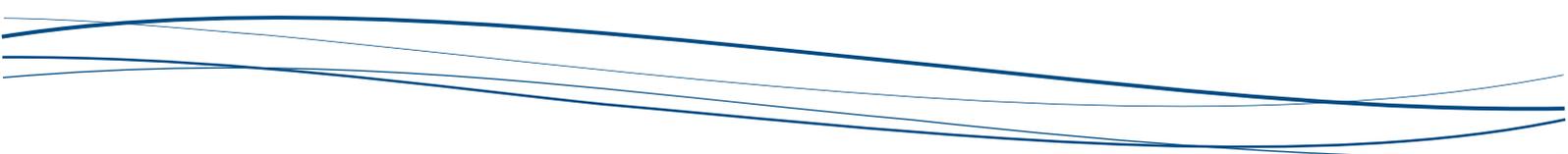




Annual Report 2011



AdP - Águas de Portugal, SGPS, S.A.
Annual Report 2011





Integrating infrastructures into the landscape

The Alcântara WWTP is a unique structure, especially its covering of vegetation, which, as well as favouring its integration into the landscape, also results in less insolation, instantaneous rainfall flows, improved air quality, habitat creation and support for biodiversity. The largest WWTP in Portugal will have an installed treatment capacity for a maximum flow of 3.3 m³/s in dry weather (biological treatment) and 6.6 m³/s in wet weather (physico-chemical treatment), providing secondary treatment and disinfection of the wastewater produced by about 756,000 inhabitants of the municipalities of Amadora, Lisbon and Oeiras.

The covering of vegetation was installed during expansion and adaption works on the WWTP, making a fundamental contribution to improving the water quality of the Tagus estuary, an area of great ecological importance, and to environmental and landscape improvements in the Valley of Alcântara.



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Chairman's Message



Knowing that 2011 was a particularly difficult year for Portugal, it is with great satisfaction that Águas de Portugal presents the positive performance of the consolidated group in terms of its main economic and financial indicators, in particular an increase of more than 13 per cent in turnover, which last year reached €834.2 million. Other highlights include a 38.6 per cent increase in operating profit to €287.6 million and net profit growth to €89.6 million.

The merit for this achievement belongs, of course, to all those who contributed to reaching this objective, beginning with the outgoing Board of Directors, headed by Pedro Cunha Serra, as well as our municipal partners and customers. I should also like to make special mention of the contribution made by all the Group's employees, who through their hard work and dedication made success possible in a year full of difficulties.

However, some questions remain, to which the Board of Directors that I have headed since February 2012 will devote every effort to resolving. Essentially, these issues concern the recovery of tariff deficits, the conclusion of planned investments and the reduction of customer debts.

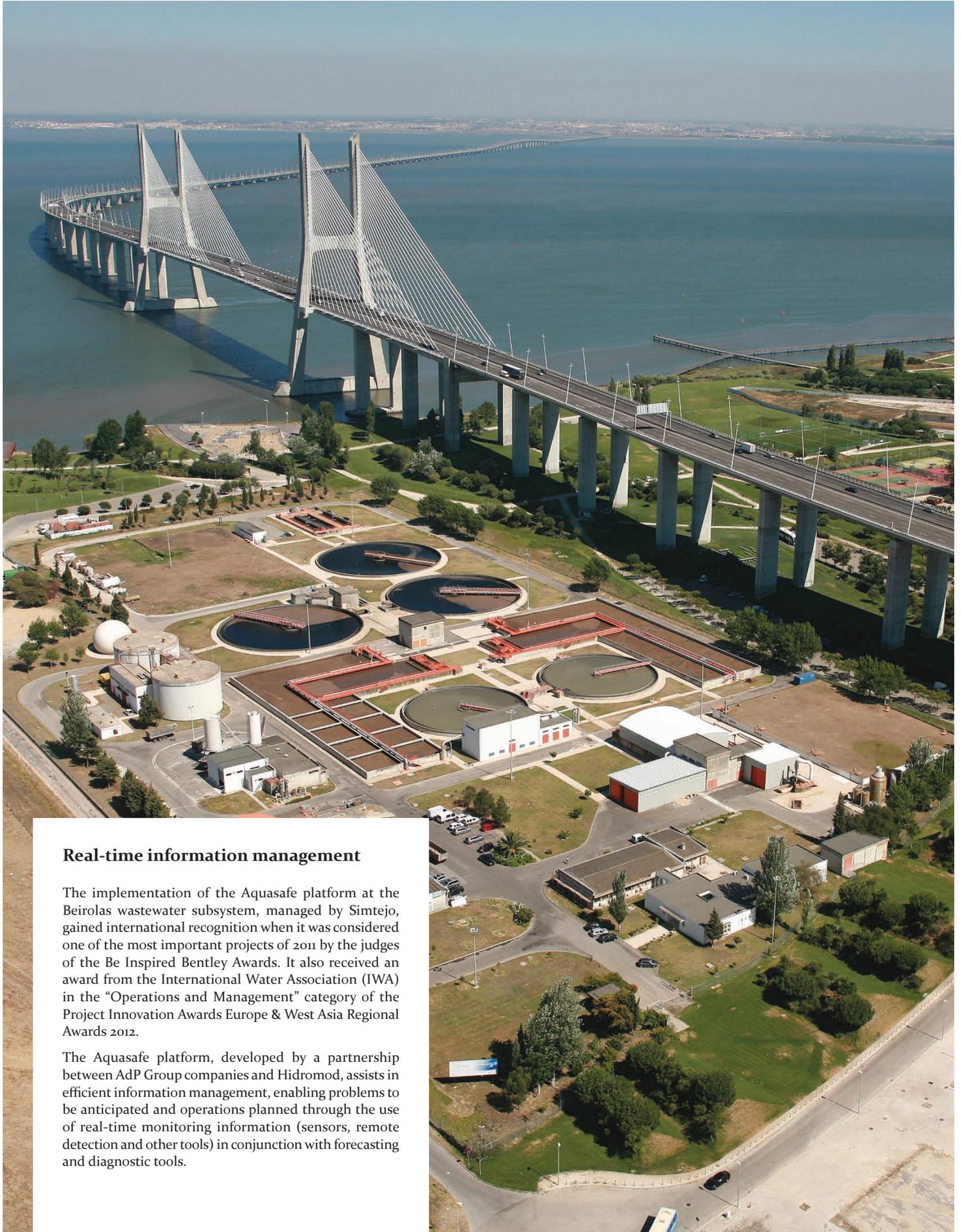
It should be noted that tariffs deficits had an impact of €41.4 million on the Group's net profit in 2011, more than double the amount, €19.3 million, registered in 2010.

For the AdP group, 2012 will be an important year, in which the conditions should be established for improving the efficiency of the services we provide in the water and waste sectors through economies of scale, range and process.

I am confident that, with the support and resolve of all the Group's employees, it will be possible to make progress towards achieving our great objective of providing a high quality service that fully satisfies both our customers and our shareholders.



Afonso Lobato de Faria
Chairman of the Board of Directors



Real-time information management

The implementation of the Aquasafe platform at the Beirolas wastewater subsystem, managed by Simtejo, gained international recognition when it was considered one of the most important projects of 2011 by the judges of the Be Inspired Bentley Awards. It also received an award from the International Water Association (IWA) in the “Operations and Management” category of the Project Innovation Awards Europe & West Asia Regional Awards 2012.

The Aquasafe platform, developed by a partnership between AdP Group companies and Hidromod, assists in efficient information management, enabling problems to be anticipated and operations planned through the use of real-time monitoring information (sensors, remote detection and other tools) in conjunction with forecasting and diagnostic tools.

The AdP Group

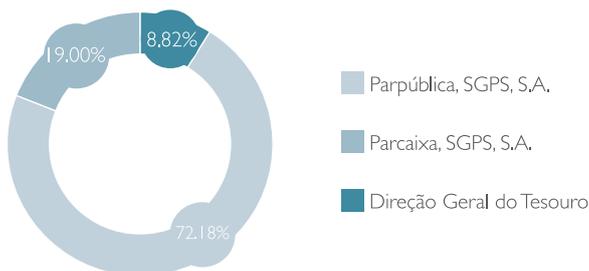
Group Organisation Chart

On 31 December, 2011 the shareholder structure of AdP - Águas de Portugal, SGPS, S.A. comprised 41 companies, of which 39 were majority owned.



Shareholders

On December 31, 2011, the share capital of AdP - Águas de Portugal, SGPS, S.A. was owned by the following shareholders:



The shareholder structure did not undergo any changes over the financial year.

Main Indicators

Economic and financial data

	2009	2010	2011
Turnover	657.9	724.5	834.2
Tariff Deficit	32.5	37.3	112.3
Operating Income ⁽¹⁾	122.7	176.6	287.6
EBITDA ⁽²⁾	251.5	277.1	345.8
Financial Results	(18.9)	(50.5)	(90.6)
Net Income for the year	65.3	79.5	89.6

(1) Results before interest and taxation | (2) OI + Amortisations + Provisions + Depreciation and Reverse Adjustments - Tariff Deficits - Investment Grants

	2009	2010	2011
Tangible and Intangible Assets (net)	4,866.4	5,406.3	5,604.8
Investment	556.6	602.6	495.0
Customer Debt (excluding tariff deficits) ⁽¹⁾	264.3	315.7	438.1
Total Assets	6,446.6	7,213.4	7,493.0
Bank Debt - Medium and Long Term	2,030.1	2,416.1	2,365.1
Bank Debt - Short Term	551.8	509.4	612.8
Bank Debt - Total	2,581.9	2,925.4	2,977.9
Investment Grants	1,761.6	1,842.5	1,950.8
Total Liabilities	5,586.6	6,284.9	6,458.5
Total Equity ⁽²⁾	860.0	928.5	1,034.4
Non-controlling Interests	214.2	234.2	278.1

(1) Without specifying the earnings | (2) Shareholder equity includes minority interests

AdP group operating data

	2009	2010	2011
Volume of Water Produced ^{(1) (3)}	641.3	643.3	611.4
Volume of Water Distributed ^{(1) (4)}	112.5	119.8	80.3
Volume of Wastewater Treated ⁽¹⁾	392.8	472.3	485.0
Volume of Municipal Solid Waste Treated ⁽²⁾	3.6	3.7	3.5
Number of Employees	5,251	5,847	5,285

(1) Unit: millions of m³ | (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 indicators

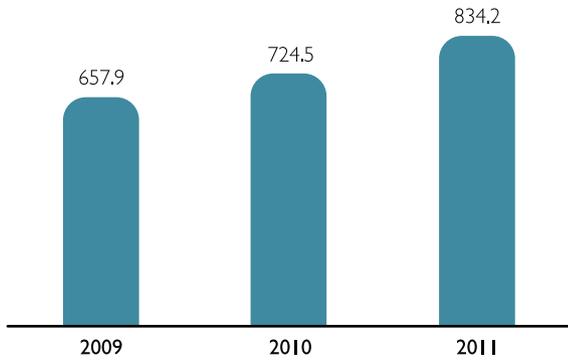
	2009	2010	2011
Financial Structure ⁽¹⁾	3.0	3.2	2.9
Solvency Ratio ⁽²⁾	0.5	0.4	0.5
Financial Autonomy ⁽³⁾	0.4	0.4	0.4
Turnover Growth ⁽⁴⁾	n.a.	9.9%	5.0%
EBITDA Margin ⁽⁵⁾	40.2%	40.3%	47.9%
ROCE before Tax ⁽⁶⁾	2.6%	3.3%	4.2%

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

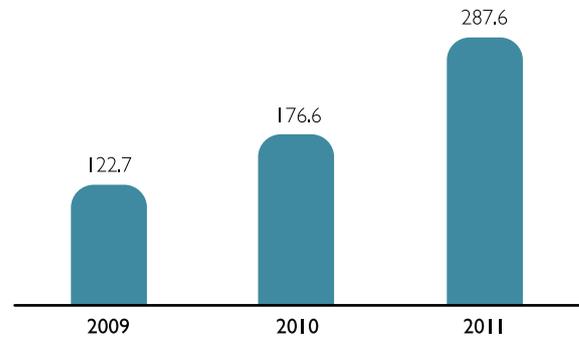
(5) EBITDA/ Turnover net of tariff deficits | (6) (EBIT/ Capital Employed; EBIT = Operating Income - Tariff Deficits)

(Capital Employed = Total Net Assets - Short-term Liabilities - Investment Grants - Tariff Deficits - Deferred Tax Asset)

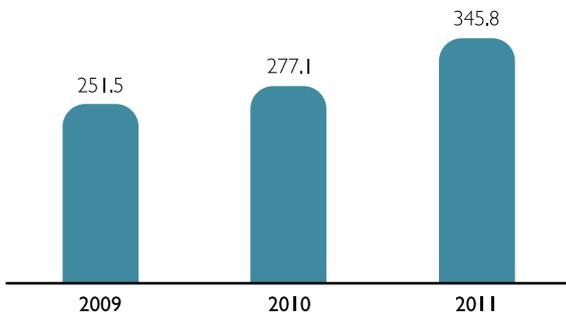
Turnover
(€ million)



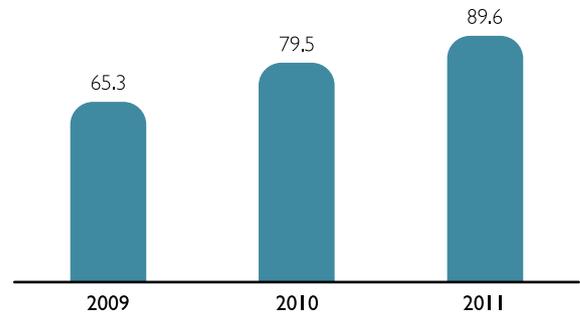
Operating Income
(€ million)



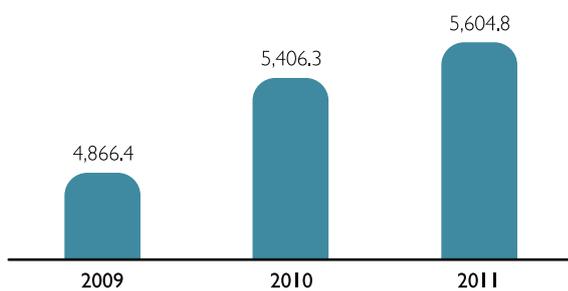
EBITDA
(€ million)



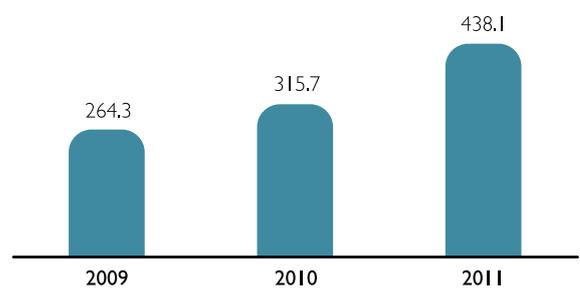
Net Income for the Year
(€ million)



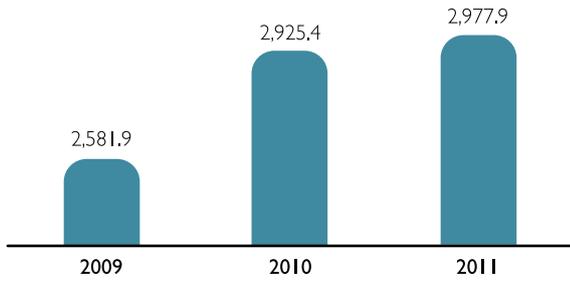
Tangible and Intangible Assets (net)
(€ million)



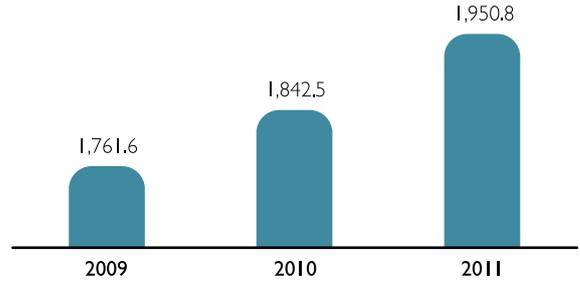
Customer Debt
(€ million)



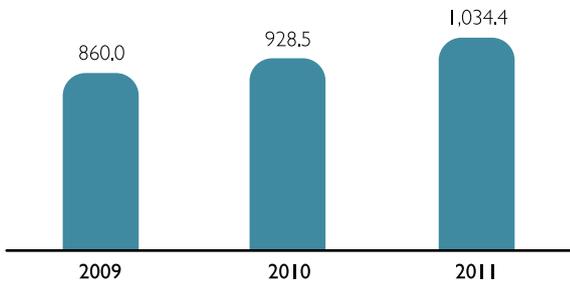
Bank Debt
(€ million)



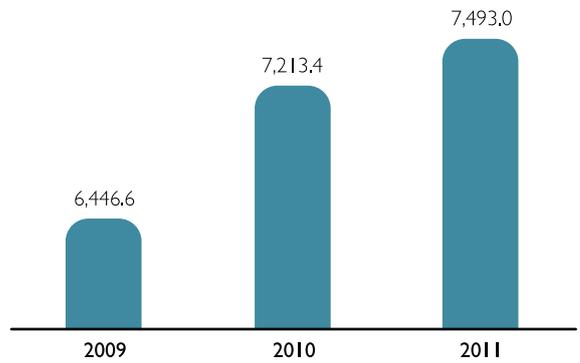
Investment Grants
(€ million)



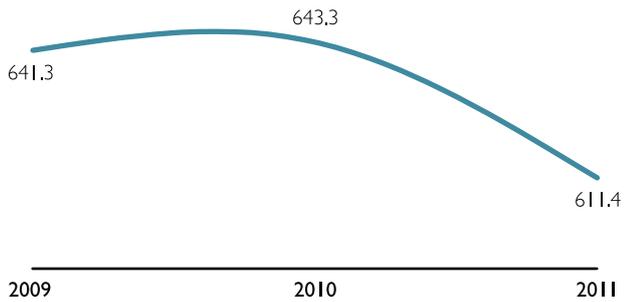
Equity
(€ million)



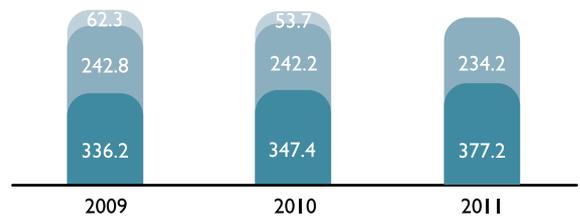
Total Assets
(€ million)



Volume of water produced
(million m³)

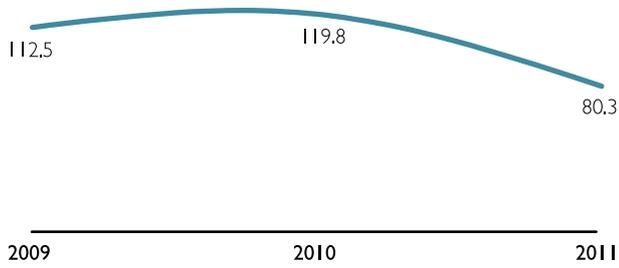


Volume of water produced
(million m³)



■ UNA-PD ■ EPAL ■ UNI

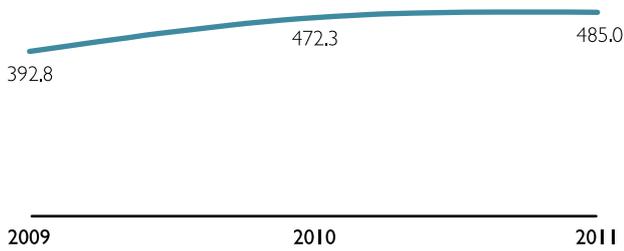
Volume of water distributed
(million m³)



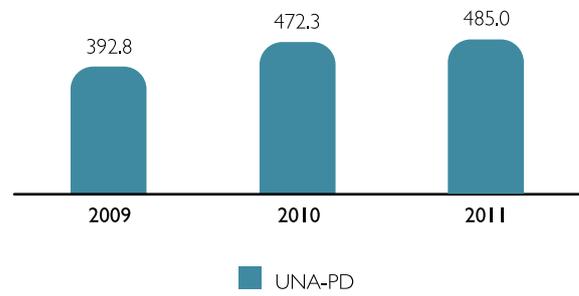
Volume of water distributed
(million m³)



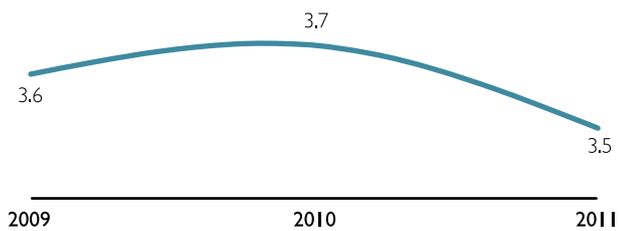
Volume of wastewater treated
(million m³)



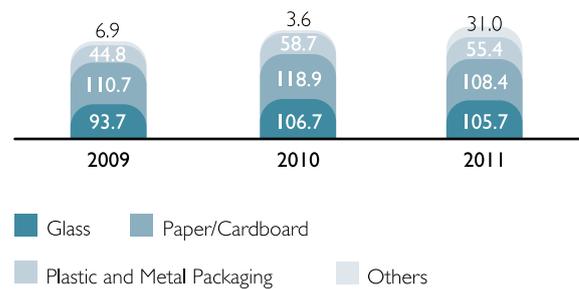
Volume of wastewater treated
(million m³)



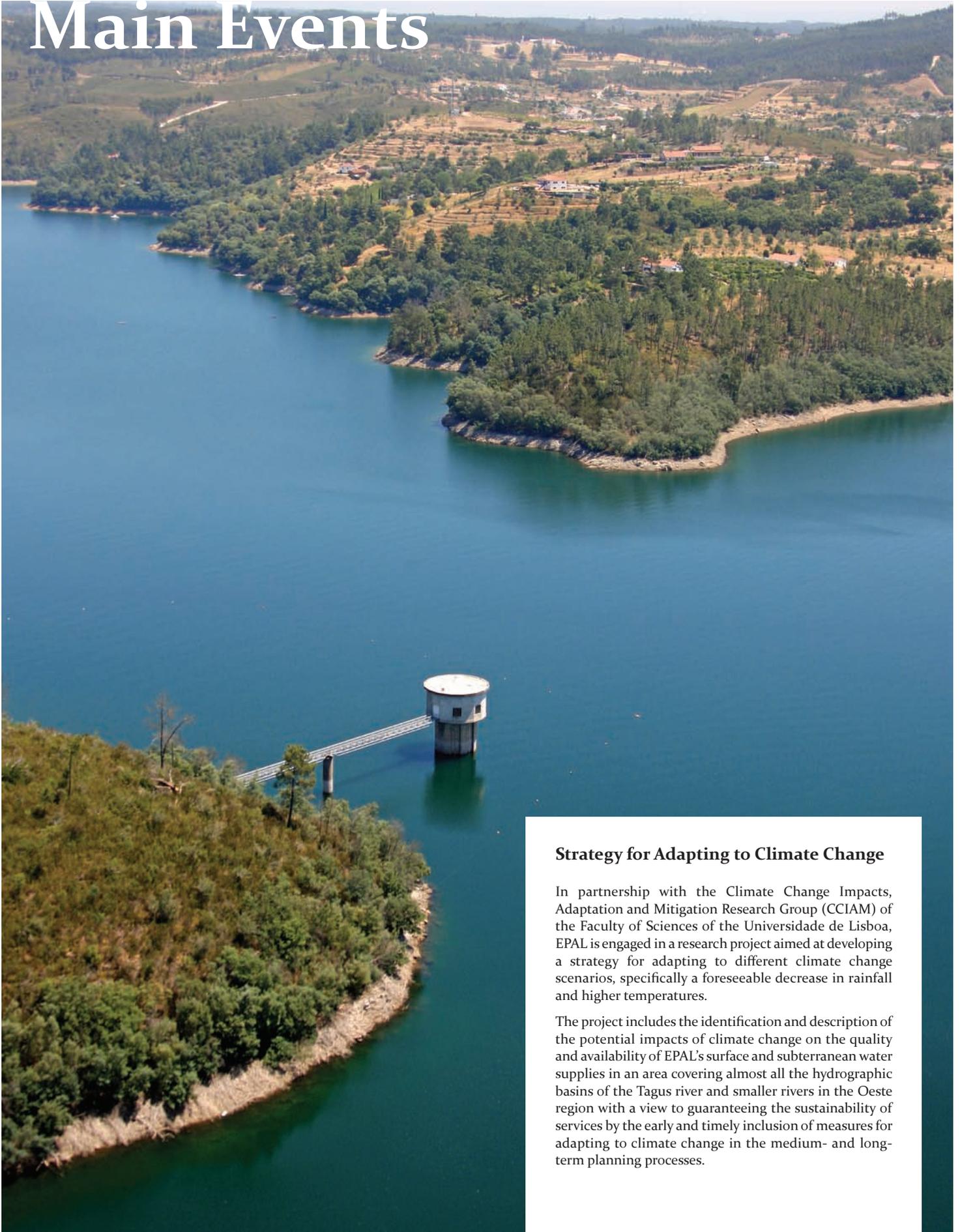
Volume of waste treated/ recovered
(million tons)



Selective collection - by material
(thousands of tons)



Main Events



Strategy for Adapting to Climate Change

In partnership with the Climate Change Impacts, Adaptation and Mitigation Research Group (CCIAM) of the Faculty of Sciences of the Universidade de Lisboa, EPAL is engaged in a research project aimed at developing a strategy for adapting to different climate change scenarios, specifically a foreseeable decrease in rainfall and higher temperatures.

