied with, the non-current debt switched to current debt and began to bear interest, as defined in the concession agreement of each of the companies.

## 47. Gains/ (losses) on investments

	31.12.2012	31.12.2011
Expenses and losses - other	(10,042)	(247,505)
Income and gains resulting from MEP	-	8,346
Income and gains - other	16,787	3,652
	<b>6,745</b>	<b>(235,507)</b>

## 48. Current and deferred income tax of financial year

	31.12.2012	31.12.2011
Income tax for year	(59,715,811)	(55,939,595)
Excess tax estimate	3,775,083	16,313,920
Other tax provision adjustments	-	-
Insufficient tax estimate	(2,085,739)	(446,592)
	<b>(58,026,467)</b>	<b>(40,072,267)</b>
Deferred tax	9,921,629	(16,953,147)
	<b>9,921,629</b>	<b>(16,953,147)</b>
	<b>(48,104,838)</b>	<b>(57,025,414)</b>

	Value
Consolidated pre-tax profit	172,474,671
Permanent differences	
Losses	(1,704,345)
Depreciation and amortisation	(148,125,341)
Equity changes	29,351,746
Provisions	37,601,968
Recovery of impairment losses	(8,364,825)
Other (IFRC 12 and tariff deviations)	56,141,638
<b>Assessment base</b>	<b>137,375,512</b>
Municipal surcharge assessment base	153,596,686
Remaining base	(16,221,175)
<b>Tax</b>	<b>42,153,252</b>
State surtax	6,483,671
Separate taxation and other	852,337
Correction of prior-year tax	304,921
<b>Tax overheads</b>	<b>49,794,181</b>
Current tax	59,715,811
Deferred tax	(9,921,629)

#### Fiscal deferral of the impact of accounting transition for the remaining term of the concession

As the result of a Request for Binding Information (PIV) submitted by the AdP Group to DGCI, it was the understanding of the tax authorities that accrued contractual investment expenses would no longer be accepted for tax purposes with the termination of the Official Portuguese Chart of Accounts (POC) and, consequently, of Accounting Guideline no. 4, and its replacement by the international accounting standards (IFRS / IAS). It should be noted that accounting practices remained unchanged, taking into account the regulatory and accounting framework by which the Group is bound.

The changes that resulted from the above described fact were accounted for as at 31 December 2010, as recommended in the standards. The companies applied the transitional arrangements provided for under Article 5 of Decree-Law 159/2009, of 13 July. The transitional scheme provides that the impact on equity arising from the adoption of the new standards (IFRS), which are considered relevant for tax purposes under the Income Tax Code and relevant supplementary technical legislation, equally contribute to the formation of the taxable profit of the first tax period (2010 financial year) and the four subsequent tax periods.

The Group believes that this understanding calls into question the principle of balancing the income (tariffs) and costs (incurred and to be incurred), to the extent that during the term of the concession agreements concluded with the Portuguese State, it is not justifiable that the concession holders have to pay taxes over the next five years relating to prior tax periods, within a time horizon that clearly exceeds five financial years.

In this context, AdP SGPS made its case on 5 April 2011 to the DGCI, with the Ministries of Finance and Agriculture, Sea, Environment and Spatial Planning having been informed, requesting that the retroactive corrections arising from the transition adjustments related to contractual investment should contribute in equal parts to the formation of the taxable income over the remaining period of the concession, since this is the time period that is fiscally relevant for accounting and tax purposes. This would govern the legitimate expectations created without jeopardising the economic and financial sustainability of the multi-municipal systems, where the concession holding companies of the AdP Group operate.

Hence, this was the procedure adopted by the Group in its accounting records for the 2010 and 2011 financial years, as well as in the Tax Form No. 22 (corporate income tax) for 2010 and 2011.

Law 66-B/2012, approved on 31 December 2012, which in article 255 introduces a transitional regime in the multi-municipal systems concession contracts, forms an addendum for this purpose Article 5-A of Decree-Law 159/2009 of 13 July.

According to the provisions of this Article 5-A, for the entities managing the multi-municipal water supply, sewerage or urban solid waste systems that benefited from the tax deductibility of the amortisation of contractual investments not made prior to the entry into force of Decree-Law 159/2009 of 13 July, the deadline for correcting the impact on equity arising from the first-time adoption of IFRS corresponds to the tax periods remaining on the concession contract in force at the end of each financial year.

According also to paragraph 2 of Article 5-A, this change to the transitional scheme provided for in Article 5 of Decree-Law 159/2009 of 13 July, has an interpretive nature that is therefore retroactive.