The project includes the identification and description of the potential impacts of climate change on the quality and availability of EPAL's surface and subterranean water supplies in an area covering almost all the hydrographic basins of the Tagus river and smaller rivers in the Oeste region with a view to guaranteeing the sustainability of services by the early and timely inclusion of measures for adapting to climate change in the medium- and long-term planning processes.

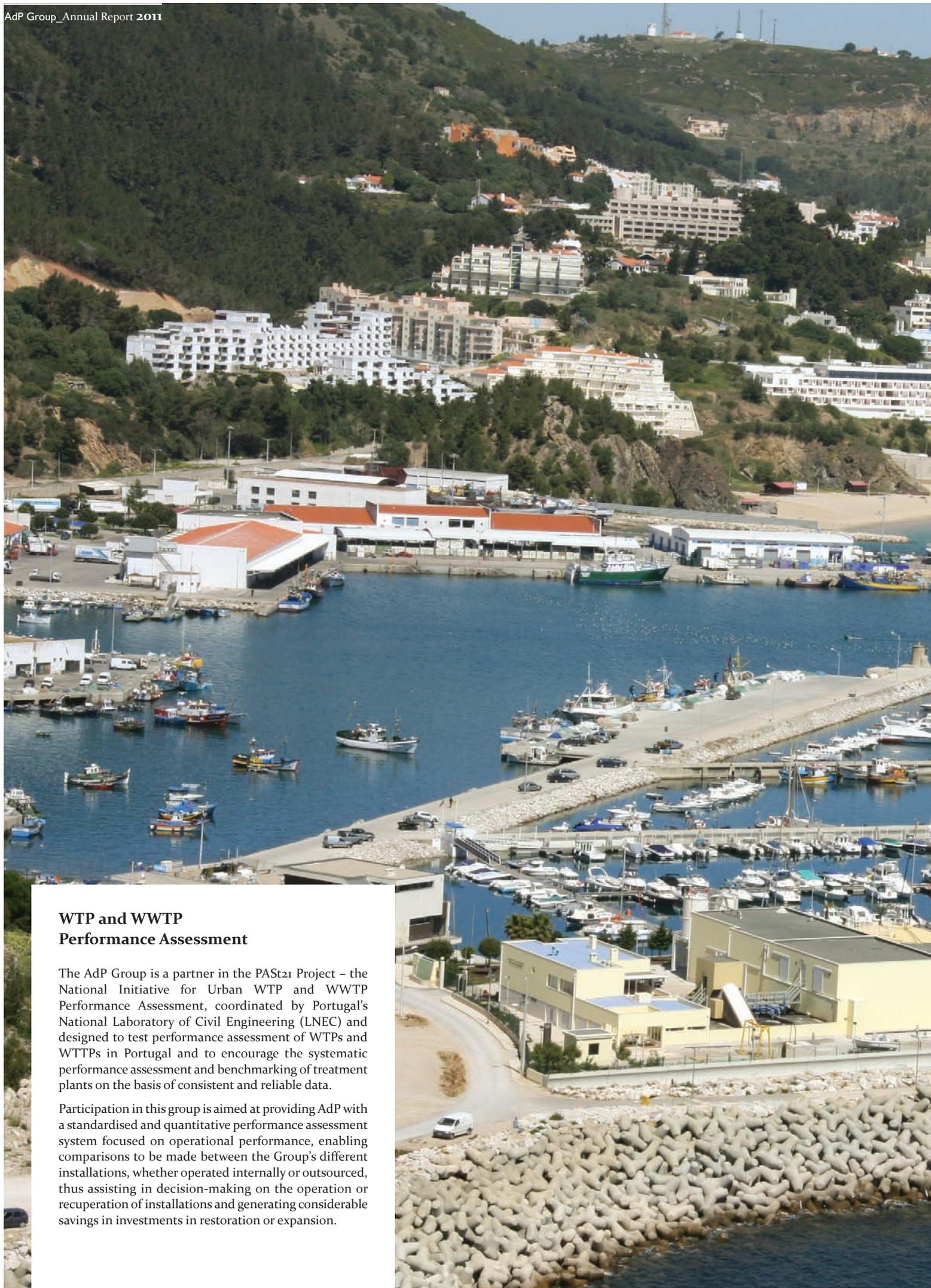
- European Union financial participations were approved for 21 new applications for funding from the National Strategic Reference Framework (QREN) 2007-2013 under the terms of the 2nd Notice for Axis II of the Territorial Enhancement Thematic Operational Programme (POVT).
- In 2011, operational highlights for the companies managing water and sanitation systems included the completion and operational start-up of several infrastructures; the start-up of water supplies and service provision for several subsystems; improvements in services levels; and significant improvements in operating efficiency.
- The Past21 - National Water and Wastewater Treatment Plant Performance Evaluation Initiative (PAST21) was concluded. The project, launched in 2009 and coordinated by Portugal's National Laboratory of Civil Engineering (LNEC), involved a study of 10 WTPs and 17 WWTPs across Portugal.
- Improvements were made to the Performance Indicator Systems developed internally by UNA-PD companies and designed to complement the information produced by the annual operational assessment made by the regulatory authority ERSAR.
- An amendment to the concession contract between the Portuguese state and Águas do Douro e Paiva was signed following an expansion of the multi-municipal water supply system for the southern area of Greater Porto to include the municipalities of Amarante and Baião.
- In the waste sector, mechanical and biological (anaerobic digestion) treatment units were brought into operation by Suldouro, Valnor and Valorlis; the Cova da Beira composting centre run by Resiestrela was reconditioned and a mechanical treatment unit installed.
- Refuse-derived fuel (RDF) preparation units for dealing with municipal solid waste were installed at Amarsul and Valnor.
- In the area of generating energy from landfill biogas, new units went into operation at Algar, Amarsul, Resiestrela, Valorsul and Valnor. Special mention should also be made of the installation at Suldouro of two Organic Rankine Cycle (ORC) units for recovering energy from the exhaust fumes produced by the generator motors used in landfill biogas energy recovery.
- In the waste sector, proposals for providing technical and management services were presented to a number of countries, specifically the Republic of Cape Verde, Brazil (Secretary of State and for the Environment for the state of Rio de Janeiro) and the Republic of Dagestan (Russia).
- Highlights from EPAL's activities in 2011 include the implementation of several projects for integrating systems and surveying processes, important initiatives for the company's asset management strategy. In this context, EPAL successfully obtained certification of its inspection activities in accordance with ISO standard 9001:2008 at the beginning of 2011.
- In the area of water protection, EPAL improved water quality monitoring in the distribution network by testing the technological reliability of the system and undertaking the necessary studies for expanding the monitoring point network to include the city centre of Lisbon.
- In light of the Water Security Management Assessment, Research & Technology (WSmart) project, to be implemented in 2012, EPAL developed a Code of Good Hygiene Practices in the Supply System and completed its Crisis Management Handbook.
- In terms of research and development (R&D) at an international level, EPAL signed a technical and scientific cooperation protocol with the Watercycle Research Institute in the area of water quality and asset management. In Portugal, the company signed a protocol with the Science and Technology Faculty of Lisbon's Nova University (FCT), under the terms of which a study is being undertaken to determine protection perimeters for surface water extractions.
- Among the international projects in which EPAL is involved, special mention should also be made of "Fungi Watch: benefits and hurdles associated with the presence of fungi in drinking water sources", which is being developed with the Institute of Experimental and Technological Biology (IBET); the SMARTCOMM project - Smart Monitoring & pro-Active Control for Contamination Mitigation Management, being developed with several international partners; and the completion of the SAFEWATER project - Development and Validation of Integrated Public Water Treatment Processes in Portugal and Norway, a partnership between IBET, the Norwegian University of Science and Technology (NTNU), SMAS in Almada and Águas do Algarve.
- EPAL partnerships with Portuguese organisations include LDmicrobiota - the microbiota of distribution system sediments and public water quality, in partnership with LNEC and supported by the Science and Technology Foundation, and the ChloriDec project - technology for the real-time monitoring of chlorine decay rates in water supply systems, in partnership with LNEC and the Higher Technical Institute (IST).
- Through EPAL, the Group was also actively involved in initiatives related to the challenges arising from climate change, specifically the PREPARED project, co-financed

by the 7th European Union Framework Programme, and the pluri-annual research project: Adapting the Urban Water Cycle to Climate Change Scenarios (AdaptaClima), in partnership with the Research Group of the Faculty of Science of the Universidade de Lisboa.

- In the international business area, the AdP Group initiated contacts with decision-makers in the Brazilian states of Rio de Janeiro, Espírito Santo and Rio Grande do Sul. Aquatec also relaunched its activities and will become the shared services company for the Group's international operations in Mozambique.
- In the Angolan market, the AdP Group's local unit began full operations by drawing up several proposals for the Energy and Water Ministry and for several provincial governments. Consolidating the activities of the

Angola unit (AdP Angola) is expected to result in new business in the water sector; specifically in relation to tenders launched as part of the Institutional Development Programme for the Water Sector (PDISA), financed by the World Bank, as well as new projects financed by the African Development Bank.

- In the international area, special mention should also be made of the signing of the Group's first technical assistance contract with Morocco's Office National de l'Eau Potable (ONEP), that came into effect at the end of 2011 as part of the Convention AdP with the name Project SIG – Métiers Eau & Assainissement.



WTP and WWTP Performance Assessment

The AdP Group is a partner in the PAST₂₁ Project – the National Initiative for Urban WTP and WWTP Performance Assessment, coordinated by Portugal's National Laboratory of Civil Engineering (LNEC) and designed to test performance assessment of WTPs and WWTPs in Portugal and to encourage the systematic performance assessment and benchmarking of treatment plants on the basis of consistent and reliable data.

Participation in this group is aimed at providing AdP with a standardised and quantitative performance assessment system focused on operational performance, enabling comparisons to be made between the Group's different installations, whether operated internally or outsourced, thus assisting in decision-making on the operation or recuperation of installations and generating considerable savings in investments in restoration or expansion.



A - Corporate Governance

I. Mission, Objectives and Policies

Mission

AdP - Águas de Portugal, SGPS, S.A. is a pure 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 shareholder.

In compliance with its mission, and in alignment with its strategic positioning, AdP operates in the water supply, wastewater treatment and municipal solid waste (MSW) treatment and recovery sectors through the ownership and management of a portfolio of shareholdings. Most of these are concession companies operating multi-municipal systems that are owned in partnership with the respective municipalities in accordance with the relevant legislation, namely Decree Law no. 379/93 of 5 November and Decree Law no. 195/2009 of 20 August, and are designed to enhance compliance with the objectives set out in the Strategic Plan for Water Supply and Wastewater Sanitation for 2007-2013 (PEAASAR II) and the Strategic Plan for Urban Solid Waste for 2007-2016 (PERSU II).

In the framework of implementing these sector plans, and in accordance with the new management model established by Decree Law no. 90/2009 of 9 April, which establishes a system of partnerships between the state and local governments for the operation and management of public water supply, urban wastewater sanitation and municipal solid waste systems, the AdP Group holds stakes in two public-public management company partnerships for the operation and management of water supply and urban wastewater sanitation services.

In the area of water supply, the stake held in EPAL - Empresa Portuguesa das Águas Livres, S.A. is of particular importance, given the contribution it makes to the Group's technical and financial capacities.

Another strategy of the AdP Group is to implement solutions for treating pig-farming effluents with a view to resolving serious environmental problems related to this activity, thus contributing to meeting the goals of Portugal's National Strategy for Agricultural and Agro-Industrial Effluents (ENEAPAI).

In the waste area, the AdP Group's priority is to contribute to implementing Portuguese and European Union strategies and achieving the respective objectives for the sector, particularly in regard to increasing the selective collection of multi-material packaging and diverting biodegradable urban waste away from disposal in landfills, as envisaged in PERSU II, and defining goals and targets for complying with the EU landfill and packaging directives.

With the aim of maximising the use of endogenous assets and resources, namely the by-products of water and waste treatment processes, and contributing to sustainable development through the rationalisation of energy consumption and the reduction or offsetting of greenhouse gas emissions, the AdP Group is also developing a diverse range of renewable energy projects.

The Group's international operations offer a means of capitalising on skills and capacities developed in Portugal and, at the same time, contributing to the implementation of development project in the countries where AdP operates.

Through its shared services unit, the Group seeks to foster concerted access to markets, combine resources and disseminate accumulated experience throughout the Group.

By contributing to the management of Portugal's available resources, the implementation of government policies and the achievement of national objectives in the environmental area, the AdP Group plays a structural role in the environmental sector. The nature, size and execution period of the capital-intensive projects with long-term returns in which the AdP Group is involved present a particularly demanding, but critically important challenge in terms of the structural role these projects play at a national level as well as in the management of the country's available resources.

AdP's future development rests on the growth and profitability of its businesses, a balanced portfolio of assets and an effective group structure that capitalises on synergies resulting from the integrated management of resources and the Group's accumulated experience and know-how.

For 2011, no specific management objectives or targets were set for the Group's Board of Directors.

Policies

In January 2009, Joint Ministerial Order no. 6008/2009 of 23 January, issued by the Ministries of State and Finance and Environment, Spatial Planning and Regional Development, established the following guidelines for the 2008-2010 management mandate:

- 1) AdP should implement public policies and contribute to attaining national objectives for the sector by implementing the measures defined in the PEAASAR, PERSU and ENEAPAI plans for achieving the results set out in those programmes;
- 2) AdP should work to ensure contractual compliance in service provision in the best possible conditions of quality and price in order to promote improvements to economic, environmental and energy efficiencies in all Group companies;
- 3) AdP should ensure the economic and financial sustainability of the operations in which it participates and correct contractual imbalances.

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 in a joint ministerial order. For the 2008-2010 mandate, this was Joint Ministerial Order no. 6008/2009 of 23 January.

In 2011, AdP received a number of guidelines from the Environment and Finance Authorities including, among others, guidelines on the wage policy in effect in the State Business Sector; instructions on the Containing Staff Costs and the External Supplies and Services within the scope of Portugal's Stability and Growth Programme. AdP also received a number of guidelines resulting from the commitments made by the Portuguese state under the terms of the country's Economic and Financial Assistance Programme.

Internal regulations are approved by the Board of Directors or by the Executive Board and are intended to 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. They include:

i) The AdP Group's Code of Conduct and Ethics

This sets out the values and principles of the Group's business culture. It is aimed at creating a common awareness among employees and ensuring 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 to which they work, the nature of their employment or their position in the company hierarchy.

ii) The 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) The 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 administering the plan.

iv) The Sustainability Indicators Handbook

This handbook sets out a method for all AdP Group companies for 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 of 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 Use Regulations

These set out the rules and procedures to be observed in the acquisition, assignment and use 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 people 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 2011 are set out in the following chart.

	Administration and management services	Interest obtained	EIB service commissions	Participation in Governing Bodies	Re-debit of costs incurred	Total
Águas da Região de Aveiro	747,660	111,460	170,164	247,713	14,664	1,291,662
AdP - Águas de Portugal Internacional	-	-	2,878	-	12,875	15,753
AdP - Águas de Portugal Serviços Ambientais	221,496	40,753	-	-	4,667	266,916
Águas de Santo André	377,978	-	-	102,501	8,135	488,614
Águas de Trás-os-Montes e Alto Douro	398,481	3,157,036	728,000	34,305	-	4,317,823
Águas do Algarve	788,976	3,070,714	1,209,271	82,270	-	5,151,230
Águas do Centro	218,825	6,114	399,236	48,927	-	673,101
Águas do Centro Alentejo	149,588	-	290,164	36,501	3,377	479,630
Águas do Douro e Paiva	544,039	-	439,064	85,547	2,416	1,071,066
Águas do Mondego	258,274	27,940	482,214	45,861	3,043	817,332
Águas do Norte Alentejano	119,428	175,804	318,000	26,450	-	639,682
Águas do Oeste	504,200	592,670	730,000	61,095	12,892	1,900,858
Águas do Zêzere e Côa	310,357	1,609,539	666,438	(76,300)	-	2,510,034
Águas do Noroeste	650,246	1,061,315	1,316,792	97,839	-	3,126,192
Águas Públicas do Alentejo	250,396	524,741	-	128,322	-	903,460
Empresa Geral do Fomento	861,494	721,275	250,413	0	-	1,833,182
EPAL	2,573,168	-	-	142,638	-	2,715,805
Sanest	257,454	-	243,000	46,141	7,069	553,663
Simarsul	225,824	17,440	478,411	108,273	7,061	837,009
Simdouro	144,506	1,012,262	-	90,605	84	1,247,457
Simlis	118,853	-	300,000	19,500	1,670	440,023
Simria	243,510	1,454,126	311,772	48,927	39	2,058,374
Simtejo	701,629	734,257	904,438	35,795	-	2,376,118
Valorsul	-	529,349	-	-	-	529,349
Algar	-	-	-	-	-	-
Amarsul	-	-	-	-	-	-
Valorlis	-	-	-	-	-	-
AdP Energias	-	71,497	-	-	-	71,497
Aquasis	-	2,708	-	-	-	2,708
Trevo Oeste	-	-	-	4,625	-	4,625
Suldouro	-	1,350	-	-	-	1,350
Others	-	-	(18,411)	99,368	-	80,957
	10,666,382	14,922,351	9,221,846	1,516,901	77,992	36,405,471

Balances and transactions with municipal shareholders were not included.

In addition, dividends totalling €27,000,000.00 were distributed to shareholders.

3.2 Information on other transactions

AdP SGPS, S.A. 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, when that percentage corresponds to more than

€1 million, were with AdP Serviços, S.A. AdP SGPS, S.A. owns 100% of the share capital of this company and the transactions it carried out with it in 2011 totalled € 3,828,175.

These transactions mainly related to the rental of office space, including related services and supplies, for a total amount of €1,697,606 (€2,192,433 in 2010). 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.

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 and the others board members.

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

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

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

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

- a) approving the company's objectives and management policies;
- b) approving annual financial business plans, as well as any necessary alterations to these;
- c) managing the Group's business and performing all acts and operations concerning the company's institutional purpose which are not attributed to other company bodies;

- d) representing the company at law and otherwise, as plaintiff or defendant, with the power to withdraw, settle or admit any suit, and to agree to arbitration proceedings;
- e) purchasing, selling or in any other way disposing of or acquiring rights and assets;
- f) incorporating companies and subscribing to, acquiring or disposing of shareholdings;
- g) determining the technical and administrative structure of the company and its internal operating rules, with particular regard to staff and their remuneration;
- h) appointing proxies with such powers as it sees fit, including the power of subrogation;
- i) exercising such other powers as are conferred on it by law or by a General Meeting.

Executive Board

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

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

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

- a) managing the business and performing all acts and operations concerning the company's institutional purpose which are not attributed to other company bodies;
- b) representing the company at law and otherwise, as plaintiff or defendant, with the power to withdraw, settle or admit any suit, and to agree to arbitration proceedings;
- c) the current management of the company, namely human resource management, the acquisition and provision of services and the contracting and allocation of financial resources;
- d) implementing the actions required to meet the goals set out in strategic policy documents, 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 meet satisfactorily all the goals that the company has set 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 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 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.

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 supporting 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.

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 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 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.

Governing bodies elected for the 2012-2014 mandate

The current members of the governing bodies were elected at the General Meeting of Shareholders held on 2 February, 2012 for a mandate of three years (2012-2014).

Board of the 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
Member	Joaquim José de Oliveira Reis, 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

At the present date, the Statutory Auditor for the 2012-2014 mandate has not yet been elected. As a result, the statutory auditing company A. Dias & Associados, Sociedade de Revisores Oficiais de Contas, represented by José Duarte Assunção Dias, ROC, remains in office.

External Auditor

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

Board of Directors - Responsibilities for Operating Areas and Business Units

Afonso José Marçal Grilo Lobato de Faria

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

Business Units	International
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Gonçalo Ayala Martins Barata

Corporate Bodies	Corporate Finance Internal Auditing and Risk Control Corporate Development and Regulation
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Business Units	Shared Services
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Manuel Joaquim Barata Frexes

Corporate Bodies Sustainability and Social Responsibility

Business Units Other Businesses

Manuel Maria Pereira Fernandes Thomaz

Business Units Water - Production and Purification

Water - Distribution and Collection

Governing Body members - *curricula vitae* **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).
- Masters Degree course in Public Management and Administration, Instituto Superior de Ciências Sociais e Políticas (2006).

Professional Career

In Portugal's 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:

- Represented Portugal at FEOGA Guarantee Committees (2001-2002).
- Member of the Consultative Council of Portugal Vela 2007, S.A. (2006-2007).
- Secretary of the Board of the Annual General Meeting of EP - Estradas de Portugal, S.A.
- Chairman of the Board of the Annual General Meeting of Docapesca - Portos e Lotas, S.A.
- Chairman of the Supervisory Board of Metro do Porto, S.A.

- Vice-chairman of Board of the Annual General Meeting of AdP - Águas de Portugal, SGPS, S.A. since 2008.

Secretary - Manuel Bruno Rossi Ruano Gouveia Pereira

Born: 18 August, 1978.

Academic Qualifications

- Degree in Law, Law Faculty, Universidade Lusíada (2001).
- Postgraduate studies in Planning, Urban and Environmental Law (CEDOUA), Law Faculty, Universidade de Coimbra (October 2002/June 2003).
- Currently studying towards a Masters Degree in Administrative Law, Faculty of Law, University of Lisbon. Professional Career - Assistant to the Office of the Ministry of the Environment and Territorial Planning (November 2009 – June 2011).

Professional Career

- Assistant to the Office of the Ministry for the Environment, 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

- 1986 -1991 - Degree in Civil Engineering, Instituto Superior Técnico.
- 1994 - Specialisation in Public Health, Ecole Nationale de la Santé Publique, Paris.
- 1995-1996 - Masters Degree in Environmental Engineering, Imperial College of Science, Technology and Medicine, London.
- 2000-2001 - Master of Business Administration, Universidade Nova de Lisboa.
- 2008 - 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 - Management director; Oeingerge - Agência Municipal de Environment e Energia de Oeiras.
- August 2008 - August 2009 - Member of the Annual General Meeting of Adene - Energy Agency.
- September 2000 - July 2006 - Lecturer at Universidade Católica de Lisboa.
- August 2001- March 2003 - Managing director of Sonofabril.
- October 1996 - July 2001 - Director, Waste department, Ecoserviços.

- April 1993 - September 1995 - Project manager, Ecoserviços.
- September 1991 - March 1993 - Design engineer, ProceSl.

Member - Álvaro António Magalhães Ferrão de Castello-Branco

Born: 16 de April, 1961.

Academic Qualifications

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

Professional Career

- Since February 2012 - Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.
- Since 2007 - Chairman of the Annual General Meeting of Porto Energy Agency.
- Since 2005 - Chairman of the Annual General Meeting of Porto Wholesale Market.
- 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 - Management director, LIPOR.
- 2005-2012 - Vice-chairman, Porto City Council.
- 2000-2005 - Member of Parliament, Portugal's 8th, 9th and 10th legislatures.
- 1992-2001 - Practiced law.

Member - Gonçalo Ayala Martins Barata

Born: 21 June, 1971.

Academic Qualifications

- Degree in Economics, Universidade Nova de Lisboa.

Professional Career

- Since February 2012 - Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.
- 2002-2012 - Director; Fixed Income and Capital Markets Origination, Citigroup, Portugal with responsibilities for debt origination for leading Portuguese issuers as well as structuring and advisory services in the area of 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 Fundação 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 in Portuguese-speaking Countries and Territories. This mandate was renewed up to 2008.
- In 1992 he took office as Assistant Secretary of State and for Culture in Portugal 12th Constitutional Government and was Secretary of State for Culture from December 1994 to October 1995, when the government left office.
- In 1995 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 career because with work on restructuring 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-984.
- Monitor in Civil Procedural Law 2 at Lisbon Law Faculty (1980/1981).
- Founder of the Portuguese Association of United Nations Students and Youth (APE JUNU) and, the following year, one of the founders of the Political Studies Institute (IEP) (1979).

Other posts

- Non-executive Director, TMN, S.A. (2004-2006).
- Non-executive Director, AdZC, S.A. (2002-2010).
- Non-executive Director, Resiestrela, S.A. (2010-2012).
- Member, Regions Committees (Member of the Education Commission and ENVE).
- Management director, Municípa, S.A.
- Vice-chairman, National Association of Portuguese Municipalities (ANMP) (2009-2012).
- President of Social Democrat local authorities (2004-2012).

He has received several 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 July, 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 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, 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 created and managed several companies in the audio-visual technology area over 10 years.
- In 1989 he began his professional careers 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 National Association of Young Business People (ANJE).
- From 1993 to 2007 he was a guest lecturer at 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 Reserches et d'Etudes des Chefs d'Entreprises (CRC) in Paris, which took place 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 directors

Member - Joaquim José de Oliveira Reis, elected in representation of Parpública, SGPS, S.A. and Parcaixa, SGPS, S.A
Born: 16 March, 1958.

Academic Qualifications

- Degree in Economics, ISEG, 1983.
- Postgraduate qualification in European Studies, Universidade Católica em Lisboa - 1985/86.

Professional Career

- Since June 2010, Non-executive member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A.
- May 2009 - December 2010 - Vice-chairman of UITP (the International Union of Public Transport integrating associations, public transport companies, manufacturers and regulators from over 90 countries).
- May 2010 until now - Chairman of the Board of Directors, Parpública (SGPS), S.A.
- November 2006 - Chairman of the Board of Directors, Ferconsult, S.A., a Grupo ML engineering and projects firm, focused on the metropolitan (heavy and light) and railway sectors. Ferconsult currently runs projects on three continents: Europe (Portugal, Ireland), Africa (Algeria, Libya) and Latin America (Argentina).
- May 2009 - Chairman of the Metropolitan Meeting of UITP.
- November 2006 - Chairman of the Board of Directors of Metropolitano de Lisboa, E.P.E.
- June 2005 - Management director of Transtejo, S.A. - Empresa de Transporte Fluvial de Passageiros, responsible for the economics and financial, human resources and information systems departments.
- September 2005 - March 2007, by inheritance, Chairman of the Board of Directors of OTLIS - ACE: a grouping of passenger transport companies implementing ticketing policies in the metropolitan area of Lisbon.
- 2003 -2005 - Director of the financial firm - Lisbon Brokers, AS, with its headquarters in Lisbon, and a member of the markets in Lisbon, Paris, Amsterdam and Madrid, where he served as general company director, taking on specific responsibility for financial, management control, information systems, company analysis and financial placing. Headed the Madrid branch as Delegate Company Directive. In these roles, he reported to the Spanish supervisory authorities: the Bank of Spain, the National Stock Market Regulatory Authorities and the Ministry of Finance.
- 1998 -2003 - Director of a stock market trading company within a banking group - Central de Investimentos, SC / NCO, responsible for trading (national and international markets, - Eurozone and the United States), Treasury and Management Control.

- 1993 -1998 - General Director of the Stock Market Trading Company - Central Investimentos, Sociedade Financeira de Corretagem, AS - and Lead Trader in Shares for International Banks and Institutional Investors. Within the scope of the general director's role, he also contributed towards department research on listed companies and oversaw the placing of initial public offerings in international markets.
- 1992 -1993 - Director and Financial Intermediation Lead Trader on the Lisbon and Porto Stock Market - Socifa Beta, Sociedade Financeira de Corretagem, S.A.
- 1989 -1991 - Financial Director; Director of Financial Company IT Systems under the supervision of the Bank of Portugal - Socifa Beta, S.A.
- 1986 -1989 - Technical specialist in the Financial and Accountancy Department of Banco Comercial Privado (BCP), Banco Comercial Português, S.A., dealing with cash and foreign exchange markets.
- 1984 -1985 - Compulsory military service.
- 1983 -1984 - Lecturer.

Supervisory Board

Chairman - Paulo Alexandre dos Santos Ferreira

Born: 23 May, 1977.

Academic Qualifications

- Degree and Masters Degree in Economics, Economics Faculty, Universidade do Porto.

Professional Career

- Technical adviser; Statistics Department, Bank of Portugal.
- Guest assistant professor; Instituto Superior de Ciências Sociais e Políticas, Universidade Técnica de Lisboa.
- Technical specialist at the General Directorate of Taxation, with roles 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 (budgetary accountancy and national accounting practices). Member of the Working Group responsible for drafting proposed legislation on reviewing the legal budgetary framework.
- Coordinator of the Working Group monitoring the National Health Service. Member of the Commission for National Health Service Financial Sustainability.
- Member of the Commission for the Financial Sustainability of the National Health Service Financial, having contributed to the report: The Financial Sustainability of the National Health Service by the Commission for the Financial Sustainability of the National Health Service.
- Chairman of the Supervisory Board, AdP - Águas de Portugal, SGPS, S.A. (2010/2011).
- Chairman of the Supervisory Board, AdP - Águas de Portugal, SGPS, S.A. (2012/2014).

Member - Mário José Alveirinho Carrega

Born: 18 August, 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).
- Chairman of the Board of the Annual General Meeting, Hospital de Santa Marta, S.A., (2002-2004).
- Secretary of the Board of the Annual General Meeting, PME - Investimentos - Sociedade de Investimento, S.A. (2004-2006).

- Vice-chairman of the Board of the Annual General Meeting, SIMAB - Sociedade Instaladora de Mercados Abastecedores, S.A. (2005-2007).
- Chairman of the Board of the Annual General Meeting, Hospital de Santa Marta, S.A. (2005-2007).
- Chairman of the Supervisory Board, Fundação Museu do Douro (2006-2008).
- 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).
- Member of the Supervisory Board, Companhia Carris de Ferro de Lisboa, S.A. (2006-2008).
- Chairman of the Board of the Annual General Meeting, SIMAB - Sociedade Instaladora de Mercados Abastecedores, S.A. (2008-2010).
- Reserve member of the Supervisory Board, APA - Administração do Porto de Aveiro, S.A., (2008-2010).
- Member of the Supervisory Board, Companhia Carris de Ferro de Lisboa, S.A., (2009-2011).
- Chairman of the Supervisory Board, Fundação Museu do Douro, S.A. (2009-2011).
- Reserve member; General Council, Commission for Accounting Standardisation.
- Treasury and Finance Department trainer on international cooperation in the state corporate sector.
- Treasury and Finance Department representant at Working Party on State Ownership and Privatisation Practices in the OECD.

- Member of the Supervisory Board, AdP - Águas de Portugal, SGPS, SA (2012-2014).

Member - Ana Luísa Videira Gomes

Born: 19 September, 1968.

Academic Qualifications

- Master of Business Administration, specialisation in finances (curricular programme), Universidade Católica Portuguesa de Lisboa, 1996.
- Degree in Corporate Management and Leadership, 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 Analysis Department, September 2007 - October 2008.
- Technical specialist, Treasury and Finance Department, where she worked in the Treasury Management Office, 1999-2007.
- Technical specialist, Public Debt 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, S.A. (2012/2014).

Reserve Member - Graça Maria V. N. Montalvão Fernandes

Born: 12 de March, 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, S.A. (2012/2014).

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 the 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.

Governing bodies on 31 December, 2011 (elected for the 2008-2010 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 *post vacant following the resignation of Pedro Eduardo Passos da Cunha Serra, with effect from 1 December, 2011

Member *post vacant following the resignation of Justino Manuel Matias Carlos, with effect from 1 December 2011

Member *post vacant following the resignation of António Manuel da Silva Branco, with effect from 1 December 2011

Member João Manuel Lopes Fidalgo

Member José Maria Martins Soares

Non-executive member *post vacant following the resignation of José Fernando Maia de Araújo e Silva, the representative of Parcaixa, SGPS, S.A, with effect from 1 de September, 2011

Non-executive member Parpública - Participações Públicas, SGPS, S.A. represented by Joaquim José de Oliveira Reis

Executive Board

Chairman *post vacant following the resignation of Pedro Eduardo Passos da Cunha Serra, with effect from 1 December, 2011

Member *post vacant following the resignation of Justino Manuel Matias Carlos, with effect from 1 December, 2011

Member *post vacant following the resignation of António Manuel da Silva Branco, with effect from 1 December, 2011

Member João Manuel Lopes Fidalgo

Member José Maria Martins Soares

Supervisory Board

Chairman Paulo Alexandre Santos Ferreira

Member *post vacant following the resignation of Pedro António Martins Mendes, with effect from 1 August, 2011

Member Célia Maria Marques Rocha Lino

Reserve Member Graça Maria V.N. Montalvão Fernandes

Company Secretary

Ana Cristina Rebelo Pereira

Statutory Auditor

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

Reserve member: Salvador Figueiredo Vás e Lima

In 2011, the Board of Directors met nine times and the Executive Board 40 times.

Specialised Committees

The following specialised committees for managing and supervising cross-company projects has been appointed as at 31 December, 2011:

- the working group for monitoring the implementation of PEAASAR II;
- the supervisory group for the information system requirements of AdP business units;
- the sustainability working group;
- the working group for monitoring the use of management information;
- the working group to implement the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS);
- the social responsibility working group;
- the working group for monitoring and negotiating the revision of concession contracts;
- the working group for studying downstream water supply and wastewater sanitation;
- the Equality Plan working group;
- the 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 treatment sectors in Portugal.

• EPAL

EPAL operates in the wholesale and distribution sectors and is responsible for the upstream water supply, directly or indirectly, of 33 municipalities on the north bank of the Tagus as well as domestic water supplies in the Lisbon region.

• Water - Distribution and Collection (UNA-DR)

This 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 BU's 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 BU's 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 Structure

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 BU's. They are responsible for the definition and implementation of policies, for the management of corporate resources and for the evaluation and supervision of BU's 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 business units, as well as analysis of the performance of the Group, business units 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.

- **Public Relations and Corporate 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 in an organised manner the group's vision, strategy and commitment in regard to sustainable development.

• 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 II 2008-2010

Chairwoman - Attendance voucher in the amount of €700;

Vice-chairwoman - Attendance voucher in the amount of €520;

Secretary - Attendance voucher in the amount of €400.

2. Supervisory Body

Supervisory Board

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

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

3. Board of Directors

Mandate II 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 at 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 at the Águas de Portugal Group.

Non-executive directors

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

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

I. Board of the General Meeting

Mandate II	Chairwoman	Vice-Chairwoman	Secretary
2011	Ana Cristina de Menezes Pereira P. Sequeira Rodrigues	Maria Fernanda Joanaz Silva Martins	Manuel Bruno Rossi Ruano Gouveia Pereira
	1,400.00	1,040.00	800.00

2. Supervisory Board

Supervisory Board	2010			2011		
	C	M	M	P	M	M
	Paulo Alexandre dos Santos Ferreira(*)	Pedro António Martins Mendes	Célia Maria Marques Rocha Lino	Paulo Alexandre dos Santos Ferreira	Pedro António** Martins Mendes	Célia Maria Marques Rocha Lino
Fixed annual remuneration (€)	20,037.00	20,143.00	20,143.00	26,677.64	11,510.40	20,143.20
Reduction resulting from Law 55-A/2010 (€)	N.A.	N.A.	N.A.	933.72	N.A.	N.A.
Actual annual remuneration (€)	20,037.00	20,143.00	20,143.00	25,743.92	11,510.40	20,143.20

(*) Post filled by José Clemente Gomes until 24/06/2010 and by Paulo Alexandre dos Santos Ferreira from 27/09/2010

(**) Post filled until 01/08/2011

C - Chairman; M - Executive member; NEM - Non-executive member; N.A. - Not Applicable.

Statutory Auditor	2010	2011(**)
	Alves da Cunha, A. Dias & Associados, SROC	Alves da Cunha, A. Dias & Associados, SROC
Annual remuneration earned (€)	80,000.00	72,000.00

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

3. Board of Directors Remuneration - Mandate II

	C	M	M	M	M	NEM	NEM
	Pedro Eduardo Passos da Cunha Serra	António Manuel da Silva Branco	João Manuel Lopes Fidalgo	José Maria Martins Soares	Justino Manuel Matias Carlos	Caixa Geral de Depósitos	Parública
1. Remuneration							
1.1. Annual/fixed base remuneration (a)	123,080.58	114,865.24	125,323.80	125,323.80	114,865.24	21,112.00	29,556.80
1.2. Reduction resulting from Law 12-A/2010	6,154.00	5,743.40	6,266.40	6,266.40	5,743.40	1,055.60	1,477.84
1.3. Reduction resulting from Law 55-A/2011	11,692.61	10,912.18	11,905.74	11,905.74	10,912.18	710.00	2,807.90
1.4. Actual annual remuneration (1.1.-1.2.-1.3.)	105,233.97	98,209.66	107,151.66	107,151.66	98,209.66	19,346.40	25,271.06
1.5. Attendance vouchers	NA	NA	NA	NA	NA	NA	NA
1.6. Additional management responsibilities	N	N	N	N	N	N	N
1.7. Variable remuneration	N	N	N	N	N	N	N
1.8. Exemption from fixed working hours	NA	NA	NA	NA	NA	NA	NA
1.9. Others	N	N	N	N	N	N	N
2. Other fringe benefits							
2.1. Annual mobile communication ceiling (€)	1,925.00	1,925.00	2,100.00	2,100.00	1,925.00	NA	NA
2.2. Mobile communication expenses (€)	789.92	1,394.46	1,365.53	1,627.61	1,735.31	NA	NA
2.3. Travel allowance (€)	NA	NA	NA	NA	NA	NA	NA
2.4. Meal allowance (€)	1,467.89	1,467.89	1,589.68	1,589.68	1,467.89	NA	NA
2.5. Others (details) (€)	NA	NA	NA	NA	NA	NA	NA
3. Social benefit charges							
3.1. Social welfare system	13,275.86	13,275.86	14,297.08	2,802.32	13,275.86	NA	NA
3.2. Health insurance	325.08	650.16	1,533.74	904.08	325.08	NA	NA
3.3. Life insurance	2,342.92	3,279.81	2,385.31	3,577.97	2,186.54	NA	NA
3.4. Personal accident insurance	N	N	N	N	N	N	N
3.5. Others	NA	NA	NA	NA	NA	NA	NA
4. Vehicle pool							
4.1. Brand	MERCEDES	BMW	MERCEDES	BMW	BMW	NA	NA
4.2. Model	E 350 CDI BlueEF Avantgarde 4p - 3.0	5 Series - E60 520d Executive 4p LCI - 2.0	E 250 CDI BlueEF Avantg 4p - 2.1	5 Series - E60 520d Executive 4p LCI - 2.0	5 Series - E60 520d Executive 4p Aut LCI - 2.0	NA	NA
4.3. Registration number	32HR45	86HM03	32HR44	34HN44	86HM04	NA	NA
4.4. Type of use (Acquisition/ALD/Renting/Leasing)	AOV	AOV	AOV	AOV	AOV	NA	NA
4.5. Reference value of new vehicle (€)	64,885.65	42,798.39	49,860.35	44,071.08	45,578.89	NA	NA
4.6. Starting year	27-05-2009	16-04-2009	27-05-2009	17-04-2009	16-04-2009	NA	NA
4.7. End year	26-05-2012	15-04-2012	26-05-2012	16-04-2012	15-04-2009	NA	NA
4.8. No. of payments (if applicable) (b)	36 Months	36 Months	36 Months	36 Months	36 Months	NA	NA
4.9. Residual value (€) (c)	NA	NA	NA	NA	NA	NA	NA
4.10. Rental value/ annual payment on service vehicle (€)	16,469.94	11,874.22	12,987.00	13,251.49	11,039.24	NA	NA
4.11. Fuel expenses for vehicle (€)	3,806.70	2,179.73	3,820.90	8,489.96	2,513.45	NA	NA
4.12. Annual fuel ceiling (€)	2,674.64	2,674.64	2,926.76	2,926.76	2,674.64	NA	NA
4.13. Others (details) (€)							
5. Additional information							
5.1. Option for remuneration for place of origin (y/n)	N	N	N	N	N	NA	NA
5.2. Net annual remuneration from original post (€)	NA	NA	NA	NA	NA	NA	NA
5.3. Social welfare system							
5.3.1. Social security (y/n)	S	S	S	N	S	NA	NA
5.3.2. Other (indicate)				CGA			
5.4. Remunerated work outside the group (y/n)	N	N	N	N	N	N	N
5.5. Others (detailed)	NA	NA	NA	NA	NA	NA	NA

Key

C - Chairman; M - Executive member; NEM - Non-executive member; Y - Yes; N - No; NA - Not Applicable.

(a) Gross annual remuneration earned resulting from fixed remuneration statute or post of origin, if this option has been authorised.

(b) Number of contracted payments. Vehicles acquired through leasing/rental contracts.

(c) No purchase option.

Note 1: Amounts without VAT

Note 2: Based on a an 11-month period (January-November) for Pedro Eduardo Passos da Cunha Serra, António Manuel da Silva Branco and Justino Manuel Matias Carlos.

Note 3: Based a nine-month period(January-September) for Caixa Geral de Depósitos

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	2010	2011 (**)
	Ernst & Young Audit & Associados, SROC, S.A.	Ernst & Young Audit & Associados, SROC, S.A.
Annual remuneration earned (€)	128,000.00	128,000.00

(**) In 2011, article 22 of Law 55-A/2011 (Law OE/2011) was applied YES _ NO

(Note: Reduction not applicable. The external auditor is not a member of the governing bodies. A three-year contract that ended in 2011).