Hence, the companies of the AdP Group maintained the transition adjustment procedure related to contractual investment for the remaining term of the concession and which contribute in equal parts to the formation of taxable income, except for adjustments related to investment already made by the transition date, which contribute to taxable income in 5 years, as defined in Decree-Law 159/2009.

The subsidiaries will carry out the tax and legal procedures to ensure the changes are made to Tax Form No. 22 already submitted and pay the shortfall in taxes for financial years 2010 and 2011, as well as the fines and corresponding interest.

## 49. Balances and transactions with related parties

<b>31.12.2012</b>	<b>Parent</b>	<b>Other shareholders</b>	<b>Executive Board</b>	<b>Other related parties</b>
<b>Assets</b>				
Municipalities	-	-	-	513,595,085
<b>Liabilities</b>				
Municipalities	-	-	-	107,599,285
<b>Income</b>				
Sales and services rendered to municipalities	-	-	-	418,449,725
Other income from municipalities	-	-	-	18,324,166
<b>Expenses</b>				
Expenses with non-executive directors	-	-	-	-
Expenses with executive directors (i)	-	-	383,246	-
Other expenses of municipalities	-	-	-	16,382,839
<b>Dividends</b>	10,827,000	4,173,000	-	-

(i) Only includes remuneration and charges.

The amounts recorded under assets and income relate to the regulated activity - upstream services - water supply, urban solid waste treatment and recycling and downstream services and partnerships. The amounts recorded under liabilities relate to the integration of infrastructure in the concessions, which are paid to the municipalities, as defined in the concession contracts.

<b>31.12.2011</b>	<b>Parent</b>	<b>Other shareholders</b>	<b>Executive Board</b>	<b>Other related parties</b>
<b>Assets</b>				
Municipalities	-			409,806,788
<b>Liabilities</b>				
Municipalities	-			128,949,463
<b>Income</b>				
Sales and services rendered to municipalities			537,844,047	
<b>Expenses</b>				
Expenses with non-executive directors	27,086	19,346		
Expenses with executive directors			523,540	
<b>Dividends</b>	19,488,600	7,511,400	-	-

## 50. 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+1)	Unrealised contractual investment (N+2 .. N+5)	Unrealised contractual investment (>N+5)
UNA-PD	6,514,145,168	4,510,574,107	283,638,610	271,025,833	391,353,735	1,057,552,881
UNA-DR	1,528,675,603	1,102,922,959	55,864,274	73,136,087	114,858,329	194,781,239
UNR	484,253,926	8,515,008	5,576,098	9,502,519	127,495,876	333,164,424
	<b>8,527,074,697</b>	<b>5,622,012,074</b>	<b>345,078,982</b>	<b>353,664,439</b>	<b>633,707,940</b>	<b>1,585,498,544</b>

Companies	Water - Production and Purification	Waste	Water - Distribution and Collection	31.12.2012	31.12.2011
Contractual investment	6,514,145,168	1,528,675,603	484,253,926	8,527,074,697	8,416,087,513
Investment already made	4,510,574,107	1,102,922,959	8,515,008	5,622,012,074	4,952,231,906
Investment in progress	283,638,610	55,864,274	5,576,098	345,078,982	751,273,708
<b>Contractual investment</b>					
Contractual investment - N	-	-	-	-	-
Contractual investment (N+1)	271,025,833	73,136,087	9,502,519	353,664,439	452,234,203
Contractual investment (N+2 .. N+5)	391,353,735	114,858,329	127,495,876	633,707,940	670,249,234
Contractual investment (>N+5)	1,057,552,881	194,781,239	333,164,424	1,585,498,544	1,627,264,270

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	31.12.2012	31.12.2011
Águas do Algarve	675,502	-	-	55,153	3,046,954	3,777,609	3,777,610
Águas do Centro Alentejo	1,256,302	-	-	170,413	2,389,381	3,816,096	5,790,123
Águas do Mondego	29,999,999	-	-	1,431,385	4,835,893	36,267,277	36,267,274
Águas do Norte Alentejano	315,315	931	-	54,603	1,085,333	1,456,182	1,390,640
Águas do Noroeste	4,104,530	-	-	716,269	3,866,994	8,687,793	7,760,029
Águas do Oeste	35,327	-	-	4,727	117,503	157,557	157,557
Águas de Santo André	5,267,306	-	-	478,846	8,619,227	14,365,379	14,365,379
Águas de Trás-os-Montes e Alto Douro	3,642,676	942,620	-	717,209	13,931,218	19,233,723	18,433,920
Águas do Zêzere e Côa	6,483,043	475,068	-	840,614	19,889,336	27,688,061	29,859,241
AgdA - Águas Públicas Alentejo	-	360,116	-	147,932	6,804,854	7,312,902	15,806,105
Simarsul	2,040,466	838,979	-	283,973	5,576,790	8,740,208	8,984,836
Simdouro	43,086,254	-	-	6,368,934	24,425,862	73,881,050	71,542,672
Simlis	1,151,121	-	-	101,414	1,613,970	2,866,505	2,879,077
Simtejo	41,382,332	5,899,493	-	-	-	47,281,825	47,271,824
	<b>139,440,173</b>	<b>8,517,207</b>	<b>-</b>	<b>11,371,472</b>	<b>96,203,315</b>	<b>255,532,167</b>	<b>264,286,286</b>