6. Sustainability Analysis

Given that sustainability is one of the topics at the top of the business agenda and a growing concern for civil society, AdP SGPS is fully aware of the important role it plays in corporate development. As a result, it has been steadily adopting policies increasingly sustainable policies, the strategy of the Group being based on the concept of symbioses with the environment, shareholders, employees, the community and other stakeholders with whom it has a relationship of close interdependence

In 2011, the Group's integrated system for managing quality, the environment, safety and social responsibility was strengthened by maintaining its certification by the Portuguese Certification Association (APCER).

The consolidated Group's Sustainability Report for 2010 is available on the AdP website (www.adp.pt) and sets out the AdP Group's responses to the principles and commitments that make up its sustainability strategy, clearly and transparently relating the Group's performance in this area.

The report details the economic, environmental and social performance of 34 companies in the consolidated AdP Group operating in 2010 in which AdP SGPS has a majority stake, either directly or indirectly (the holding company, shared services and subsidiaries-water, wastewater and waste).

The 2010 Sustainability Report was verified by an independent external body and received an A+ classification in the Global Report Initiative (GRI) index.

Activities undertaken in this area in 2011 are due to be published in the AdP's consolidated report for that year. The highlights include:

- an increase in the number of business management systems certifications for Group companies and the continuation of existing certifications, strengthening our commitment to foster the continuous improvements that form a vital part of the public service mission to which we are committed in accordance with the highest levels of responsibility in the area of sustainable development;
- the publication of an annual progress report, available at <http://www.unglobalcompact.org/>, strengthening 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 on human rights, work, environmental protection and anti-corruption mechanisms adopted by more than 8,000 organisations in about 135 countries;
- the continuation of the protocol between all Group companies and the Portuguese Sports Federation for Disabled Persons (FPDD) to support the National Adapted Swimming Team in its preparations for the 2012 Paralympic Games. In this context, for each Christmas card sent from an electronic platform created for that purpose, a donation of € 0.50 has been made. Employees of the AdP Group have been keen to support this expression of social responsibility;
- participation in the 4th Congress of the Social Entrepreneurship Institute (IES) in a panel discussion on the importance of partnerships between and within the public and private sectors for resolving social problems at which AdP presented its project for supporting Portugal's adapted swimming team.

In 2011, an analysis was made of AdP's performance in relation to the Dow Jones sustainability index criteria. Performance was also benchmarked in relation to the leaders of the sector:

7. Human Capital Management

AdP believes that its employees are a decisive factor for the success for 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.

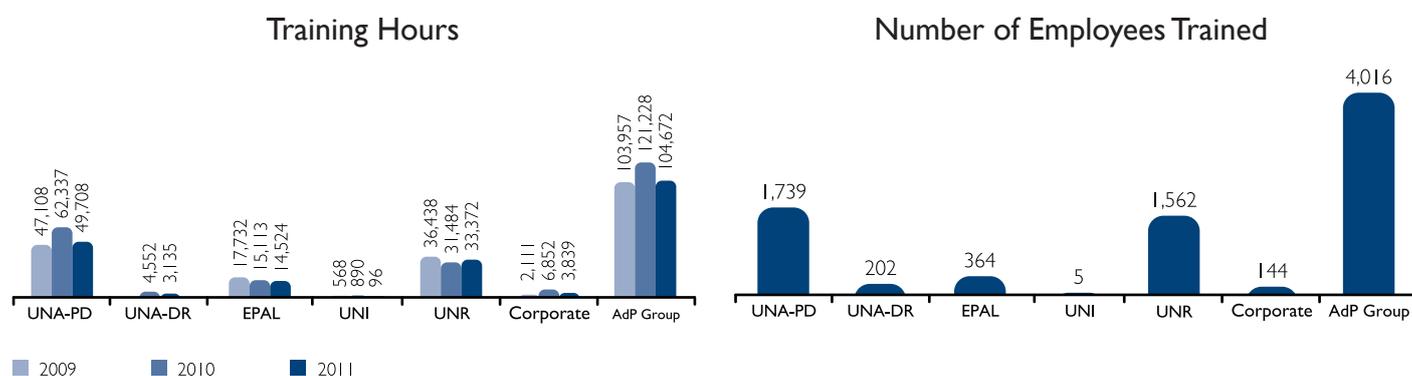
This process has made a decisive contribution to the implementation of development plans adapted to the needs of each employee and in fostering excellence through continuous improvement.

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.

Group companies draw up annual plans designed to meet the training needs they have identified. Training initiatives that are cross-company and strategic nature are also undertaken with a view to fostering corporate development.

Figures for 2011 show that although the total number of training hours fell in relation to the previous year, this was partly due to a reduction in the number of trainees following the sale of the company Águas de Moçambique. In fact, the average number of training hours per employee increased in comparison with 2010.



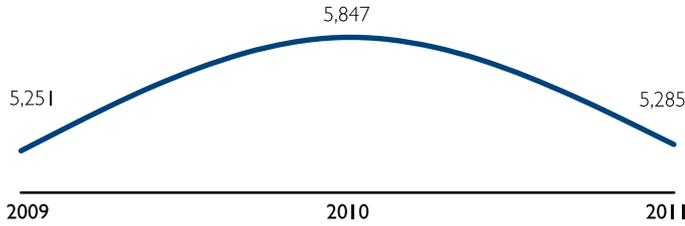
Career Management

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.

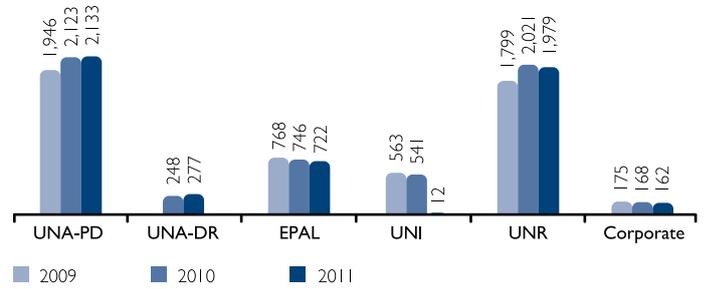
Description of the Group's Human Resources on 31 December, 2011

The total number of employees fell in 2011, essentially due to the sale of the company Águas de Moçambique, which was merged into the International Business Unit. The winding up of this company reduced the total number of employees in the AdP Group by about 530.

Number of AdP Group Employees

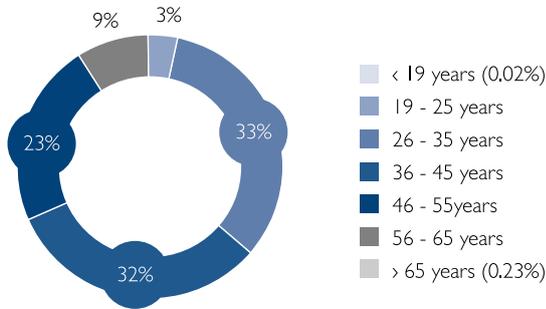


Number of Employees by BU

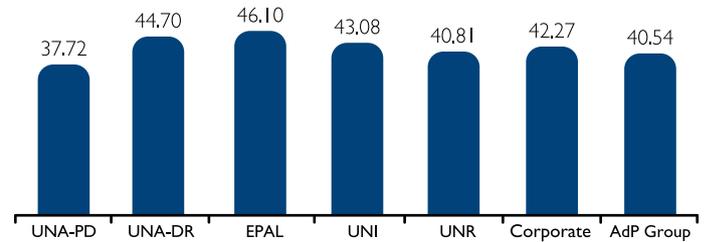


The average age of Group employees was 40.54, UNA-PD being the business area with lowest average age of about 38 and EPAL the highest at more than 46.

Age Structure

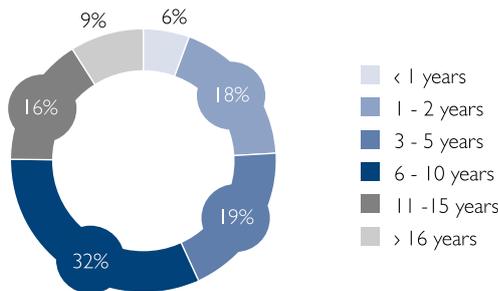


Average Age of Employees

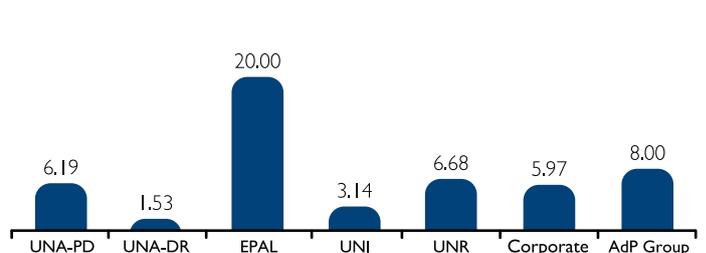


The average length of service within the Group fell from 8.44 years in 2010 to 8.00 in 2011.

Length of Service

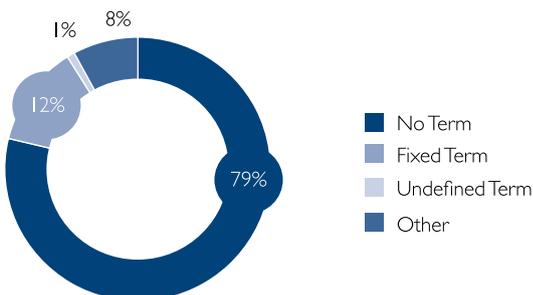


Average Length of Service

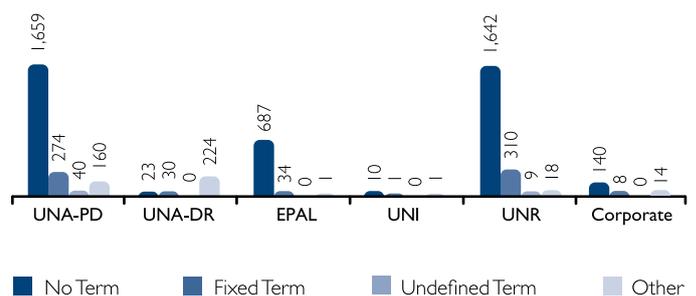


A total of 79% of employees had open-ended contracts in 2011, an increase on the previous year.

Type of Employment Contract

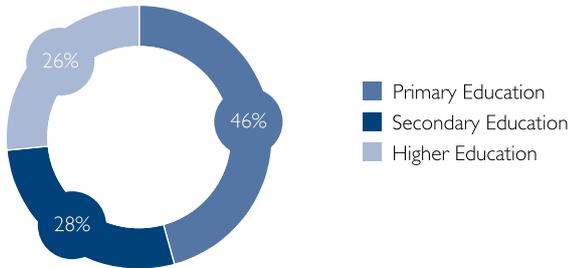


Type of Employment Contract by BU

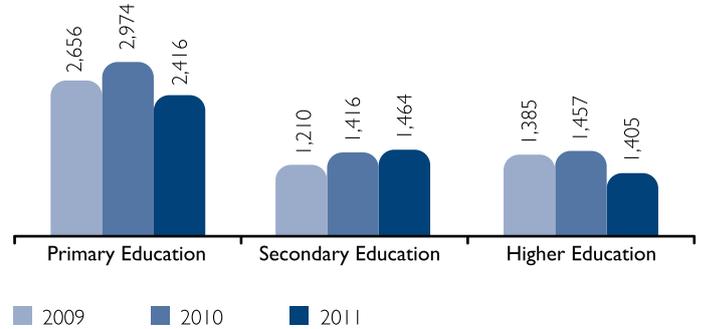


In terms of academic qualifications, the percentage of employees with secondary school and higher education qualifications increased on the previous year. Employees with higher education qualifications represented 26% of the Group total.

Educational Qualifications

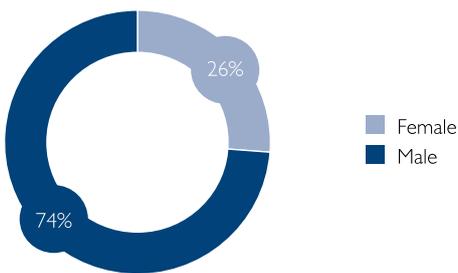


Educational Qualifications

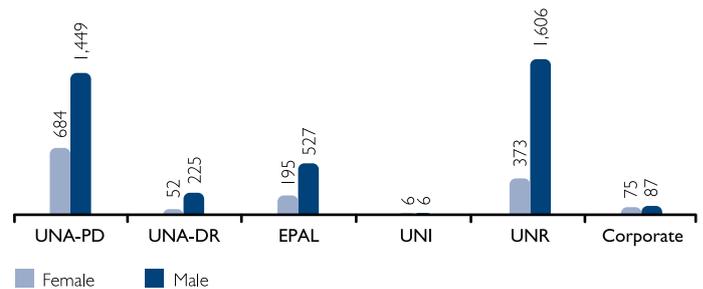


In regard to distribution by gender, the more operational business units continue to have a higher proportion of male employees, while in the central support and distribution areas, the distribution is more balanced.

Gender Distribution

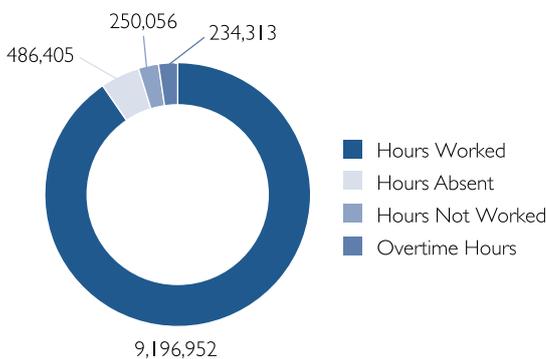


Gender Distribution by BU

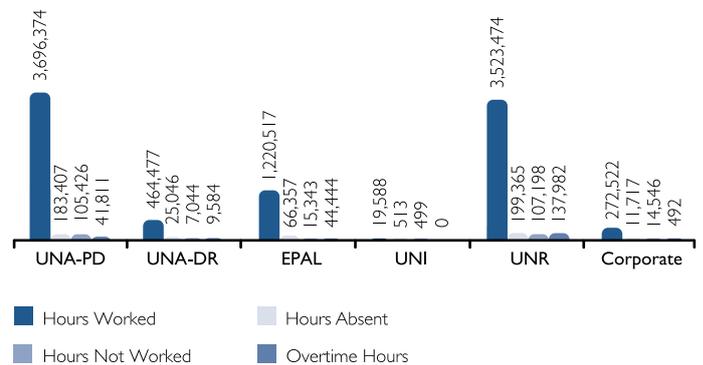


The distribution of productive and non-productive work hours in 2011 was within the normal parameters for the respective operating areas.

Hours Worked



Hours Worked by BU



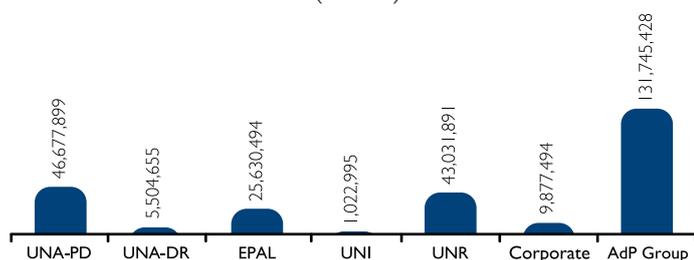
Staff Costs	2009	2010	2011
Accounting standard	IFRS	IFRS	IFRS
Staff costs (€ million)	149,5	146,6	131,7
Average annual cost per employee (€)	28,090	24,745	24,612
Average monthly cost per employee (€)	2,006	1,767	1,758
Staff costs/ Turnover	23,97%	20,23%	15,79%
Staff costs/ EBITDA	59,44%	52,90%	38,10%

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.).

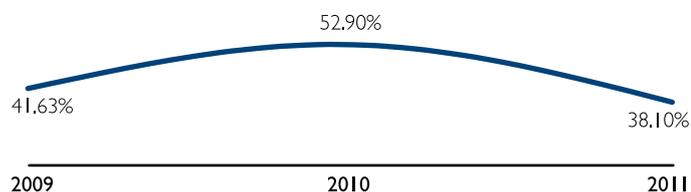
Note (2): the average annual and monthly cost per employee were calculated on the basis of the total number of employees and members of the executive governing bodies.

Note (3): the average monthly cost per employee was calculated on the basis of 14 months' pay per year.

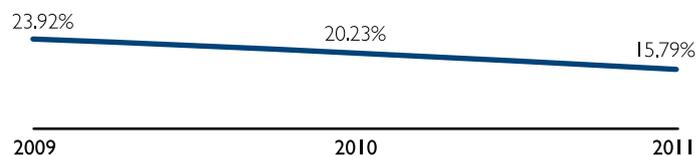
Staff Costs (euros)



Staff Costs/ EBITDA



Staff Costs/ Turnover



8. R&D and Innovation

The most relevant aspects of activities undertaken in 2011 are set out below, demonstrating the Group's alignment with the guidelines set out in the PEAASAR II that contribute most towards Portugal's Technology Plan.

“Cooperation (...) with university and research institutions of relevance to the water and sanitation field with the objective of setting up partnerships taking into consideration the 7th FP”

The following table refers to the projects that AdP has been directly involved in or in which it provided leverage for the involvement of its subsidiaries, almost always as beneficiaries (i.e. a very low level of expenses for AdP Group companies).

Regarding the 7th Framework Programme (7th FP), the work carried out in 2011 covered five European consortia, and was aimed at developing relevant knowledge for the AdP Group, and also support to a qualified participation in Portuguese scientific teams.

Participation in R&D projects

Co-financing	Acronym	Coordinator	Summary	Budget (€ million)	Status
7th FRAMEWORK PROGRAMME	MYWATER	GMV	<i>In situ</i> introduction of satellite and field data into hydrological models for the quantitative management of hydrographic basin water resources in different geographic and technological contexts.	2.0	Underway.
	TRUST	IWW	Governance technologies and models guiding the transition of urban water systems towards new sustainable paradigms.	9.3	Underway.
	LENVIS	HYDROLOGIC	Environmental and healthcare information services for citizens: water quality and air quality.	3.1	Underway.
	G-MOSAIC	TELESPAZIO	GMES services for crisis management.	15,3	Underway.
	PREPARED	KWR	Adapting water and wastewater services to climate change.	10.7	Underway.
INTERREG	AGUAFLASH	ECOLAB	Development of a risk evaluation methodology for the degradation of water quality during flooding to be tested in southwest European hydrographic basins.	1.4	Underway.
LIFE+	WW4ENVIRONMENT	Instituto Superior Técnico	Minimising energy consumption in treating wastewater and maximising the production of renewable energies by anaerobic sludge digestion.	0.8	Underway.
EUROSTARS	INNOSENSOR	SIMBIENTE	Development of a sensor for on-line detection of volatile acids with a view to optimising biogas production.	0.2	In preparation.
National Strategic Reference Programme	GESTAR PLUS	MdeMÁQUINA	Remote planning and supervision tools for operations in other operational areas of the company (financial, maintenance...).	0.8	Concluding.
AdP	IWA BONN NETWORK	IWA	Support tools for implementing and managing Water Security Plans.	0.2	Concluding.

Besides this active involvement in the 7th FP, other highlights included cooperation in the management of previously approved projects and cooperation in the preparation of a new project.

As a complement to R&D activities, which includes sharing the knowledge generated and the introduction of related products by AdP Group companies, the Group has supported presentations to potential international customers.

In this context, mention should be made of the product developed as part of the GESTAR PLUS project (in which Aquasis participated), which has already been used by many concession companies for multi-municipal water and wastewater sanitation systems. SABESP (the water and sanitation company for São Paulo state in Brazil) already operates a pilot project at one of its installations.

In this way, for a limited investment, AdP has succeeded in leveraging Portuguese R&D initiatives of interest to the Group and creating “windows of opportunities” in new markets from which AdP may benefit in the future.

“Boosting Portuguese participation in the Water and Sanitation Technological Platform”

For several reasons, some of them inherent to the Water and Sanitation Technological Platform itself, activities in this area in 2011 were limited to the first quarter:

In this period, the Group followed up contacts with the European Commission for formatting the future European Innovation Partnerships programme, aimed at creating opportunities for investment projects with innovative characteristics with grants that could reach 40% of total investment. In 2010, a survey identified investment intentions related to the AdP Group in areas including asset management, energy and reutilisation totalling about €68 million.

“Promotion of the R&D activities of management companies”

AdP promoted the presentation of nine papers at nine Portuguese and international events, slightly fewer than had been presented in previous years.

Communications

Event	Organisation/Sponsor	Location	Date	Authors
Seminar on the Management of WTP and WWTP Sludges	Ordem dos Engenheiros	Lisbon	21 January, 2011	Águas de Portugal
Water Security Plans in Portugal: where we are and where we are going	AdP Serviços	Lisbon	13 April, 2011	Águas de Portugal
Water Framework Directive: the opportunity of an imperative	BCSD Portugal	Lisbon	5 May, 2011	Águas de Portugal
1st CPLP High-level Meeting on Waste	Community of Portuguese-Speaking Countries (CPLP)	Luanda	25 May, 2011	Águas de Portugal Internacional
Ambiente Angola	International Fair - Environment and Environmental Equipment, Services and Technologies 2011	Luanda	27 May, 2011	Águas de Portugal Internacional
Seminar on the São Tomé e Príncipe Water and Sanitation Sector	UCCLA	São Tomé	2 June, 2011	Águas de Portugal Internacional
3rd Seminar on Hydrographic Basin Management - "Estuaries"	APRH-Norte	Viana do Castelo	2-3 June, 2011	Águas de Portugal e AdP Serviços
Financing Opportunities in Environment theme of 7th Framework Programme	MCTES	Lisbon	20 June, 2011	Águas de Portugal
Technical Meeting - New Energy Policy Challenges for the Water Sector	APRH	Lisbon	6 July, 2011	Águas de Portugal

“Maximising the use of biomass as a source of renewable energy, studying solutions specific to management companies and solutions involving other sectors”

In this area, work continued on the application of an internal R&D product that involves the creation of a model for simulating the functioning of Wastewater Treatment Plants (WWTP), with the aim of studying opportunities for co-digesting pig-rearing effluents in anaerobic sludge digestors. In addition to the North WWTP operated by Simlis, already underway, a study has also begun into using this product at Águas do Noroeste's Ave WWTP.

The project seeks to support the rational use of the capacities of the existing WWTPs in achieving the objectives of Portugal's National Strategy for Agricultural and Agro-Industrial Effluents, minimising the need for investment in new infrastructures. This will impact on the service price for disposing of such effluents, and, no less importantly, maximize the potential of these effluents for generating biogas for use in renewable energy production.

Other projects

In 2011 worked continued in support of the AdP Group's internationalisation efforts, using the knowledge created and the existing network of contacts. Several initiatives in support of AdP Internacional merit highlighting:

- the organisation of a technical mission to AdP by Morocco's Office National de l'Eau Potable (ONEP) and the negotiation of a contract to provide consulting services to ONEP in the area of geographic information systems;
- cooperation in writing a proposal to provide technical assistance on managing bathing waters to Turkey's Ministry of the Environment in the context of a consortium involving AdP and GTZ (a large German public sector company);

- participation in a consultation mission to the municipality of Kastoria in Greece;
- writing one of the components of a technical proposal for providing specialist consulting services to the holding company for water and wastewater of the Arab Republic of Egypt as part of a consortium formed by AdP with the consulting company GFA (Germany);
- organising and following up the training of senior water sector staff in the Democratic Republic of São Tomé e Príncipe at AdP Group companies.

9. Business ethics and preventing corruption

As a business group providing public services, AdP seeks to uphold the values of integrity, rigour and responsibility in carrying out the mission conferred on the Group by the Portuguese state.

The AdP Group's Code of Conduct and Ethics is an expression of its commitment to ethical behaviour in its internal and external relationships. It aims to strengthen 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.

It is worthy of note 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 and well as the main risks arising from them, the controls introduced to mitigate those risks and the probability of such acts occurring.

In April 2011, 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*

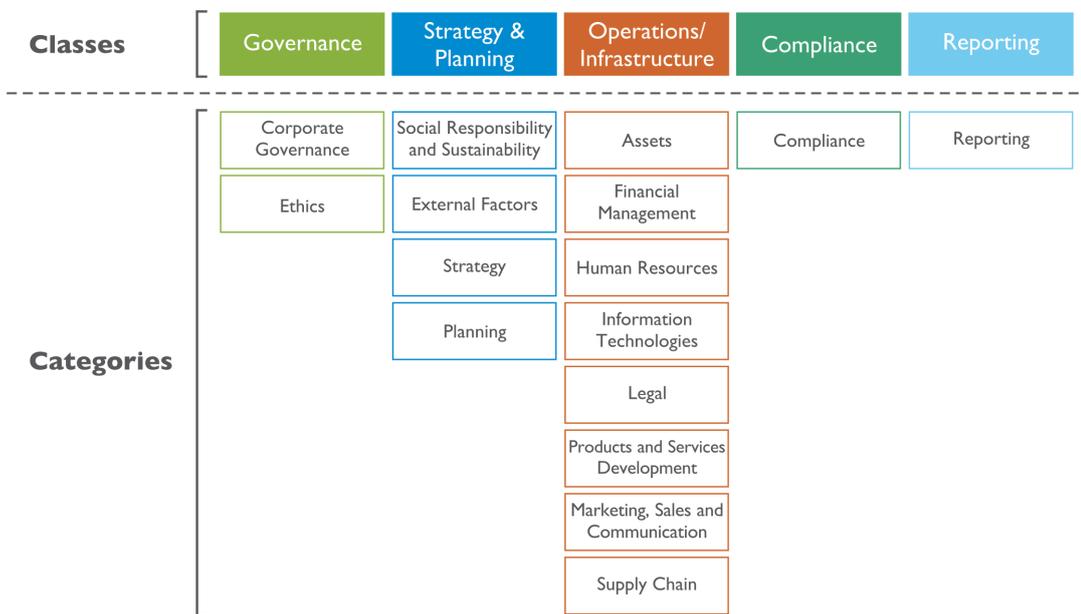
The portuguese version of the **Code of Conduct and Ethics** can be consulted and downloaded at the Group's website (www.adp.pt) at the following address: <http://www.adp.pt/content/index.php?action=detailfo&rec=2180&t=Codigo-de-Conduto-e-Etica>

10. Risk Control

The AdP Group and the Board of Directors of AdP SGPS in particular dedicates great attention to the risks inherent to group activities through the regular monitoring of the key risks resulting from the daily operations at all companies.

In 2011, 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, establishing a common language for defining each risk, aligning objectives with the risks and respective controls of each entity.

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 the both the inherent risk and the respective residual risk. Evaluation seeks to ascertain the effectiveness of the internal control system set up by each company to maintain risks at a level deemed acceptable.

Several components of potential risks are assessed so that evaluations of the possible impact take 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 mission of Internal Auditing and Risk Control is to identify the inherent risks of the businesses in which the AdP Group operates, 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 assesses 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 management of the companies it audits and an appropriate level of operating autonomy, optimising the use of available resources and avoiding the duplication of structures.

Risks related to governance, strategy and planning, conformity and reporting are dealt with and monitored by each individual company, and, whenever circumstances require, submission to the AdP SGPS Board of Directors. This approach to operational and infrastructure risks, besides the coverage provided by each company and its respective governing body, is complemented by centralised monitoring and control structures with responsibility for identifying and managing the principle risks.

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

- management of shareholdings;
- legislative and regulatory changes;
- political, economic and financial developments;
- bad debt liabilities;
- credit and financing; and
- financial sustainability.

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

11. Preventing Conflicts of Interest

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) and the Principles of Good Governance of State-owned Companies (CMR 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) delivering to the General Inspection of Finances, a declaration listing all shareholdings and assets held directly or indirectly in the company, as well as all positions, roles and professional activities undertaken (article 22, no.9 of Decree Law no. 71/2007, of 27 March);
- (ii) delivering 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 28/82, of 15 November);
- (iii) to 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);
- (iv) non-intervention in deliberations when holding any direct or indirect interest (article 22 of Decree Law no. 71/2007, of 27 March);
- (v) to comply with any further stipulations on these matters set out in Decree Law no. 71/2007, of 27 March, and in 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	N.A.	
Updated Company Statutes (PDF)	X			
Company History, Vision, Mission and Strategy	X			
Company summary file	X			
Company Identification:				
Mission, objectives, policies, public service req. and financing model	X			
Governance Model/ Identification of Government 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; N.A. - Not Applicable

Information available on the company website	Published			Comments
	S	N	N.A.	
Existence of Site	X			www.adp.pt
Company History, Vision, Mission and Strategy	X			
Company Structure Chart	X			http://www.adp.pt/content/index.php?action=detailfo&rec=2312&t=Estrutura-funcional
Governing Bodies and Governance Model:				
Identification of governing bodies	X			
Identification of the board's areas of responsibility	X			http://www.adp.pt/files/1034.pdf
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; N.A. - 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;
- quarterly reports on budgetary implementation together with the reports of the supervisory board
- copies of the minutes of General Meetings.

13. Compliance with instructions, ministerial orders and other legislation

13.1. Compliance with general guidelines on salaries, promotions and other related matters (2011 Budget Law)

AdP SGPS complied fully with the guidelines on salary payments, promotions and other related matters as set out in the Government Budget Law for 2011.

13.2. Compliance with Ministry of State and Finance ministerial order of 25 March 2010, as set out in government circular no. 2590, of 26 March 2010, stipulating that no management bonuses should be paid to members of governing bodies in the years 2010 and 2011

AdP SGPS fully complied with the Ministry of State and Finance ministerial order of 25 March 2010, as set out in government circular no. 2590, of 26 March 2010, and did not award any bonuses to AdP Group governing body members in 2011.

13.3. Compliance with the provisions of art. 12 of Law no. 12-A/2010 - reduction of managerial remuneration by 5%

AdP SGPS complied fully with the provisions of article 12 of Law 12-A/2010 reducing the remuneration of AdP Group directors by 5%.

13.4. Compliance with the guideline on public procurement standards (Ministerial Order no. 438/10-SETF)

In the area of public procurement in 2011, AdP Group companies continued to observe the guideline set out in Ministerial Order no. 438/10 - SETF, of 10 May, 2010, as communicated in Official Circular no. 6132, of the Treasury and Finance Department (DGTF), of 6 August, 2010.

In addition to the above, AdP Group companies observed the standards set out in the Public Contracts Code in all contractual procedures undertaken in 2011 covered by the Public Contracts Code, as approved by Decree Law no. 18/2008, of 29 January, and set out in Law no. 59/2008, of 11 September; by Decree Law no. 278/2009, of 2 October, and by Law no. 3/2010, of 27 April.

13.5. Compliance with the maximum limits on increased indebtedness defined for 2011 in the Stability and Growth Programme (PEC), as approved by Parliamentary resolution no. 29/2010, de 12 April, and detailed in Ministerial Dispatch no. 155/11-MEF, of 28 April)

In a context of low liquidity and the degradation of the Average Payment Period by municipal customers, the AdP Group recorded a 1.8% increase in indebtedness in 2011, a year in which the maximum limit set for increased debt was 6% on the level of indebtedness recorded in 2010.

13.6. Implementation of Stability and Growth Programme (PEC) measures, particularly the staff and FSE costs reduction plan, the reduction in the number of governing bodies and senior management posts (Ministerial Dispatch no. 1315/10-SETF and RCM no. 101-A/2010) and membership of the National Public Purchasing System

An agreement with the government ministries responsible for the sector was reached in November 2010 for a consolidated reduction in these costs amounting to 12.9% in relation to 2009, as well as on the measures required to achieve this reduction. The Group reported on its progress in complying with these measures during 2011, stating at the end of the year that the actual cost reduction achieved was 20.8%.

In regard to public purchasing, 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 model has been created that establishes a standardised list of goods and services acquired by the Purchasing and General Support Department of AdP Serviços, which operates as the Group's central purchasing unit. The existence of this separate Group structure is justified by the important particularities of the goods and services required by AdP companies, ranging from the chemical reagents and laboratory materials used by water and effluent treatment units to the containers used by waste units. These special characteristics 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 trucks and waste-transport trucks. The same criteria apply to energy, given that the Group operates a large number of installations that require high-tension electricity supplies. The relatively large size of the Group has enabled it to achieve significant synergies that have produced positive results in terms of centralising purchasing, as shown by the recent public tender process for supplying AdP with electricity.

13.7. Compliance with Law no.12-A/2010 on the Principle of State Treasury Unity

In compliance with government instructions, the Group has invested its permanent treasury surpluses with the Public Debt and Treasury Management Institute (IGCP), keeping its temporary surpluses as surety for short-term bank financing as a means of ensuring continuing bank support, having requested government authorisation to use the temporary component of treasury surpluses in this way.

13.8. Average Payment Periods under the terms of RCM 34/2008 and the alterations introduced by Ministerial Order 9870/2009

APP	1st Quarter 2010	2nd Quarter 2010	3rd Quarter 2010	4th Quarter 2010	1st Quarter 2011	2nd Quarter 2011	3rd Quarter 2011	4th Quarter 2011
Average Payment Period-Suppliers (days)	89	82	65	62	65	59	59	60

Unit: euros

Overdue payments according to the terms of article 1 DL no. 65-A/2011

December 2011

Type of cost and commitment under the terms of article 2 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	9,471.03	87.82	0.00	0.00
Capital acquisitions				
Outstanding debt (Total)				

13.9. Compliance with the shareholder guidelines (issued on the approval of the 2010 accounts)

AdP SGPS has complied fully with the recommendations of its shareholders in regard to reporting its level of compliance with the management goals issued on the approval of the Group's financial statements for 2010.

Compliance with legal guidelines	Compliance			Quantification	Justification
	Y	N	N.A.		
Management Goals:					
Goal 1	X				No management goals or targets were set for 2011, as reported under section "A - Corporate Governance" - Chapter "1. Mission, Goals and Policies".
Goal 2	X				
Goal 3	X				
Financial Risk Management	X				As reported under section "B - Group Operations" - Chapter "5. Economic and Financial Analysis".
Evolution of Average Payment Times to Suppliers	X				As reported under section "A - Corporate Governance" - Chapter "13. Compliance with instructions, ministerial orders and diverse legislation".
Payment Arrears	X				As reported under section "A - Corporate Governance" - Chapter "13. Compliance with instructions, ministerial orders and diverse legislation".
Special Information Duties	X				As reported under section "A - Corporate Governance" - Chapter "12. Reporting".
Shareholder recommendations on approving accounts:					
Publishing levels of compliance with management goals	X				Reported to shareholders, the finance ministry and water sector authorities.
Remuneration:					
Non-payment of management bonuses	X				As reported under section "A - Corporate Governance" - Chapter "13. Compliance with instructions, ministerial orders and diverse legislation".
Governing bodies - pay reductions under the terms of article 19 of Law 55-A/2010	X				As reported under section "A - Corporate Governance" - Chapter "13. Compliance with instructions, ministerial orders and diverse legislation".
Governing bodies - 5% reduction through the application of article 12 of Law no. 12-A/2010	X				As reported under section "A - Corporate Governance" - Chapter "13. Compliance with instructions, ministerial orders and diverse legislation".
External auditor - pay reduction under the terms of article 22 of Law 55-A/2010	X				As reported under section "A - Corporate Governance" - Chapter "13. Compliance with instructions, ministerial orders and diverse legislation".
Other employees - pay reduction under the terms of article 19 of Law 55-A/2010	X				As reported under section "A - Corporate Governance" - Chapter "13. Compliance with instructions, ministerial orders and diverse legislation".
Public Contracts					
Public contract standards	X				As reported under section "A - Corporate Governance" - Chapter "13. Compliance with instructions, ministerial orders and diverse legislation".
Public contract standards for subsidiaries	X				As reported under section "A - Corporate Governance" - Chapter "13. Compliance with instructions, ministerial orders and diverse legislation".
Joining the National Public Purchasing System			X		As reported under section "A - Corporate Governance" - Chapter "13. Compliance with instructions, ministerial orders and diverse legislation".
Limits on Debt Growth	X				A maximum limit of 6% for growth in consolidated debt was set for 2011. Actual growth on 2010 was 1.8%
Cost-reduction Plan					
Staff costs	X				In November 2010, a 12.9% reduction in consolidated costs (on the 2009 level) was agreed with the government, as well as the measures to achieve this goal. During 2011, we reported on the level of compliance with this requirement. The reduction achieved by the end of the year was 20.8%
External Supplies and Services	X				
Treasury Unity Principle					As reported under section "B - Group Operations" - Chapter "5. Economic and Financial Analysis".

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
State-owned companies should:		
<ul style="list-style-type: none"> Accomplish the mission and objectives that have been determined for the company in an economically, financially, socially and environmentally efficient manner in accordance with strict quality parameters, seeking to preserve and expand competitiveness, while respecting the principles of social responsibility, sustainable development, public service and meeting the needs of the community served. 	Total	<ul style="list-style-type: none"> AdP 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.
<ul style="list-style-type: none"> Promote and disseminate the mission, objectives and policies of both the company and the holdings it controls. 	Total	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Set out activity plans and budgets appropriate to the available resources and sources of finance, taking into consideration compliance with the mission and objectives defined. 	Total	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Define sustainable economic, social and environmental strategies, establishing the objectives to be attained and the respective instruments for planning, implementation and control. 	Total	<ul style="list-style-type: none"> The AdP Group defined an organised, strategic and tactical approach that led to the Group becoming a key player in the area of sustainability. The Group's sustainability strategy is available for consultation in its Sustainability Report and on the company and state business sector websites.
<ul style="list-style-type: none"> Adopt equality plans, following a diagnosis of the situation so as to attain effective equality in the treatment and opportunities made available to men and women, eliminating discrimination and enabling a balance between personal, family and professional lives. 	Total	<ul style="list-style-type: none"> One the AdP Group commitments, and reflecting its sustainable strategy, is to "guarantees equality of opportunity" and detailing its performance in the Group Sustainability Report.
<ul style="list-style-type: none"> Annually report to members of the government, the Ministry of the Environment and the public in general on progress in fulfilling its mission, the degree to which it has obtained its objectives and to what extent corporate social responsibility and sustainable development policies have been complied with, as well as its terms of public service and the ongoing level of company competitiveness. 	Total	<ul style="list-style-type: none"> AdP entirely complies with its annual reporting obligations in regard both to the government and the public in general. The Group publishes an evaluation of the activities it has undertaken in its Annual Report and Financial Statements.
<ul style="list-style-type: none"> Comply with current legislation and regulations, ensuring that its behaviour is ethically irreproachable in regard to the application of fiscal norms, money laundering reporting requirements and competition, consumer protection, environmental and labour regulations, namely those relating to non- discrimination and the promotion of gender equality. 	Total	<ul style="list-style-type: none"> All AdP Group activities are carried out in strict compliance with legal, regulatory, ethical, deontological and best practice requirements. In this context, AdP acts in an ethically irreproachable manner in regard to the application of fiscal norms, money laundering reporting requirements and competition, consumer protection, environmental and labour regulations.

Mission, objectives and general principles		
Principles	Compliance	Explanation
<ul style="list-style-type: none"> Treat employees with respect and integrity and contribute to their professional development. 	Total	<ul style="list-style-type: none"> The AdP Group is committed to training its employees, developing their skills and providing them with new internal, professional challenges and opportunities. Recently, the Group signed up to the New Opportunities Program 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 a Professional Development Regulations which enables employee to expand their portfolios of knowledge and skills through attending advanced training programs.
<ul style="list-style-type: none"> Treat all clients, suppliers and other holders of legitimate rights equally. Establish and publish procedures for the procurement of goods and services and adopt adjudication criteria that ensure the efficiency of transactions and equal opportunities for all interested parties that meet the necessary requirements. 	Total	<ul style="list-style-type: none"> AdP respects all current legislation relating to the procurement of goods and services and has implemented internal good practices based on economy, efficiency and equality of opportunity for all interested parties and in compliance with all due requirements.
<ul style="list-style-type: none"> Annually publish those transactions that were not conducted in accordance with market conditions, as well as a list of suppliers that represent over 5% of external supplies and services, when this value is more than €1 million 	Total	<ul style="list-style-type: none"> AdP 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.
<ul style="list-style-type: none"> Conduct the company business with integrity, with appropriate levels of formality and avoiding any recourse to confidential or non-documented expenditures. 	Total	<ul style="list-style-type: none"> The AdP Group carries out its business with the greatest integrity, vehemently refuting any less than ethical practices. The AdP Group 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.
<ul style="list-style-type: none"> Have or sign up to an ethics code with demanding ethical and deontological requirements and publicise this code among its employees, customers, suppliers and the public in general. 	Total	<ul style="list-style-type: none"> The AdP Group's Code of Conduct and Ethics is available on the AdP and state business sector websites and the Employee Intranet.

Administrative and supervisory structures		
Principles	Compliance	Explanation
State-owned companies should:		
<ul style="list-style-type: none"> Have administrative and supervisory bodies appropriate to the scale and complexity of the company, in order to ensure the effectiveness of decision-making processes and guarantee effective supervisory capacities. These bodies should not have more members than those in private companies of a similar scale and in the same sector of activity. 	Total	<ul style="list-style-type: none"> In compliance with the applicable legislation, the scale of the AdP governing and supervisory bodies are perfectly in keeping with the complexity of the AdP business group, ensuring the effectiveness of decision-making processes and guaranteeing genuine supervisory capacities in line with the business sector.
<ul style="list-style-type: none"> Have a governance model that ensures the effective segregation of executive management and supervisory roles and, in the case of companies of a larger scale and complexity, the supervisory role should be attributed to specialised commissions, including an audit commission or a financial commission 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. 	Total	<ul style="list-style-type: none"> The AdP Model of Governance, which ensures the effective segregation of management and supervisory functions, is made up of, in accordance with Company Statutes, the following governing bodies: <ul style="list-style-type: none"> A General Meeting; The Board of Directors; The Supervisory Board; The Statutory Auditor. The non-executive directors annually issue a report on the performance of the executive directors. The Supervisory Board issues quarterly reports and opinions on all the documentation provided with the consolidated financial statements. Both reports are published as part of the company's Annual Report and Financial Statements.
<ul style="list-style-type: none"> Have their accounts audited annually by independent entities, observing identical standards as those for companies listed on regulated markets. Non-executive members of the governing bodies and members of the general and supervisory boards should represent the company in relation to external auditors and are responsible for their selection, appointment, contracting and the approval of other possible services in addition to auditing, but only when the independence of the auditors is not in question. 	Total	<ul style="list-style-type: none"> The annual audit of the 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.
<ul style="list-style-type: none"> Ensure the rotation and mandate limitations of supervisory board members. 	Total	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Management should create and maintain an appropriate control system to protect the company's investments and assets. The system should cover all relevant risks incurred by the company. 	Total	<ul style="list-style-type: none"> Risk management as a pillar of corporate governance has been incorporated into all management processes and has been prioritised as a permanent concern for all AdP Group company directors and employees. In this context, the main aim of the Internal Audit and Risk Control is to identify risk factors relating to the Group's main business activities and the respective key controls necessary for reducing or eliminating their impact. Business risks are attenuated by security and prudence criteria, taking into consideration the geographic dispersion of investments made in different business areas and by carrying out feasibility studies prior to implementation.

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

Principles	Preventing conflicts of interest	
	Compliance	Explanation
Members of the governing bodies of state-owned companies should:		
<ul style="list-style-type: none"> Abstain from intervening in decisions involving their own interests, specifically the approval of expenditures they have made. 	Total	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> At the beginning of each mandate, whenever called upon to do so, members of the governing bodies should declare to the management and supervisory bodies and the General Inspectorate of Finance, any important shareholdings that they may own in the company, as well as any relevant relationships with suppliers, customers, financial institutions or other business partners that might generate conflicts of interest. 	Total	<ul style="list-style-type: none"> There are no incompatibilities between the management positions and other functions performed by members of the Board of Directors. The members of the Board of Directors comply with all the legal requirements regarding notification of accumulated management posts. The members of the Board of Directors, in accordance with the stipulations of the 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.

15. Non-executive Director's Report

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

1. Introduction

Under the terms of line m) of article 13-A of Decree Law no. 558/99 of 17 December, as transposed in Decree Law no. 300/2007 of 23 August, it falls to me as non-executive Director to present a report on the performance of the executive Directors in 2011.