## 51. Contingent assets and liabilities

### 51.1 Contingent assets and liabilities

Company	Description of court case	Risk classification	Value (euros)	Favourable to the company	Favourable to third parties
Águas do Algarve, S.A.	Case no.232/2000 before the Administrative Court of the Lisboa 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 2,662,385.97 euros.The hearing stage is completed, now the decision based on the facts is awaited. It is the view of Águas do Algarve that no amounts referring to this litigation are owed or payable, and so it has not set up any provision for this purpose.	Remote	2,662,385.97	x	
Águas do Algarve, S.A.	Case no. 501/01 - special administrative case with ordinary proceedings - Lisboa Administrative and Tax Court, filed by Sociedade Somague Engenharia S.A. in the amount of 1,909,823 euros related to extra-contractual civil liability concerning the construction contract designated "Multi-municipal System of water supply to Barlavento Algarvio - Western Mains Pipeline".A petition was filed on 14/11/2006 requesting the judge to speed up the case and the parties were informed that the ruling would be pronounced as soon as possible.As at 31.12.2012 the decision on the case was still pending. It is the view of Águas do Algarve that no amounts referring to this litigation are owed or payable, and so it has not set up any provision for this purpose.	Remote	1,909,823.20	x	
Águas do Algarve, S.A.	Case no. 46/09.3BELLE filed by Somague Engigás Neoplul- Construtores, ACE regarding 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 crossings of the River Formosa Estuary, which led to petition for 8,332,017.21 euros, part of which is considered to have lapsed, in the amount of 1,164,598.98 euros. The construction consortium appealed against this decision.The plaintiff also challenged the fines in the value of 666,014.13 euros levied by Águas do Algarve for breach of the established contract deadlines. The company Águas do Algarve added scientific opinions issued by the National Laboratory of Engenharia Civil (LNEC) to the proceedings which challenge the alleged technical unfeasibility of the crossings of the River Formosa Estuary forming the basis of the case filed by the Contractor.The hearing and decision on the facts have already been completed, now the respective ruling is awaited.  Case no. 516/09.3BELLE filed in the Administrative and Fiscal Court of Loulé against Águas do Algarve, S.A by Somague, Engigás, Neoplul, Construtores, S.A., where the plaintiff intends to rescind the contract with good cause for the reasons of the crossings of the River Formosa Estuary referred in case no. 46/09.3BELLE being technically impossible, petitioning the payment of 9,191,597.54 euros (which is a mere update of the petition for 8,332,017.21 euros formulated in the previous case no. 46/09.3 BELLE).The case was challenged by Águas do Algarve, S.A. based on identical arguments to those of the previous case, no. 46/09.3BELLE).The court ordered the suspension of the case until the ruling on the case, no. 46/09.3BELLE, is published.The case is thus suspended in its course. It is the view of Águas do Algarve that no amounts referring to this litigation are owed or payable, and so it has not set up any provision for this purpose.	Remote	9,191,597.54	x	
Águas do Algarve, S.A.	Vila Real de Santo António Municipality - On 05/12/2011, Águas do Algarve brought injunction proceedings in the amount of 1,596,416 euros.After plea by the Defendant, Loulé Administrative and Tax Court decided to annul the entire case due to its unfitness. Águas do Algarve 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 1,081,293.57 euros was set up (Vila Real de Santo António 390,043.69 euros + Tavira Verde 691,249.87 euros).We admit that the argument that could be used by the Customers is based on unjust enrichment and although we are contractually protected, it was considered prudent to purge these costs, in a negotiation phase prior to the court decision, so that we may be reimbursed of the remaining costs, which are a very significant part of the billing issued relative to VMG.	Probable	1,596,416.00	Partial	

Company	Description of court case	Risk classification	Value (euros)	Favourable to the company	Favourable to third parties
Águas do Algarve, S.A.	Vila Real de Santo António Municipality - On 05/12/2011, Águas do Algarve brought injunction proceedings in the amount of 2,495,898.41 euros. The case was entered in the court records of Loulé Administrative and Tax Court on 23/01/2012. Águas do Algarve 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 1,081,293.57 euros was set up (Vila Real de Santo António 390,043.69 euros + Tavira Verde 691,249.87 euros). We admit that the argument that could be used by the Customers is based on unjust enrichment and although we are contractually protected, it was considered prudent to purge these costs, in a negotiation phase prior to the court decision, so that we may be reimbursed of the remaining costs, which are a very significant part of the billing issued relative to VMG.	Probable	2,495,898.41	Partial	
Águas do Algarve, S.A.	Tavira Municipality/Tavira Verde, E.M. - Administrative case filed on 14/07/2011, in the value of 2,533,779.30 euros. 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. Since 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 1,081,293.57 euros was set up (Vila Real de Santo António 390,043.69 euros + Tavira Verde 691,249.87 euros). We admit that the argument that could be used by the Customers is based on unjust enrichment and although we are contractually protected, it was considered prudent to purge these costs, in a negotiation phase prior to the court decision, so that we may be reimbursed of the remaining costs, which are a very significant part of the billing issued relative to VMG.	Probable	2,533,779.30	Partial	
Águas do Algarve, S.A.	Case no. 715/09.8 BELLE filed in Loulé Administrative and Tax Court by Águas do Algarve, S.A. against Somague, Engigás, Neopul, Construtores, ACE and against the respective Group companies, which petitioned for 1,894,762.79 euros for definitive non-compliance with the construction contract. The ruling was published that acquitted the defendants. This ruling did not appraise the issues of merit raised in the case (basically, the justness of the termination of the construction contract and the claim for damages arising therefrom, claimed 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 RJEOP (Law on Public Works Contracts). 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. 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. It is the understanding of Águas do Algarve that no amounts are due or payable in respect of such disputes, and therefore it has not set up any provision to the effect.	Remote	1,894,762.79	x	
Águas do Centro Alentejo, S.A.	Injunction against Évora Municipality, against which opposition was filed. The subsequent declaratory relief is awaiting judgment.	Possible	5,599,742.96 euros, includes principal, interest and court fees on the date of filing the case.		x
Águas do Centro Alentejo, S.A.	Injunction against Évora Municipality, against which no opposition was filed. Enforcement proceedings in the TAF court in Beja.	Possible	5,026,576.34 euros, includes principal, interest and court fees on the date of filing enforcement proceedings.		x
Águas do Douro e Paiva, S.A.	Case for settlement of Municipal Property Tax; Plaintiff: Ministry of Finance; Defendant: Águas do Douro e Paiva; Court: Porto Administrative and Tax Court. The Company has pending in the Porto TAF Court a case contesting the payment of municipal property tax in the value of 1,695,912.85 euros plus compensatory interest of 681,431.72 euros. The case is pending challenge by the Ministry of Finance.	Remote	2,377,344.57		x
Águas do Noroeste, S.A.	Case no. 515/05.4BERG - Construtora do Tâmega, SA and Others. Ruling on 18/03/2013. Favorable to third parties.	Remote	2,965,665.87		x
Águas do Noroeste, S.A.	Case no. 256/06.5BERG - Construtora do Tâmega, SA and Others. Pending case developments. Favorable to third parties.	Remote	3,326,979.76		x
Águas do Noroeste, S.A.	Case no. 476/10.8BEBRG - IsoluxIngenieria, S.A. Pending case developments. Favorable to third parties.	Remote	1,578,627.90		x
Águas do Noroeste, S.A.	Case no. 113/10.OTYVNG - Alberto Martins de Mesquita & Filhos, S.A. Pending approval of ruling. Favorable to third parties.	Remote	8,457,484.60		x