2. Activities

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 Director, 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

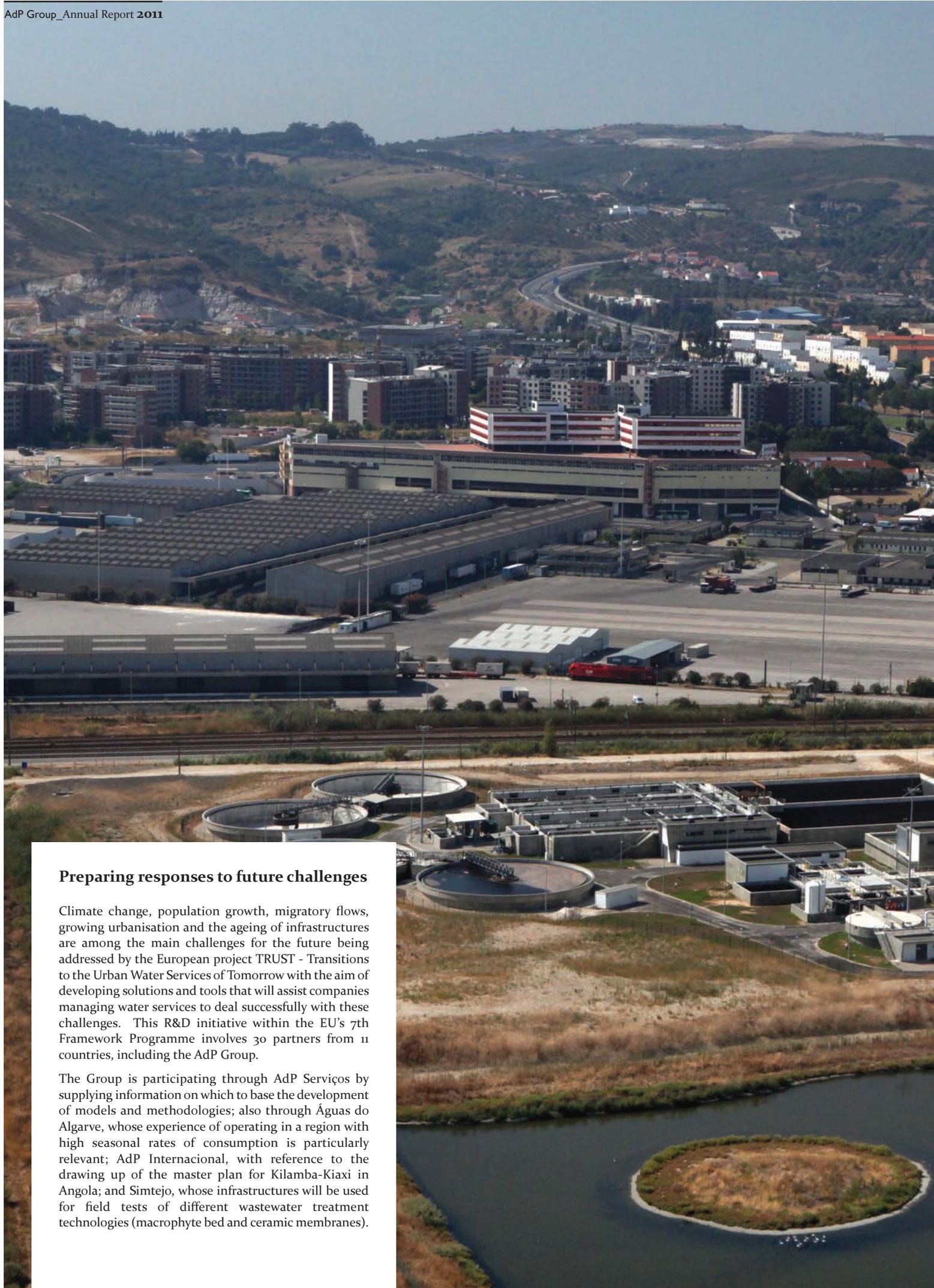
In the light of the above, I have formed a positive opinion of the overall performance of the executive Directors and note their concern to seek out opinions and value judgements on acts of management, on many occasions adopting my own ideas and suggestions on important aspects designed to ensure greater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

Lisbon, 6 March, 2012

The non-executive Director



Joaquim José de Oliveira Reis



Preparing responses to future challenges

Climate change, population growth, migratory flows, growing urbanisation and the ageing of infrastructures are among the main challenges for the future being addressed by the European project TRUST - Transitions to the Urban Water Services of Tomorrow with the aim of developing solutions and tools that will assist companies managing water services to deal successfully with these challenges. This R&D initiative within the EU's 7th Framework Programme involves 30 partners from 11 countries, including the AdP Group.

The Group is participating through AdP Serviços by supplying information on which to base the development of models and methodologies; also through Águas do Algarve, whose experience of operating in a region with high seasonal rates of consumption is particularly relevant; AdP Internacional, with reference to the drawing up of the master plan for Kilamba-Kiayi in Angola; and Simtejo, whose infrastructures will be used for field tests of different wastewater treatment technologies (macrophyte bed and ceramic membranes).

An aerial photograph showing a cityscape with residential buildings and a large industrial facility, likely a water treatment plant, in the foreground. The facility features several large rectangular tanks and pipes. In the background, there are hills and more residential areas under a clear sky.

B - AdP Group Operations

I. Introduction

The performance of the AdP Group in 2011 cannot be separated from the constraints arising from the international financial crisis, the worsening of the European sovereign debt crisis, economic developments in Portugal or the regulatory changes resulting from the country's Economic and Financial Assistance Programme.

These constraints added to the impact of Portugal's 2010-2013 Stability and Growth Program (PEC), which imposes annual limits on increases in state-owned company debt. Considering the investments underway and the commitments already made by Group companies, as well as the need not to jeopardise AdP's eligibility for European Union funds, an exception was made for the Group, which was not required to comply with the debt limits imposed for 2010. In regard to the limits envisaged under the PEC, the Group was also asked to submit revised Operating and Investment Plans for the years from 2011 to 2013, detailing financing plans and the respective EU obligations requiring the Group to go ahead with them.

AdP was also required to implement other PEC measures that had an impact on activities in 2011, namely reductions in staff costs and in external supplies and services.

The year of 2011 was also characterised by the drafting of new investment plans by all Group companies, aimed at ensuring that the aforementioned debt limits were fully complied with in consolidated terms. This resulted in the postponement of a significant number of investments to after the conclusion of the PEC programme.

Further constraints arose from restricted access to credit, a situation aggravated by additional treasury difficulties resulting from an increase in the average payment period for municipal customers, which made the financing of investment particularly difficult.

Notwithstanding these difficulties, the AdP Group recorded a net profit of €89.6 million in 2011, an increase of €10 million on 2010. This growth was strongly influenced by strategic disinvestments in recent years from areas identified as non-core as well as prudential financial management.

About two-thirds of medium- and long-term Group debt is held at fixed rates and the average spread for long-term debt is below market rates. The Group's total debt of €2.978 billion (€2.365 billion in medium- and long-term debt and €613 million in short-term debt) is principally offset by accumulated net investments of €5.605 billion made in recent years, which are financed by the EU Cohesion Fund. These investments are clearly reflected in the Group's balance sheet position.

2. Economic Environment

Global

In 2011, the world economy experienced the confluence of two adverse developments, embodied by the slow economic recovery of the more advanced economies and the high level of fiscal and financial risks. These two factors explain why these economies grew by only about 1.5% in 2011, while the world economy as a whole advanced approximately 4% (having grown over 5% in 2010), again driven by the emerging economies (particularly China, India, Brazil, Mexico, Indonesia, Malaysia, the Philippines and Angola). 2011 was another year in the great crisis that first erupted in 2007 in the United States with the subprime crisis and grew in to an economic and financial crisis on a global scale (reaching a scale not seen since 1929) in 2008 and 2009. In 2010 and 2011, it evolved into a sovereign debt crisis that particularly affected Eurozone and generated the current "systemic crisis". The outlook for 2012 is not positive: on one hand, it is difficult to see an end to the Eurozone crisis, while the political commitments designed to calm markets remain largely on the drawing board. On the other hand, fiscal instability in the US, its stricken real estate market and the deterioration in its financial position do not auger well for the near future.

European Union

The European Union economy again registered low levels of growth (little more than 1% in 2011). The trend towards reduced internal demand, low confidence and worsening financing conditions continue, reflecting increased uncertainties stemming from the sovereign debt crisis and downward revisions in external demand forecasts. These high levels of uncertainty, heightened by the growing crisis of excessive state budget deficits in the overwhelming majority of Eurozone member states, have led to substantial downstream risks in regard to the economic prospects for the Eurozone. The risks are especially associated with a new intensification of financial market tensions in the Eurozone and the attendant risk of repercussions in the real economy. They are also related to the world economy, which may produce a weaker than expected performance; to protectionist pressures; and to the possibility of an uncoordinated correction in world trade imbalances. Analysts refer to an urgent need for strategic decision-making by European leaders to calm markets and ensure the stability and determination needed to face these difficult times. The European Central Bank has acted on two different fronts, maintaining low interest rates (having lowered reference interest rates in November and December 2011) while countering inflationary trends in the European economy, where inflation is expected to average about 2% in 2011, and buying sovereign debt from weaker Eurozone member states.

Portugal

In Portugal, 2011 was marked by the government's request for Economy and Financial Assistance from the European Commission, the European Central Bank and the International Monetary Fund. This followed ineffective measures aimed at fiscal consolidation and containing public spending in the Stability and Growth Program (PEG) for 2010-2013, which was approved in 2010 and subsequently revised. Parliament refused to approve a proposed revision of this programme (PEG VI), triggering the resignation of the government and the holding of early elections. Trends in the Portuguese economy in 2011 were, therefore, conditioned by economic adjustment in the international economy and financial assistance program. All forecasts pointed to a strong contraction in the Portuguese economy in 2011 and 2012 and probable stagnation in 2013. This retraction reflects a significant fall in domestic demand, both public and private, a significant reduction in investment and increasing difficulty in accessing bank finance. This has been accompanied by strong export growth.

In 2011, Portugal's growth domestic product was expected to contract by 1.6%, with public consumption dropping 3.2% and private consumption falling 3.6%. Inflation was expected to reach 3.6%, influenced by an increase in VAT (particularly on gas and electricity) and other consumption-related taxes and charges. The 2011 state budget deficit was expected to be 4% of GDP.

According to Eurostat, the unemployment rate in Portugal stood at 13.2% (November 2011), almost a full percentage point higher than in 2010, and significantly higher than the 9.8%, average reported for the 27 European Union member states, while still below the levels recorded by Spain (22.9%), Greece (18.8% in September 2011) and Ireland (14.6%). For Portugal, the estimates for 2012 point to a rise in the unemployment rate.

After gains in excess of 30% in 2009, and losses of 10% in 2010, the main Portuguese stock market index, the PSI 20, registered bigger losses in 2011 with share prices dropping by an average of 20%. As a result, the companies making up the PSI 20 are worth €12 billion less than twelve months earlier. The financial sector recorded the largest losses (about 75% for BCP and 53% for BES). Among the non-financial companies that suffered significant losses, Portugal Telecom lost 43% in market value and Sonaecom 10%. Jerónimo Martins was the best performing share (+12%), although far from the growth it recorded in 2010 (63%).

3. Sectorial Environment

The restrictions stipulated for the state-owned business sector in the PEC programme assume continuing adaptations by managing bodies in their efforts to ensure they always serve the public interest, essentially to the wellbeing of the population, public health, economic activities and environmental protection with services characterised by the principles of universal access, high quality, efficiency and equity in pricing.

In 2011 work continued on achieving the targets set by the strategic national plans established for the water supply and wastewater treatment sector the Strategic Plan for Water Supply and Wastewater Sanitation (PEAASAR II 2007-2013), approved by Ministerial Order published in the Government Gazette (Diário da República), 2nd Series, 14 February 2007 -, as well as on the waste sector – in accordance with the Strategic Plan for Urban Solid Waste for 2007-2013 (PERSU II), approved by Dispatch no. 187/2007, of 12 February, in order to attain the service levels and quality standards stipulated by current national and European legislation.

Note should also be made of AdP's involvement in implementing Portugal's National Strategy for Agricultural and Agro-Industrial Effluents (ENEAPAI), approved by Joint Ministerial Order no. 8277/2007, of 2 March, published in the Government Gazette (Diário da República) on 9 May 2007, complying with government guidelines by proceeding with work on developing and implementing the planned solutions, in particular, for Leiria, Oeste and Setúbal Peninsula regions. The priority of resolving the environmental problems caused by animal-breeding and agro-industrial effluents took on additional urgency given that, with the coming into operation of urban wastewater facilities, these activities became the main focus of pollution in the respective regions. Little progress was made in this area in 2011, due mainly to institutional uncertainty over which model to adopt and difficulties in accessing bank financing.

At the end of 2009, with the objective of strengthening the measures and instruments for increasing the effectiveness of the regulation of public water and wastewater services, Decree Law no. 277/2009, of 2 October was passed, approving the structure of the Water and Waste Service Regulatory Body (ERSAR, I.P.), formerly IRAR, I.P. The Regulator was correspondingly attributed a greater mission in the general regulation of the sector as well as greater scope for intervention and sanctions.

In late September 2011, Dispatch no. 269/2011 was published, bringing into effect the model for concession companies to report to Concession Granter and the Regulatory Entity as part of the process for evaluating budget and tariff proposals for the purposes of tariff revisions.

Water Supply and Wastewater Sanitation

In recent years, the water services sector has undergone profound and far-reaching changes, an evolution highlighted by different bodies and reflected in a wide range of indicators. Key examples include the percentage of distributed water subject to testing and control, the high quality of water for human consumption, the expansion in coverage of both water supply and urban wastewater treatment service as well as an improved capacity to respond to periods of lower rainfall, ensuring greater autonomy for these systems by increasing the volume of strategic reserves.

Without overlooking the progress achieved, the contagion of financial markets by the sovereign debt crisis, with increasingly serious repercussions that affected Portugal severely in 2011, naturally had damaging consequences for the water sector. These impacted particularly in terms of investment, forcing a rethink of existing investment plans, including those based on EU funding, given that the Group's capacity to obtain financing from the financial sector was extremely limited.

The limitations of the financial sector contributed strongly to the worsening of the structural difficulties that had long been identified in the sector; in particular the economic and financial sustainability of operators measured against the accumulation of the tariff deficit.

This unfavourable context made advancing further with the consolidation of the sector; an objective whose importance and critical nature was already reflected in PEAASAR II, unavoidable and even more pressing,

This recognition of the need for consolidation and, in general terms, of wider-reaching and more integrated responses, in scale and tailored to the demands faced by the sector; is reflected in the enormous effort Portugal, and the AdP Group in particular; has made to build infrastructure capacity over the past fifteen years, an effort with few international parallels.

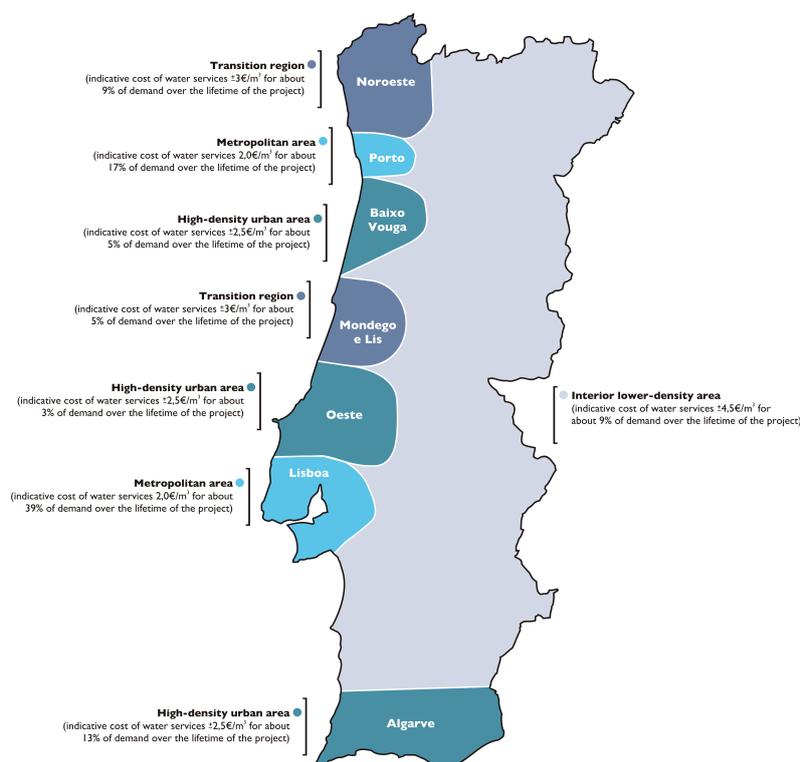
It should be emphasised that the advantages of greater integration were foreseen by a broad group of municipalities and by the AdP Group, which, on launching multi-municipal systems in several Portuguese regions, signed protocols for the integration of the respective municipal systems. This spirit of mutual cooperation between municipalities and AdP, subsequently strengthened on several occasions, as well as the development of several projects and initiatives of relevance to the sector and signs of a better understanding among the different stakeholders of the real cost of the services provided, has strengthened our conviction that the necessary conditions are in place to grow and to overcome the severe current restraints.

An important role has also been played by different entities that undertook a series of studies, verifying a notable level of convergence around important factors and contributing towards the justification of solutions for consolidation in the sector. In this regard, the AdP Group again sought to assume its respective responsibilities. The studies undertaken on its behalf essentially concluded that:

- a) the average national expenditure by end-users of water services in an optimal scenario is about €2.7 per m³ of invoiced water (2008 prices). In terms of economic accessibility, this means that, from a macro perspective, it would be feasible to implement the user-pays principle and thus secure the financial autonomy of the sector through tariffs.
- b) imbalances in land occupation, together with other factors, result in costs of €2.0 per m³ in metropolitan areas and about €4.5/m³ in interior regions, assuming an optimal scenario and the participation of the larger municipalities. These amounts suggest that it would prove more viable to apply the user-pays principle on a national scale and not separately in each region, which would make the implementation of compensation mechanisms inevitable.

Other studies show that:

- (i) the minimum efficient scale for municipal system management structures in Portugal is estimated at between 90,000 and 140,000 residential inhabitants;
- (ii) achieving gains in dispersed systems, such as those serving regions with lower population densities, involves vertical and territorial integration, that is, combining the existing integrated “upstream” and “downstream” structure into a larger territorial grouping incorporating the entire urban water cycle. Meanwhile, in the case of more concentrated systems, such as those serving metropolitan areas, a non-vertical structure produces most of the possible efficiency and effectiveness gains, as optimisation is derived mainly from the infrastructure rather than territorial organisation or a vertical management structure.



In regard to investment in higher performance levels in terms of efficiency and effectiveness, object of major and sustained efforts in the “upstream” systems as well as in multi-municipal systems, the greater knowledge and technical convergence in terms of the actions undertaken, as well as solutions capable of generating a broad consensus, enable the Group to envisage expanding these efforts to a growing number of systems and improve the outlook for an improved interrelationship between “upstream” and “downstream” components.

It would thus appear consensual that, with the exception of the necessary tariff adjustment, the major principles determining the structure of multi-municipal systems in 1993 remain valid, especially in regard to the commitment to ensure management companies reach an appropriate scale, are managed as businesses and are equipped with specialist and competent technical resources.

Important progress was made in this area in 2011, in particular:

- initiatives fostering the creation of regional municipal management companies by the Minho-Lima Inter-municipal Community and the AdP Group in the regions of Noroeste, Mondego e Lis, Oeste and Algarve, which strengthened similar earlier initiatives including Águas do Ribatejo, Águas da Região de Aveiro and Águas Públicas do Alentejo, as well as Águas do Noroeste, formed from the merger of three earlier multi-municipal system management companies;
- the important position taken by the National Association of Portuguese Municipalities in regard to implementing a compensatory and solidarity mechanism for the sector;
- ERSAR's initiatives in regard to water service tariffs.

Specific details

In 2011, the AdP Group advanced with its infrastructure investment plans for the sector, taking as its reference the strategy and objectives defined in the national water supply and wastewater treatment plan - PEAASAR II. This task is necessary in order to meet the service and quality standard requirements stipulated in the applicable national and European legislation.

One of the essential tools for the operational implementation of this strategy is the Axis for Water Supply and Wastewater Treatment Structural Network within the Territorial Enhancement Thematic Operational Program (POVT), part of the National Strategic Reference Program (QREN) for 2007-2013, which provides limited but essential financial resources for achieving the objectives set for the sector.

Finance from the Cohesion Funding available under the POVT Axis has proven crucial to continuing investments in multi-municipal, inter-municipal and municipal systems, and was initially valued at more than €3.8 billion for 2008-2015. The fact that the number of applications for funds has greatly exceeded the amount of financing available shows the importance of EU co-funding to building infrastructures in the water sector and to their sustainability.

In addition to the implementation of applications approved under the POVT/Axis II 1st Notice, a further 20 applications were fostered by AdP Group companies and approved by the POVT in 2011. These involved a total investment of about €635.4 million, of which approximately €410.6 million is expected to be provided in the form of EU (Cohesion Fund) grants.

Several applications for EU co-funding submitted by the Group within the POVT plan were suspended because the State-Municipal partnerships on which they were based failed to go ahead. Given the limitations placed on investment, it should be noted that most applications need to be reprogrammed in order to adapt their scheduling to this new reality and to a decrease in the need for national co-funding, given the difficulties in obtaining other sources of financing.

In regard to ENEAPAI, and taking into consideration the economic difficulties Portugal and the sector are experiencing, it proved necessary to re-evaluate AdP's involvement in these projects with a view to finding solutions that would attenuate the investment risks involved and guarantee the bank financing required to implement a range of solutions. Consequently, regional interventions were reconfigured in a way that would involve private sector entities in these projects. To obtain this participation, the operating framework for each entity was defined and the necessary authorisations obtained to re-establish the normal development of the projects.

However, given the worsening of the financing conditions of these projects and the new restrictions imposed on the public sector, it proved necessary to re-evaluate public policies and operating methods in this area, temporarily suspending some of the different interventions envisaged.