Company	Description of court case	Risk classification	Value (euros)	Favourable to the company	Favourable to third parties
Águas do Noroeste, S.A.	Case no. I 380/I 1.8BERBRG - Alexandre Barbosa Borges, S.A. Preliminary hearing was scheduled for 14/01/2013. Favorable to third parties.	Remote	3,230,064.75		x
Águas do Noroeste, S.A.	Case no. I 162/I 2.OBERBRG - IsoluxIngenieria, S.A. Pending case developments. Favorable to third parties.	Remote	5,200,396.47		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	2,376,972.66	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	3,577,259.57	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).	Remote	2,500,000.00		x
Águas de Trás-os-Montes e Alto Douro, S.A.	Administrative offence for disposal of wastewater to gutter.	Remote	2,500,000.00		x
Águas de Trás-os-Montes e Alto Douro, S.A.	Administrative offence for disposal of wastewater to effluent.	Remote	2,500,000.00		x
Águas de Trás-os-Montes e Alto Douro, S.A.	Administrative offence for disposal of wastewater to underground water course.	Remote	2,500,000.00		x
Águas de Trás-os-Montes e Alto Douro, S.A.	Administrative offence for disposal of wastewater to groundwater at a pumping station of Águas de Trás-os-Montes e Alto Douro.	Remote	2,500,000.00		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 object 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.	Remote	4,383,551.95		x
Águas de Trás-os-Montes e Alto Douro, S.A.	Declaratory proceedings for conviction due to non-payment of invoices issued by Águas de Trás-os-Montes e Alto Douro.	Remote	3,176,213.29	x	
Águas de Trás-os-Montes e Alto Douro, S.A.	Common administrative case, where the SADE/EDIOC consortium applies for the sum of 3,053,327.10 euros as indemnity for extra work costs. Águas de Trás-os-Montes e Alto Douro contested and counterclaimed, filing for the amount of 1,917,816.48 euros as indemnity for damages caused by the Plaintiff to Águas de Trás-os-Montes e Alto Douro for the delay in completing the work. Águas de Trás-os-Montes e Alto Douro levied contractual fines on this consortium that are still not being argued in court.	Remote	4,917,143.58		x
Águas de Trás-os-Montes e Alto Douro, S.A.	Arising from the construction contract for the "Construction of Wastewater Treatment Plants of Douro Sul Batch I", awarded by the company Águas de Trás-os-Montes Alto Douro S.A. to the Consortium comprising the companies "Construções Gabriel A.S. Couto S.A./ISOLUX Ingenieria SL", dated 6 March 2008, in the amount of 3,663,955.64 euros (three million, six hundred and sixty-three thousand, nine hundred and fifty-five euros and sixty-four cents), this consortium files the common administrative case in ordinary form, claiming a loss of 1,638,712.24 euros and late payment interest of 25,227.50 euros to the first company and 28,571.08 euros to the second one. The consortium bases this claim on an alleged financial rebalancing, which it says it is entitled to because the Developer disturbed the beginning or normal development of the work mainly due to: The Unavailability of land; Modification of the initial design; Lack of connection to the electricity grid to start the installation. Accordingly, Águas de Trás-os-Montes e Alto Douro contested and counterclaimed, since it is plainly evident that the Plaintiff's claim has no grounds. Águas de Trás-os-Montes e Alto Douro filed for the payment of 1,130,255.86 euros as its counterclaim.	Remote	2,822,766.58		x
Águas do Zêzere e Côa, S.A.	Case no. 99/08,I - BECTB - Castelo Branco Administrative Court: Case filed against Águas do Zêzere e Côa, S.A., by the construction contractor Construtora Abrantina e Marsilop, relative to Tender No. H, claiming the payment of the overall amount of 2,285,321.63 euros relative to stoppage costs, difference in the calculation of price reviews, indemnity for actual damages and losses of profits and financial costs, plus the payment of commercial interest accumulated since 31 March 2008. The case is pending initial analysis of the merits of the case by the judge and subsequent scheduling of the hearing.	Possible	2,285,321.63		x
Águas do Zêzere e Côa, S.A.	Case no. 38/09,2 - BECTB - Castelo Branco Administrative Court: Case brought against Águas do Zêzere e Côa, S.A. by the contractor Abrantina / Marsilop regarding the tendering procedure of Sewerage 10 - Fundão Subsystem, claiming the payment of 3,254,767.52 euros relative to compensation for increased construction yard costs, structural costs, overheads and opportunity costs, compensation for changes to design, update of costs and reimbursement of financial costs incurred to 31 December 2008, plus costs incurred to full payment. The case is pending initial analysis of the merits of the case by the judge and subsequent scheduling of the hearing.	Possible	3,254,767.52		x

Company	Description of court case	Risk classification	Value (euros)	Favourable to the company	Favourable to third parties
Águas do Zêzere e Côa, S.A.	Case no. 225/0932 - BECTB - Castelo Branco Administrative Court: Case filed against Águas do Zêzere e Côa, S.A., by the construction contractor Abrantina/ Marsilop, relative to Tender No. I, claiming the payment of the global amount of 6,077,796.43 euros relative to compensation for losses due to direct resources paralysed at the works, construction yard costs and structural costs, overheads and financial costs, costs of bank guarantees, indemnity and interest until full payment. The case is pending initial analysis of the merits of the case by the judge and subsequent scheduling of the hearing.	Possible	6,077,796.43	x	
Águas do Zêzere e Côa, S.A.	Arbitral case filed by Fundão Municipality, where this entity claims the payment of indemnity totalling 43,394,957.71 euros (forty-three million three hundred and ninety-four thousand nine hundred and fifty-seven euros and seventy-one cents). In parallel, Águas do Zêzere e Côa claims from Fundão Municipality the payment of indemnity in the amount of 186,149 euros (one hundred and eighty-six thousand one hundred and forty-nine euros). By agreement of 29 October 2010, the Arbitral Court only partially agreed with the claim of Fundão Municipality, with an amount to be set in the enforcement of the ruling and with a limit-value of 762,022.59 euros (seven hundred and sixty-two thousand and twenty-two euros fifty-nine cents). In turn, in relation to Águas do Zêzere e Côa, 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 Arbitral Court, and the case is, at this moment, still awaiting the decision of the Central Administrative Court of South Portugal.	Remote	43,394,957.1	x	
Águas do Zêzere e Côa, S.A.	Case no. 450/I 1.7BECTB – 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, Mêda Municipality, Penamacor Municipality, Pinhel Municipality and Sabugal Municipality against the Ministry of Agriculture, Sea, Environment and Spatial Planning and Águas do Zêzere e Côa. 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 Águas do Zêzere e Côa declared null and void, and that (ii) the contracts for wastewater collection and water supply, celebrated on the same date, between the Plaintiffs and Águas do Zêzere e Côa are declared null and void, and that (iii) the contracts for the lease and maintenance of municipal infrastructure between the Plaintiffs and Águas do Zêzere e Côa 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.	Following the entry into force of Law 12/2008 of 26 February, Sanest filed injunction proceedings against Sintra Municipality and Oeiras Municipality for the recovery of debts of the respective SMAS related to the provision of wastewater collection services in the area of the respective municipality, according to the Concession contract and Wastewater Collection contract. Following the expiry of the proceedings in the injunction against Oeiras Municipality, with the acquittal of the defendant (Oeiras Municipality) from that court instance, for alleged error in the case formalisation, Sanest filed an ordinary case for conviction in order to safeguard the debt and ensure it does not exceed the statute of limitations. In the injunction case against Sintra Municipality, Sanest claims payment of a debt in the amount of 1,845,277.04 euros, plus interest accrued and due, relating to billing from January 2006 to May 2008, including the correction of billing in 2006. In the common proceedings against Oeiras Municipality, Sanest claims payment of a debt in the amount of 495,533.65 euros, plus interest accrued and due, concerning the correction of billing issued in 2006. In December 2012, the sum of 495,533.65 euros of Oeiras Municipality had already been settled.	Possible	1,845,277.04	x	
Simarsul, S.A.	Case no. 979/I 12.0BEALM - injunction case in which the defendant is Seixal Municipality, claiming payment of a debt in the amount of 1,530,573.10 euros: the municipality filed opposition to our injunction. The case was assigned to a judge and it is being processed in Almada Administrative and Tax Court.	Remote	1,530,573.10	x	
Simlis, S.A.	Case no. 1552/09.5BELRA - Leiria TAF Court - common administrative case filed by Construtora Abrantina, S.A., on 29/09/2009, petitioning the conviction of Simlis for the payment of the amount of 3,099,892.27 euros and interest, relative to damage from loss of income, permanence at the work site, loss of profits, financial charges and damages with the assembly and dismantling of the construction yard - "Contract for the construction of the Maceira Sewerage Network – stages 3, 5 and 6".	Remote	3,099,892.27	x	

## 51.2 Rights and obligations

### Águas do Algarve

In accordance with no.12 of Clause 17 of the agreement with INAG (Institute of Water), Águas do Algarve has a cost of EUR 1,000,000.00/year intended as its share in the expenses of the works and maintenance of the Odeleite-Beliche System. This cost is recorded in the accounts under heading 62 - ESS. Águas do Algarve has an agreement with the ICBN - Institute for the Conservation of Nature and Biodiversity, which establishes an annual contribution of EUR 280,000, updated according to the rate of inflation, intended for the operation and maintenance of the National Centre for Reproduction of the Iberian Lynx.