Municipal Solid Waste

Decree-Law no. 488/85, of 25 November, was the first legal regime for waste management to be approved in Portugal. The rapid development of European law contributed to the need to approve a new legal regime for waste management that reflected the development of the law and the science affecting this area. This enabled the inclusion in Portuguese legislation of several important principles regarding waste management, namely the:

- principle of self-sufficiency, whereby waste management operations should preferably occur in the national territory, reducing to the minimum possible the movement of waste across borders;
- principle of the responsibility for waste management constituting an integral part of its life cycle and being the responsibility of the respective producer;
- principle of prevention and reduction of waste production, whereby a priority objective of waste management policy is to prevent and reduce its production
- principle of the hierarchy of waste management operations, which ensures the prevalence of waste recovery over elimination and the establishment of preferential trends for reuse over recycling, and for recycling over energy recovery. This principle also covers the responsibility of citizens to adopt preventive behaviours towards waste production as well as practices facilitating the reuse and recovery of value from waste.

Decree-Law no. 178/2006, of 5 September established the General Waste Management Regime, transposing into Portuguese law Directive 2006/12/EC of the European Parliament and Council, of 5 April, and Directive 91/689/EEC, of the Council, of 12 December, applicable to waste management operations, covering all or any operations involving waste collection, transportation, storage, sorting, treatment, recovery and elimination, as well as soil decontamination operations and the monitoring of disposal sites following the closure of the respective premises.

Government Regulation 187/2007, of 12 February, regarding PERSU II – the Strategic Plan for Urban Solid Waste, continues to be the main strategic instrument for the management of municipal solid waste (MSW). It defines lines of action, goals and targets for 2007-2016, and sets out the targets to be attained and the actions to be implemented to meet the objectives for disposing of municipal biodegradable waste (MBW) as set out in the Landfill Directive (European Council Directive 1999/31/EC of 26 April, transposed into

Portuguese law by Decree-Law no. 152/2002 of 23 May), and the recycling and recovery objectives set out in the Packaging Directives (European Council Directives 94/62/EC of 20 December and 2004/12/EC of 11 February, transposed by Decree-Laws Nos. 366-A/97 of 20 December, 162 of 27 July and 92/2006 of 25 May).

The strategy also defines the role and the functions of the USW systems involved in meeting these goals, identifying the agents with special responsibilities for their implementation, including Empresa Geral do Fomento (EGF), the AdP Group's sub-holding company for the waste sector and the multi-municipal systems in which it is a shareholder.

PERSU II requires the implementation of measures to increase the efficiency and effectiveness of USW management to achieve an integrated, global improvement and to reduce the disposal of waste in landfill sites by maximising the use of recycling and other subsidiary forms of recovery, reflecting a concern to make the best use of the resulting by-products, by stressing the importance of an increase in Portugal's installed capacity for anaerobic digestion, composting, mechanical biological treatment (MBT) and the selective collection of organic waste.

In terms of the legislation covering the sector, 2010 saw the approval of the Urban Waste Prevention Program (PPRU) for the period 2009-2016 (Dispatch no. 3227/2010, of 22 February-2nd series), as well as legislation on establishing the regime for the founding, managing and functioning of an organised waste market (Ministerial Order no. 228/2010, of 22 April 2010).

Finally, legislation enacted in 2011 focused primarily on fine-tuning the legislation already in effect for the urban waste sector in Portugal, including:

- Decree-Law no. 84/2011, of 20 June, which simplifies the legal regimes in effect for disposing of waste in landfill sites, cartographic surveying and the licensing of activities involved in prospecting and tapping subterranean waters in accordance with Decree-Law no. 92/2010, of 26 July, transposing into the Portuguese legal framework Directive no. 2006/123/CE, of the European Parliament and Council, of 12 December, on internal market services;
- Decree-Law no. 73/2011, of 17 June, constitutes the third alteration to Decree-Law no. 178/2006, of 5 September, transposing Directive no. 2008/98/CE, of the European Parliament and Council, of 19 November, dealing with waste, and revises several legal regimes in the waste area;
- Ministerial Order no. 222/2011, 2 June, the first alteration to Ministerial Order no. 72/2010, of 4 February, which establishes rules regarding the settlement, payment and repercussions of waste management charges and taxes.

In accordance with the PEC, the process of identifying potential savings and the measures for achieving them, as well as the consequences of different levels of cost reduction, required significant reflection and analysis by Group companies in order to guarantee the levels of service quality levels required by the Regulator and the concession contracts.

Despite the additional treasury difficulties caused by delays in customer payments and financing constraints, EGF companies made investments totalling more than €100 million in 2011.

4. Regulation

The AdP Group is mainly engaged in the provision of general economic services that are vital to the public wellbeing, 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.

The regulated activities of the AdP Group are the services it provides on a concession basis in the form of upstream multi-municipal water supply and waste treatment and recovery systems and the partnerships between the state and the municipal authorities within the terms of the respective contracts. These services operate in a context defined by current legislation and regulations; the public service concession contracts agreed with the state, the partnership and management contracts agreed between the state and the municipal authorities and the rulings and recommendations issued by the the Water and Waste Services Regulator (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). ERSAR's new statutes will enable it to reduce existing distortions in the market caused by the fact that tariffs charged by some municipal authorities to end-users have not been optimised given these tariffs can now be scrutinised by the Regulator.

In this context, ERSAR issued a recommendation in 2009 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 (IRAR Recommendation no. 2/2009) that seeks to establish guidelines for ascertaining costs and setting tariffs.

The AdP Group expects that the application of these two ERSAR recommendations will result in the establishing of a more efficient tariff framework able to foster greater and more appropriate recovery of the costs associated with the provision of downstream services and thus contribute to greater sector sustainability, thus contributing to the elimination in the significant downstream distortions in tariffs that still prevail such as, and for example, the non-existence of downstream tariffs for wastewater and urban waste services in many municipalities already served by upstream systems with high performance levels.

Economic Regulation

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 budget and tariff proposals for 2011 were submitted according to the terms of Ministerial Order 275/2003, of 7 November. On 19 September 2011, Ministerial Order no. 269/2011, replaced Ministerial Order no. 1275/2003, of 7 November, when budget and tariff proposals for 2013 are submitted to the Concession Granter.

The 2011 budget cycle, which began in September 2010, was extended to March 2011, the date when the last tariff was approved, and showed a clear improvement on the previous year. On average, the budget cycle of multi-municipal water systems was about 75 days (a minimum of 59 and maximum of 99 days) while the average for multi-municipal waste systems was about 72 days (minimum of 51 and maximum of 98 days).

Increases in the time taken to evaluate and approve proposed budgets and tariffs has proven an important factor in the deterioration of relationships with users, given that the latter do not accept the dates on which the Concession Granter determines that the new tariffs should take effect. This has had a significant negative impact on company treasury positions, which were already under pressure due to the adverse financial climate prevailing in 2011, given that the commercial banking sector has reduced the levels of financing available.

In 2010, for the first time, Águas do Douro e Paiva presented a multi-annual budget and tariff project. This proposal was accepted and the company saw its budget and tariff approved for the period 2010-2012 (at constant 2010 prices). Although this approval defines the method for calculating tariff increases for 2011 and 2012, Águas do Douro e Paiva received approval from the Regulator for its 2011 tariffs.

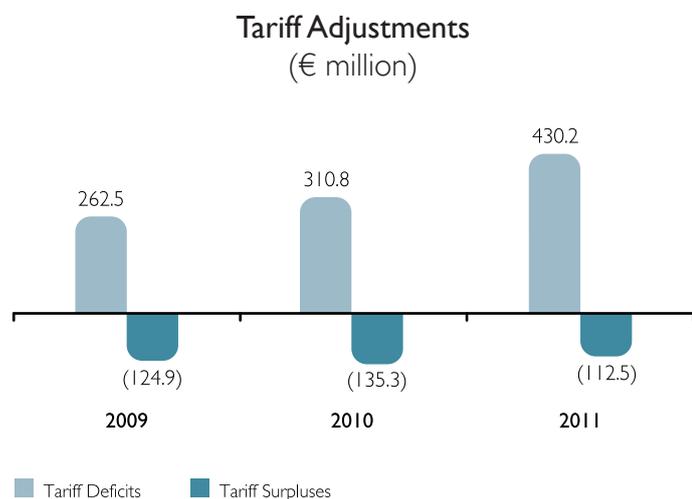
In September 2011, the budget cycle for 2012 began without any budget or tariff proposal having been approved by 31 December 2011. On this date, eight rulings by the Regulator on tariff proposals were outstanding (for three wastewater and waste recovery companies and five water supply and wastewater sanitation companies).

According to the regulatory model in effect (cost of service) and under the terms of the concession contracts, the difference 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 imbalances may show either a deficit (tariff deficits) when the earnings generated are below those necessary, or a surplus when earnings are in excess of those necessary (tariff surplus), excepting amounts related to the gains in productivity and efficiency stipulated in concession contracts.

The Group's consolidated financial statements for 2011 show tariff deficits totalling €430.2 million (gross of taxation and excluding minority interests) and tariff surpluses totalling €112.5 million (gross of taxation and excluding minority interests).

The following chart sets out the trends in these tariff adjustments and costs recoveries (gross of taxation and excluding minority interests) in the AdP Group consolidated accounts from 2009 to 2011.



In 2010, the Regulator presented a legislative proposal designed to recognise and recuperate the tariff deficits and surpluses for each multi-municipal system, given that this is not clearly specified in the concession contracts or the relevant legislation. The AdP Group considers this proposal fundamental to the sustainability and financial continuation of the sector. However, the proposal remains under discussion and has not yet been approved or implemented.

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 specifically acknowledging the policy in effect and determining company tariff adjustments, as well as the compensation rules for tariff deficits, which also need clarification.

This proposal also included procedures for the distribution of contractual productivity gains. The amounts capitalised under the Own Equity item of management companies should at some stage be divided between shareholders and users (through future tariff rates), in accordance with rules that the Group hopes will be subject to clarification in the near future.

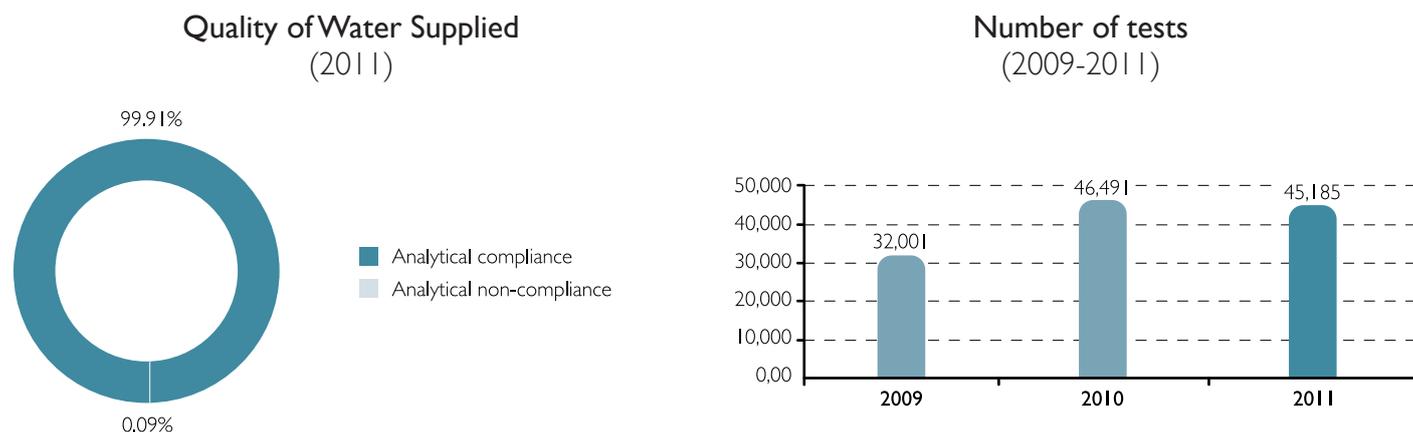
In 2011, under the terms of dispatches issued by the Concession Granter, productivity gains were distributed in the companies Sanest and Valorsul.

Every five years, under the terms of the partnership and management contracts, ERSAR rules on the tariff trajectory proposed by the state-municipality partnerships. The trajectory is approved by the Partnership Commission.

Quality of Water for Human Consumption and the Regulation of Service Quality

In addition to economic regulation, ERSAR also monitors service quality, by means of a series of indicators, as well as the quality of water for human consumption, given that it is the national legal authority in this area.

In 2010, based upon experience accumulated since 2004, ERSAR reformulated the indicators it uses to assess service quality.



In this area, special mention should be made of the quality levels for drinking water achieved by Portugal, to which the contribution of AdP Group companies has been absolutely decisive.

5. Economic and Financial Analysis

I. Net Profit

The AdP Group recorded a net profit of €89.6 million in 2011, an increase of €10 million on 2010.

These results were influenced by three main factors:

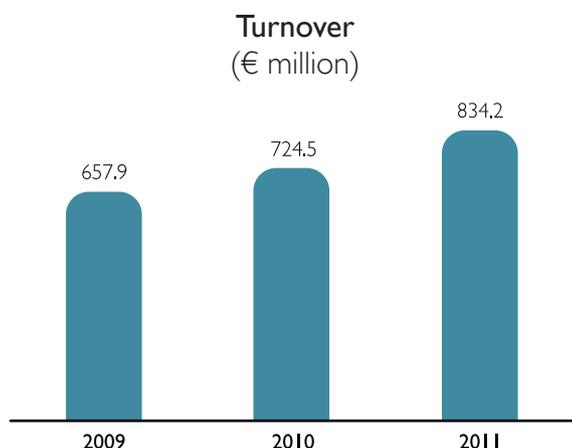
- on the one hand, variations in the fair value of derivative financial instruments had a negative impact of about €25.7 million (against a profit of €2.8 million in 2010). The AdP Group opted to ensure that it benefitted for significant immunity to interest rate fluctuations on financing subject to variable rates and to this end contracted derivative financial instruments that do not qualify as coverage instruments for accountancy purposes. The significant drop in market interest rates over the course of 2011 explains this variation in fair value;
- on the other hand, the distribution of productivity gains, in accordance with the terms of concession contracts, by three AdP Group subsidiaries (Águas do Douro e Paiva, Sanest and Valorsul), resulting from an explicit authorisation by the Concession Granter (the Ministry of Agriculture, Sea, the Environment and Territorial Planning) had a net effect of €9.7 million on results;
- furthermore, the rise in tariff deficits, which had a net effect on 2011 results of about €41.4 million (including the €9.7 million referred to in the point above), compared with about €19.3 million in 2010.

Profit trends in recent years have been strongly influenced by the strategic disinvestments in areas identified as non-core and related to an out-of-phase evolution in financial costs and the indexes used to calculate the remuneration of multi-municipal systems and partnerships.

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.

2. Turnover

Turnover reached €834 million in 2011, a 15% increase on 2010. This was mainly due to increased company operations and the positive impact resulting from the distribution of contracted productivity gains.



3. EBITDA

Operational cash flow (EBITDA), net of tariff adjustments rose to €345.8, up €68.7 million in 2010, representing growth of 24.8%.

Unit: € million

	2009	2010	2011
Turnover	657.9	724.5	834.2
Tariff Deficit	32.5	37.3	112.3
Operating Income ⁽¹⁾	122.7	176.6	287.6
EBITDA ⁽²⁾	251.5	277.1	345.8
Financial Results	(18.9)	(50.5)	(90.6)
Net Income for the year	65.3	79.5	89.6

(1) Results before interest and taxation | (2) OI + Amortisations + Provisions + Depreciation and Reverse Adjustments - Tariff Deficits - Investment Grants

This improvement in EBITDA primarily stemmed from the increase in turnover (€34.5 million, excluding tariff adjustments) and reduction in external supplies and services costs (€8.4 million) and staff costs (€14.8 million).

4. Financial Result

The group registered a negative financial result of €90.6 million. The main causes of this poorer result included an increase in the base index for short-term financing (the three-month Euribor rate recorded an annualised average of 1.38% against 0.80% in 2010) and an increase in the average bank spreads paid by Group companies, which rose to almost double their 2010 levels.

Medium- and long-term financing costs had a less of an impact on the decline in the financial result, given that fixed-rate loans account for almost two-thirds of total funding.

However, the fair value of hedging instruments for interest-rate risk did negatively influence the final result after a cost increase of almost two-thirds on 2010.

Total net expenditure on long-term financing (including the cost of hedging interest-rate risks, taxation and withheld corporate tax) averaged approximately 3.5%.

In keeping with the prudential financial management policy adopted by the 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 basis points, whether it is applied to the variable reference rate or to the fixed rate at the moment the loan was contracted.

In the fixed-rate component of total bank debt, the financial statements reflect the continuance of the Group's conservative approach to its financial structure, taking into account the weight of long-term debt as a proportion of total debt (80%) and its average maturity. The current market situation, which does not allow from any increase in long-term debt, together with an increase in average payment times, also contributed to the slight decline in this indicator.

On the other hand, the Group benefitted from a significant increase in the average remuneration rates of financial applications, particularly long-term applications.

Late-payment interest debited from customers under the terms of the concession contracts also made a positive contribution.

5. Investment

In 2011, the AdP Group increased fixed net assets by about €200 million, with investment totalling €495 million, a drop in comparison with 2010 resulting from the investment reduction program and the postponement of Group investments planned for 2011.

6. Working Capital

Working Capital requirements rose significantly in 2011, due mainly to an increase in customer debt:

	Unit: € million		
Working Capital	2011	2010	2009
Current Assets			
Inventories	7,715	8,101	7,925
Customers	408,814	296,434	244,908
State	14,205	12,385	13,366
Other current assets	235,737	227,815	365,027
	666,471	544,735	631,227
Current Liabilities			
Suppliers	125,189	158,785	168,148
Other current liabilities	137,660	119,158	105,910
Current income tax liabilities	20,850	43,219	6,208
State	29,200	29,045	26,457
	312,899	350,207	306,724
Total Working Capital	353,572	194,528	324,503

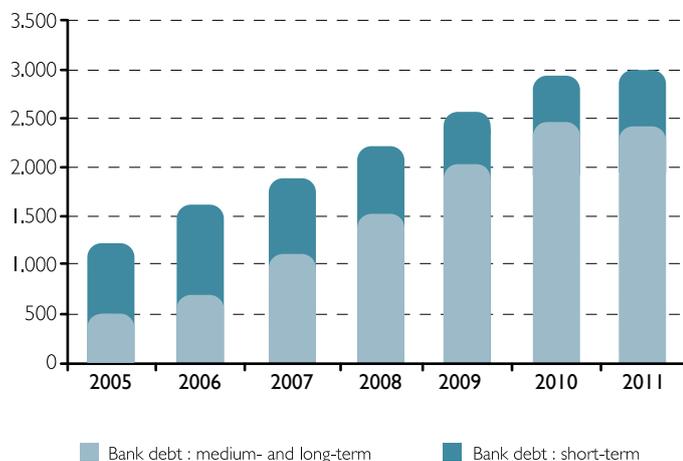
The impact of cutting costs and investment through the reduction of current liabilities, together with the increase verified in customer debt, resulted in an increase in financing requirements of about €159 million relative to 2010.

7. Financial Structure

Although achieving the objectives set out in the strategic plans for the water and waste sectors results in higher levels of bank debt, bank lending represented 39.7% of the AdP Group's capital structure in 2011, a slightly decrease from 2010, when it was 40.6%.

Total debt reached €2.978 billion at the end of 2011, while long-term debt rose to 79% of the total debt, up from 70% in 2008.

Bank Debt (€ billion)



Medium- and long-term debt totalled €2.365 billion at the end of 2011, down from €2.416 billion at the end of 2010. This was essentially a result of amortising capital without any new debt issues.

Should the 2010 framework have remained in effect, the reduction in costs and investment experienced in 2011 would have enabled AdP to reduce short-term bank debt, which would have had an impact on the total level of debt. However, this was not the case. Short-term debt increased by 1.8% in comparison with 2010, mainly reflecting increased treasury needs resulting from longer average payments times for municipal customers.

The Group's medium- and long-term debt mainly consists of debt raised from bond issues, private placements and European Investment Bank loans, negotiated either by the holding company or directly by its subsidiaries EPAL and Valorsul.

8. 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, as detailed in note 3 of the Financial Reports (3. Financial risk management policies).

The Group's financial risk management policy seeks to minimise potential adverse effects resulting from financial market unpredictability and is implemented centrally for the Group holding with the prior approval of the Board of Directors.

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 and seeking to obtain a fair balance between the risks posed by these fluctuations and their corresponding impact on financial costs.

Adopting a conservative position and taking into account the types of assets in which the Group invests, the group has opted in favour of long-term financing, particularly in regard to European Investment Bank (EIB) loans.

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.

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.

In this context of prudential management, the group has preferred to obtain fixed-rate loans (either directly or through financial instruments), with about two-thirds of long-term debt now being held at fixed rates.

9. 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 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.

The AdP Group is made up of a group of subsidiary companies operating in the environment sector and in different phases of maturity. Consequently, the coordination and sourcing of financing to meet the needs of the respective companies are undertaken by the holding company, always taking into account the aim of maintaining a balanced financial structure for the consolidated group as a whole.

In this context, AdP SGPS:

- monitored its companies and their relationships with the Cohesion Fund to facilitate access to European Union support programs;
- engaged in negotiations with the EIB as early as 1997 with the objective of financing first-phase projects, contracting a €167 million credit line;
- in 2000, new negotiations began with the EIB for second-phase 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 partly finance the final phase 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 10-year private debt in Japan in 2005 followed by three further private bond issues totalling 2007 at maturities of 15 and 20 years, raising a total of €600 million;
- 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 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 treatment systems reflects the scale of the investments involved and the need to proceed with them as rapidly as possible.

The centralisation of a major proportion AdP SGPS funds has enabled the cohesive and coherent management of Group financial needs, preventing treasury shortfalls and other insolvency related problems, especially at interior concession systems facing serious economic and financial challenges.

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 individually to 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, having obtained authorisation to do so.