## 51.3 Guarantees

Liabilities for bank guarantees provided by the business units of the companies included in the consolidation perimeter are as follows:

Business Unit	Courts	Financial institutions	Concession granting entities	Other	31.12.2012	31.12.2011
UNA-PD	9,625,176	-	249,399	20,026,155	29,900,730	31,288,752
EPAL	5,207,511	97,115,244	-	288,788	102,611,543	31,359,818
UNA-DR	-	-	-	133,940	133,940	78,000
UNR	153,233	6,324,569	1,412,510	4,382,818	12,273,130	48,404,232
UNI	-	2,283,263	-	46,934	2,330,197	2,767,592
Corporate	-	1,658,991,562	-	264,375	1,659,255,937	1,488,351,775
<b>Total</b>	<b>14,985,920</b>	<b>1,764,714,638</b>	<b>1,661,909</b>	<b>25,143,010</b>	<b>1,806,505,477</b>	<b>115,109,501</b>

The sum of corporate guarantees of 2011 was re-expressed, since the guarantees that AdP SGPS provided for the loans obtained from the EIB, in the total of 1,487,140.668 euros, were overlooked.

The holding of the AdP Group (AdP SGPS), under the loans contracted from the EIB, is guarantee of the good compliance with the contracted obligations.

## 52. Auditor's and Statutory Auditor's fees

The fees of the Auditor and Statutory Auditor of the AdP Group as at 31 December 2012 were the following:

	Statutory Auditor	Auditor	Other services	Total
PricewaterhouseCoopers	5,204	25,956	24,950	56,110
Deloitte	30,540	-	2,000	32,540
Ernst & Young	271,048	278,387	66,227	615,662
BDO	24,373	-	1,067	25,440
Alves da Cunha, A. Dias & Associados, SROC	43,808	-	-	43,808
Pedro Leandro, SROC	10,399	-	-	10,399
PMatos Silva, Garcia Jr, Pires Caiado, SROC	21,538	-	-	21,538
O. Lima, N. Silva, F. Colaço, A. Coelho, L. Rosa, SROC	15,600	-	-	15,600
Grant Thornton, SROC	15,365	-	-	15,365
PMatos Sociedade de Revisores, Lda.	8,422	-	-	8,422
KPMG	-	-	4,800	4,800
	<b>446,297</b>	<b>304,343</b>	<b>99,044</b>	<b>849,684</b>

## 53. Average payment periods

	1 <sup>st</sup> Quarter previous year	2 <sup>nd</sup> Quarter previous year	3 <sup>rd</sup> Quarter previous year	4 <sup>th</sup> Quarter previous year	1 <sup>st</sup> Quarter current year	2 <sup>nd</sup> Quarter current year	3 <sup>rd</sup> Quarter current year	4 <sup>th</sup> Quarter current year
Average payment period to trade payables (including Group) (days)	62	66	66	65	74	79	83	87
Average payment period of financial year (to which financial statements refer)								80

This consolidated average payment period was calculated based on the average payment periods of the companies of the Group.

## 54. Subsequent events

In January 2013, the Direção-Geral do Tesouro (Directorate-General for the Treasury) transferred 7,666,282 shares to Parpública, corresponding to 8.82% of the share capital of AdP - Águas de Portugal, SGPS, S.A., which changed the shareholder structure as follows:

	% Share capital	Amount subscribed	No. of shares	Type of shares
Parpública, 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	

Lisboa, 26 March 2013

The Board of Directors



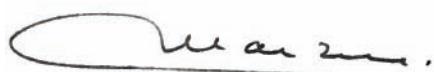
Afonso José Marçal Grilo Lobato de Faria  
(Chairman)



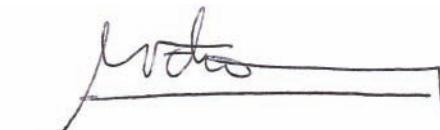
Álvaro António Magalhães Ferrão de Castello-Branco  
(Member)



Gonçalo Ayala Martins Barata  
(Member)



Manuel Joaquim Barata Frexes  
(Member)

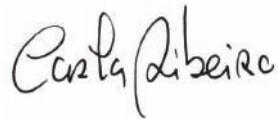


Manuel Maria Pereira Fernandes Thomaz  
(Member)



Joaquim António Pais e Jorge  
(Non-Executive Member)

The Chartered Accountant



Carla Isabel Costa Pinto Ribeiro



# Report and opinion of 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, S.A. for the 2012 financial year, presented by the Board of Directors.
- 2 - The Audit Committee monitored the management of AdP - Águas de Portugal, SGPS, S.A. 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 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, 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 2012 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 2012 Sustainability Report, demonstrating material compliance with those principles.
- 6 - The remuneration reductions defined in Law no. 12-A/201 of 30 June and Law no. 64-B/2011 of 30 December, which were the object of guidance as regards their application to the Group, were complied with.
- 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 Legal Certification and it took note of the annual report of the Statutory Auditor on the review carried out.

**9** - In this field, and in calculating the tariff deviations, the Audit Committee highlights that in relation to determining the rate of return for shareholders, the percentage of 7.46% was used as 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. This value, according to the Order, must be used for closing the accounts of the concession holders of AdP - Águas de Portugal, SGPS, S.A. for the 2012 financial year and during the time when the Economic and Financial Assistance Programme for Portugal is in force. Despite the fact that the alteration arises from tacit approval of the parties to the concession contracts, the Audit Committee accepts the economic reasons underlying the alteration made, given the current conditions in the national government debt market, which disrupt the prices listed therein.

**10** - The Audit Committee expects, still in relation to the tariff deviations, that the restructuring of the water and waste sectors in Portugal started in 2012 shall meet the need to eliminate the accumulation of cost recovery deviations.

**11** - The Audit Committee also highlights the continued worsening of the debt situation of the municipal customers, which reached EUR 508.9 million at the end of 2012, this being EUR 115 million higher than the value at the end of 2011. This development makes it essential to find a mechanism to stabilise and settle this debt, otherwise it will cause funding problems to the group companies of AdP - Águas de Portugal, SGPS, S.A. especially taking into consideration current market conditions. The Audit Committee expects that the effective implementation of the Programme to Support the Local Economy may actively contribute to the settlement of these debts.

**12** - 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 2012, the Consolidated statement of income by nature and 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 AdP - Águas de Portugal, SGPS, S.A. as at 31 December 2012, and the manner in which the results were achieved and how the business activity developed.

**13** - 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, S.A.

**Opinion**

As a result of the above-stated, the Audit Committee issues a favourable opinion on the management report and consolidated accounts for the 2012 financial year of AdP - Águas de Portugal, SGPS, S.A., as regards their approval by the General Meeting.

Lisboa, 2 April 2013

**The Audit Committee**

Paulo Alexandre dos Santos Ferreira (Chairman)

Mário José Alveirinho Carrega

Ana Luísa Videira Gomes

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# Legal certification of separate accounts

Alves da Cunha, A. Dias & Associados  
Statutory Audit Firm

## Legal certification 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 2012 (which reports a total of EUR 7,598,063,000 and total equity of EUR 1,135,902,000, including a net profit of EUR 93,841,000), the consolidated statement of income and 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 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:

- 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 and application of the equity method;
- appraisal of the suitability of the accounting policies adopted and their uniform application and 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 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 2012, 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.

- 9.1 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 508,207,000 (EUR 430,172,000 in 2011), and tariff deviations - liabilities of EUR 120,156,000 (EUR 112,489,000 in 2011), 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 2012 was EUR 55,652,000 while in 2011 it was EUR 68,635,000. A significant contributor to this change was the alteration in the reference index used in the calculation of the guaranteed return, in compliance with the Order of 25 January 2013 of the Minister of Agriculture, the Sea, Environment and Spatial Planning, which, with three percentage points added, fell from 13.24% to 10.46% (see sections 5.1 and 5.3 of the Notes).

**9.2** As explained in section 3.2 and 18.3 of the Notes, the debts of customers (municipalities) have significantly increased, resulting in the worsening of the payment periods. 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.

Lisboa, 2 April 2013

ALVES DA CUNHA, A. DIAS & ASSOCIADOS  
Statutory Audit Firm  
represented by José Duarte Assunção Dias

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# Auditor's report

Ernst & Young

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## Auditor's report of consolidated accounts

### 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 2012 (which reports a total of EUR 7,598,062,615 and total equity of EUR 1,135,901,831, including a net profit attributable to shareholders of EUR 93,841,091), 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:
  - 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. We believe that the examination carried out provides an acceptable basis for expressing our opinion.

#### **Opinion**

6. In our opinion, the aforementioned consolidated financial statements present in all materially relevant aspects a true and appropriate view, as at 31 December 2012, 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**

7. We highlight the following situations, without impacting on our opinion.

**7.1** As referred to in section 2.5.2 of the Notes to the consolidated financial statements, the Company 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 Company 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.

**7.2** As referred to in note 18 of the Notes to the consolidated financial statements, there are balances receivable from municipalities that are still 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, including the measures relative to the Programme to Support the Local Economy and the Law of Commitments Undertaken, which may ensure the economic and financial stability of the companies and compliance with contractual obligations.

Lisboa, 2 April 2013

Ernst & Young Audit & Associados - SROC, S.A.  
Statutory Audit Firm (no. 178)  
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#### STATEMENT

The documents entitled "Report and Opinion of the Audit Committee"; Legal Certification of Separate Accounts" and "Auditor's Report" shown on pages 189 to 194 and the documents entitled "Report and Opinion of the Audit Committee"; Legal Certification of Consolidated Accounts" and "Auditor's Report" shown on pages 299 to 309 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 2012".

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