Financial Risk Management - Dispatch no. 101/09-SETF of 30-01	Complied			Description
	Y	N	N.A.	
Procedures adopted in relation to risk evaluation and the respective hedging measure's				
Diversification of financial instruments	X			Opted in favour of private bank loans, private loans and private bonds
Diversification of available interest rates types	X			Opted to maintain a balance between fixed and variable interest rates
Diversification of credit entities	X			EIB and private investors
Contracting of risk coverage management instruments in accordance with market conditions	X			Contracted to maintain a fixed interest-rate coverage ratio of 60% to 66%
Adoption of active policies to strengthen permanent capital				
Remunerated liability consolidation: transforming short-term debt into medium- and long-term debt under favourable conditions	X			Investment needs have been met by permanent funding
Contracting operations that minimise financial costs (all-in-cost)	X			The favourable EIB option has resulted in below market costs
Minimisation of real guarantee payments			X	The only guarantee provided has been state authorisation of some EIB lines
Minimisation of restrictive clauses (covenants)	X			Existing contract covenants are relatively few in number
Measures taken to optimise the financial structure of the company				
Adoption of policies minimising the allocation of third-party capital for financial coverage of investment financing			X	Opted in favour of long-term financing rather than minimisation of third-party capital, taking into account the structure of the sector
Option in favour of investments with proven social/ business profitability, favouring European Cohesion Funds and Equity			X	Opted in favour of Cohesion Fund investments and profitability ensured by contracts with the state
Utilisation of self financing and disinvestment revenues	X			Although the current phase in the business cycle still generates a low level of cash-flow, cash-flow has been redirected into self-financing
Inclusion in Annual Report and Financial Statements				
Description of the evolution of the annual average rate of financing over the last five years	X			
Interest annually incurred with remunerated debts and other charges over the last five years	X			
Analysis of the efficiency of financial policies and the deployment of financial risk management instruments	X			
Incorporation of the effects of variations in the fair value of swap contracts into 2009 Financial Statements	X			

Legenda: Key: Y - Yes; N - No; N.A. - Non Applicable.

6. 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 Douro e Paiva, S.A.	51.00%	Porto	Upstream water
UNA-PD	Simria, S.A.	67.72%	Aveiro	Upstream sanitation
UNA-PD	Águas do Zêzere e Côa, S.A.	87.46%	Guarda	Upstream water and sanitation
UNA-PD	Simlis, S.A.	70.16%	Leiria	Upstream sanitation
UNA-PD	Águas do Oeste, S.A.	51.00%	Óbidos	Upstream water and sanitation
UNA-PD	Águas do Norte Alentejano, S.A.	51.00%	Portalegre	Upstream water and sanitation
UNA-PD	Sanest, S.A.	51.00%	Cascais	Upstream sanitation
UNA-PD	Águas do Algarve, S.A.	54.44%	Faro	Upstream water and sanitation
UNA-PD	Águas do Centro, S.A.	70.00%	Castelo Branco	Upstream water and sanitation
UNA-PD	Águas de Trás-os-Montes e Alto Douro, S.A.	70.08%	Vila Real	Upstream water and sanitation
UNA-PD	Simtejo, S.A.	50.50%	Lisboa	Upstream sanitation
UNA-PD	Águas do Noroeste, S.A.	56.66%	Barcelos	Upstream water and sanitation
UNA-PD	Simarsul, S.A.	51.00%	Setúbal	Upstream sanitation
UNA-PD	Águas do Centro Alentejo, S.A.	51.00%	Évora	Upstream water and sanitation
UNA-PD	Águas do Mondego, S.A.	51.00%	Coimbra	Upstream water and sanitation
UNA-PD	AdRA - Águas da Região de Aveiro, S.A.	51.00%	Aveiro	Downstream water and sanitation
UNA-PD	AgdA - Águas Públicas do Alentejo, S.A.	51.00%	Beja	Upstream water and sanitation
UNA-PD	Águas de Santo André, S.A.	100.00%	V.N. Sto André	Water, sanitation and waste
UNA-PD	Simdouro, S.A.	51.00%	V.N. Gaia	Upstream sanitation
UNR	Empresa Geral de Fomento, S.A.	100.00%	Lisboa	Sub-holding
UNR	Suldouro, S.A.	60.00%	Sermonde	Municipal solid waste treatment and recovery
UNR	Valorlis, S.A.	51.00%	Leiria	Municipal solid waste treatment and recovery
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	Ersuc, S.A.	51.46%	Coimbra	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
UNR	Valnor, S.A.	53.33%	Alter-do-Chão	Municipal solid waste treatment and recovery
UNR	Resiestrela, S.A.	62.95%	Fundão	Municipal solid waste treatment and recovery
UNR	Resinorte, S.A.	51.00%	Celorico de Basto	Municipal solid waste treatment and recovery
UNR	Valorsul, S.A.	56.17%	S. João da Talha	Municipal solid waste treatment and recovery
International	AdP Internacional, S.A.	100.00%	Lisboa	Sub-holding
International	Aquatec, Lda.	100.00%	Maputo - Moçambique	Provision of technical services
International	Águas do Brasil, S.A.	100.00%	Cabo Frio - Brasil	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.	54.60%	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	Real estate management
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

With the exception of the companies Aquasis and Trevo Oeste, the remaining equity capital is, in all cases, held by the municipal authorities that use the services provided.

7. Business Units

7.1 Water and Wastewater

Water - Production and Purification (UNA-PD)

Background

Created in 2001, the UNA-PD Business Unit 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 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 complementarity, the partnership in the Aveiro Region.

The unit's strategic guidelines are based on the objectives set out in PEAASAR II for 2007-2013. The strategic objectives of this plan include the completion of the infrastructures required for the improvement of the country's water supply and wastewater sanitation systems, ensuring good quality water supply services for 95% of the population and wastewater drainage and treatment for 90%. Under the plan, economic and social development is based on improving living standards and significantly raising the quality of the environment. 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 developed over this period, namely:

1. 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, simultaneously to establishing national level end consumer tariffs and tending to evolve 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. Investment in existing systems/companies is expected to total €4.3 billion up to 2015. This amount only applies to existing systems and companies and is aimed at resolving the country's structural difficulties in the water sector.

Key developments

The management companies have responded positively to the commitment made towards containing expenditure connected with the adverse economic conditions in Portugal, and have complied strictly with the important quality demands which are nowadays associated with the provision of water services.

These adverse economic conditions have led to restraint in infrastructure investment plans, and spending in this area was around €217 million in 2011, which corresponds to approximately 63% of the previously established objective.

Following the objectives of the PEAASAR II, efforts to consolidate the sector were also given continuity. In this area, notwithstanding undertakings related to the need to develop the water services financing model, in order to successfully meet the expectations and formal requests of the municipalities of the regions of inland Portugal, we were able to:

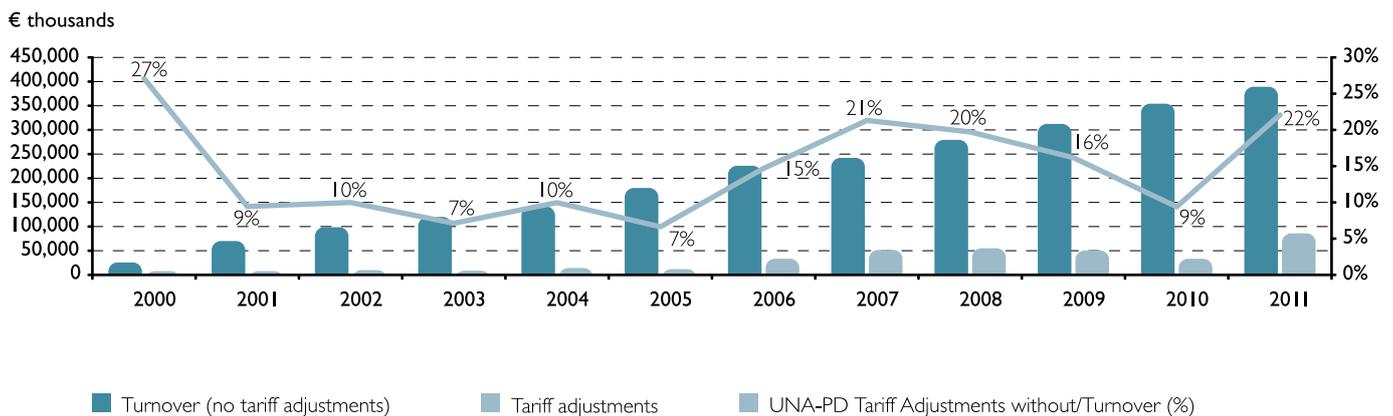
- conclude negotiations on, and submit for the final decision of the State and the local authorities, a technical and financial proposal for a public partnership for the operation and integrated management of municipal water systems with a group of fourteen municipalities in the Noroeste region, covering over half a million inhabitants. Formal approval from an important group of local authorities, during a period of transition, as well as communication of acceptance and a favourable decision regarding financing of a POVT application have allowed us to bring completion of this project forward to 2012;

- negotiate with a group of 14 municipalities in the Mondego and Lis regions to set up a public partnership for the operation and integrated management of municipal water systems, as part of which negotiations were reopened regarding the merger of Águas do Mondego and Simlis;
- carry on particularly advanced conversations with an important group of municipalities in the Oeste and Algarve regions.

The result of an important political consensus, 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 management systems, created the possibility for the AdP Group to expand its activities. This possibility provides an alternative means of solving a large number of difficulties in the sector; which became more evident in 2011. Indeed, in a particularly adverse financial environment, while a large number of management companies saw a worrying increase in their portfolios of credit to customers and a decline in relations, the Aveira Region ("downstream") partnership project entered the implementation phase, with adjustments resulting from the changes inherent to the process and the adverse environment, allowing Simria ("upstream") to focus on its operating activity and other partners to expect scenarios of development.

Tensions increased as a result of the municipalities' frequent representations to the management companies concerning the heightening of their financial difficulties, and many discussions were held without contributing to an effective solution. Indeed, the fact that a long period of accumulation of successive deficits for several management companies coincided with an adverse macroeconomic cycle, particularly at the financial level, led to the need to consolidate the sector being added to the country's list of concerns.

Evolution of turnover and tariff adjustments of UNA-PD 'upstream' aggregated systems management



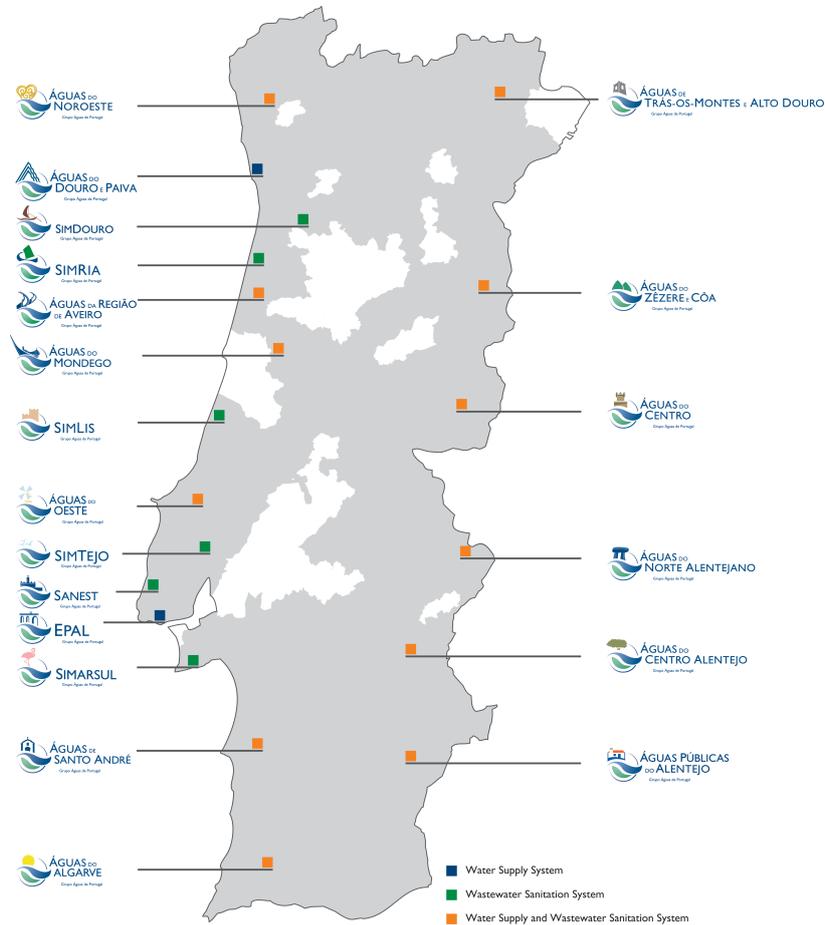
UNA-PD was responsible for increasing expenditure on water services by €400 million in the "upstream" sector, which corresponds to the carrying out of an infrastructure investment plan which, in accumulated terms, was around €3.8 billion at the end of 2011 and which significantly changed the panorama of these services in Portugal. The growing demands to build these infrastructures, together with the lack of compatible activity by many companies managing the municipal systems, in addition to some developments in the business model for the companies managing multi-municipal systems which allowed them to respond appropriately to the different spheres of action, contributed to revealing the sector's fragilities in global terms, although these fragilities were only publicised in relation to the activities of the AdP Group.

According to data provided by the National Inventory for Water and Wastewater Systems (INSAAR), the AdP universe only represents around a third of the increase in expenditure on water services, while the evolution in income from water services does not reflect the evolution in service levels and, consequently, expenditure. It is also not obvious that the tariff shortfall in this business unit's area of operation represent clearly less than 10% of the sector's deficit.

It is therefore essential to provide an environment which can produce an adequate diagnosis and strategy for action. The AdP Group has the appropriate skills for this purpose, resulting from its activity and enhanced by some more recent studies that it has conducted.

Key indicators

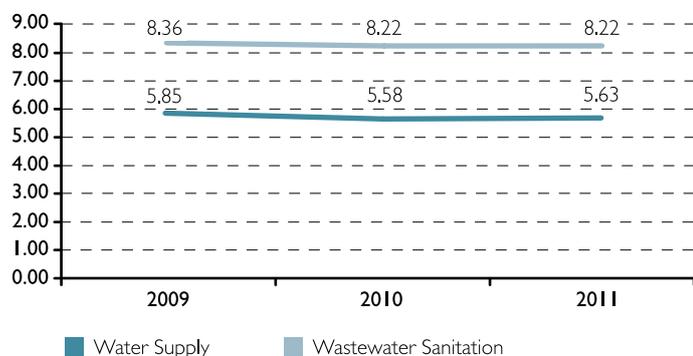
At the end of December 2011, there were a total of 19 water supply and wastewater sanitation management companies, with their locations and coverage set out below.



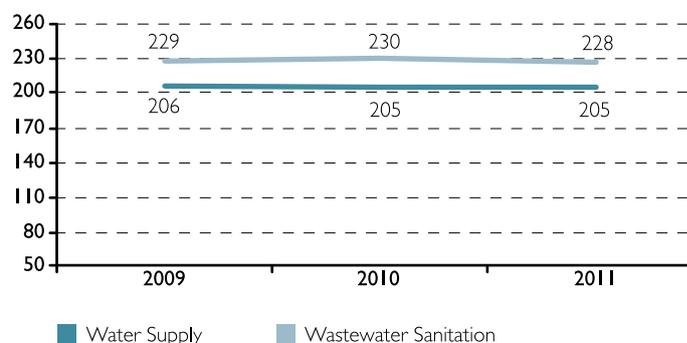
At the end of 2011 these companies had established partnerships with 232 of the 308 municipalities in Portugal.

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. These agreements cover a population of around to 5.63 million and 8.22 million inhabitants, respectively.

Population Covered (million inhabitants)



Municipalities Covered



As regards the population effectively served, 2011 saw totals of 4.78 million and 6.75 million inhabitants receiving water supply and wastewater sanitation services, respectively. This represents an increase in relation to the previous year of around 8.2% and 14.4%, respectively. This increase is largely due to the increase in the population served in 2011 by the following companies: Águas Publicas do Alentejo, Águas da Região de Aveiro and Águas do Noroeste.

Hence, at the end of 2011, the UNA-PD's multi-municipal system management companies were already responsible for providing public service supplies to 89.3% of the population forecast to be supplied with water supply and wastewater sanitation services in 2013.

	2009	2010	2011
Municipalities Covered			
Water supply	206	205	205
Wastewater sanitation	229	230	228
Municipalities Served			
Water supply	145	174	188
Wastewater sanitation	178	197	210
Population Covered (million inhabitants)			
Water supply	5.85	5.58	5.63
Wastewater sanitation	8.35	8.22	8.22
Population Served (million inhabitants)			
Water supply ⁽¹⁾	4.24	4.42	4.78
Wastewater sanitation ⁽¹⁾	5.41	5.90	6.75

(1) The totals refer only to inhabitants and not to seasonal fluctuations in population.

Management companies collectively produced 377.2 million cubic metres of drinking water and collected and treated approximately 485 million cubic metres of municipal wastewater:

	2009	2010	2011
Public Service Supplied			
Volume of water produced	336.2	341.1	377.2
Volume of effluent treated	392.8	471.3	485.0

Unit: million m³

2011 recorded a 6.8% increase in the volume of drinking water supplied. A similar performance was achieved in the area of wastewater sanitation with an increase of around 2.7% in the volume collected and treated by the UNA-PD's multi-municipal systems.

Volume of Water Produced
(million m³)



Volume of Wastewater Treated
(million m³)



In the case of wastewater, the 2011 figures include industrial effluent received and effectively treated. Changes in the amount of drinking water supplied and effluent treated over the past three years are shown in the charts above.

The figures shown suggest that the average per capita figure for the supply of drinking water across the 188 municipalities served was around 216 litres/day/inhabitant. The average per capita figure for wastewater treated across the 210 municipalities now served totalled approximately 197 litres/day/inhabitant, down roughly 5% on the previous year.

Figures on operational performance for each multi-municipal and partnership system are shown in the following table:

2011 Operational Indicators by Company	Flow (10 ³ m ³ /year)		Population Served		Municipalities Served	
	WS	WWS	WS	WWS	WS	WWS
Águas do Noroeste, S.A.	39,215	57,708	896,332	1,461,755	19	27
Águas de Trás-os-Montes e Alto Douro, S.A.	17,135	19,129	313,400	208,779	28	29
Águas do Douro e Paiva, S.A.	105,577	-	1,502,909	-	21	-
Simdouro, S.A.	-	16,716	-	356,922	-	3
Simria, S.A.	-	37,216	-	468,686	-	13
AdRA - Águas da Região de Aveiro, S.A.	13,105	396	294,136	195,181	10	10
Águas do Mondego, S.A.	22,395	17,272	264,167	242,956	8	10
Águas do Zêzere e Côa, S.A.	18,685	15,289	180,341	141,725	16	16
Águas do Centro, S.A.	18,585	14,879	197,087	143,656	17	17
Simlis, S.A.	-	11,604	-	190,161	-	5
Águas do Oeste, S.A.	27,614	20,011	326,271	321,345	15	14
Sanest, S.A.	-	57,665	-	675,714	-	4
Simtejo, S.A.	-	118,067	-	1,277,067	-	7
Simarsul, S.A.	-	23,408	-	354,262	-	7
Águas de Santo André, S.A.	13,100	6,018	27,356	23,157	2	2
Águas do Norte Alentejano, S.A.	8,561	7,242	95,803	93,050	13	15
Águas do Centro Alentejo, S.A.	7,507	8,144	87,687	86,926	6	6
AgdA - Águas Públicas do Alentejo, S.A.	19,702	7,753	175,060	145,918	18	18
Águas do Algarve, S.A.	65,979	46,462	422,117	360,406	15	16
Total UNA-PD	377,158	484,978	4,782,667	6,747,667	188	219

WS - Water Supply / WWS - Wastewater sanitation

The increase in the amounts of drinking water supplied and wastewater collected in 2011 was largely attributable to the operational start-up of new and integrated infrastructures, as shown in the following table:

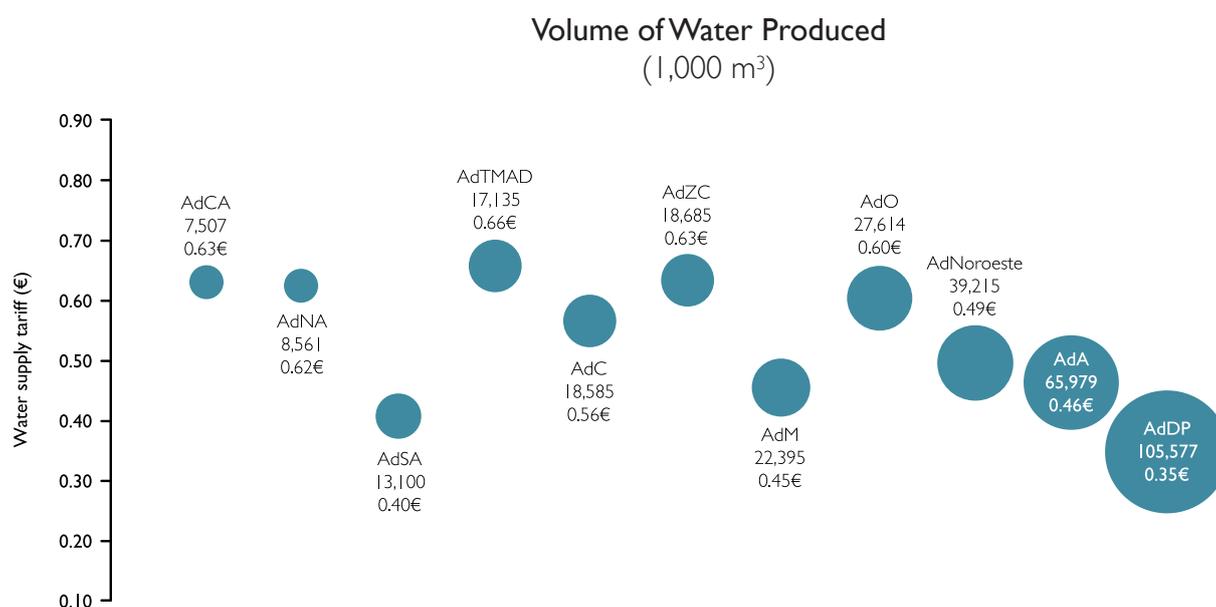
Infrastructures operated by UNA-PD companies	2009	2010	2011	Δ 2011 / 2010	
				Amount	%
Water Supply Systems					
Volume of water produced (10 ³ m ³ /year)	336,203	353,034	377,158	24,125	6.8%
Number of water intakes	422	678	819	141	20.8%
Number of water treatment plants	86	148	245	97	65.5%
Mains (km)	5,974	9,804	11,810	2,006	20.5%
Number of pumping stations	1,258	1,857	2,156	299	16.1%
Number of storage facilities	887	1,152	1,333	181	15.7%
Wastewater Sanitation Systems					
Volume of effluent treated (10 ³ m ³ /year)	392,774	472,274	484,978	12,704	2.7%
Sewers (km)	3,492	5,563	6,347	784	14.1%
Number of wastewater treatment plants	626	744	899	155	20.8%

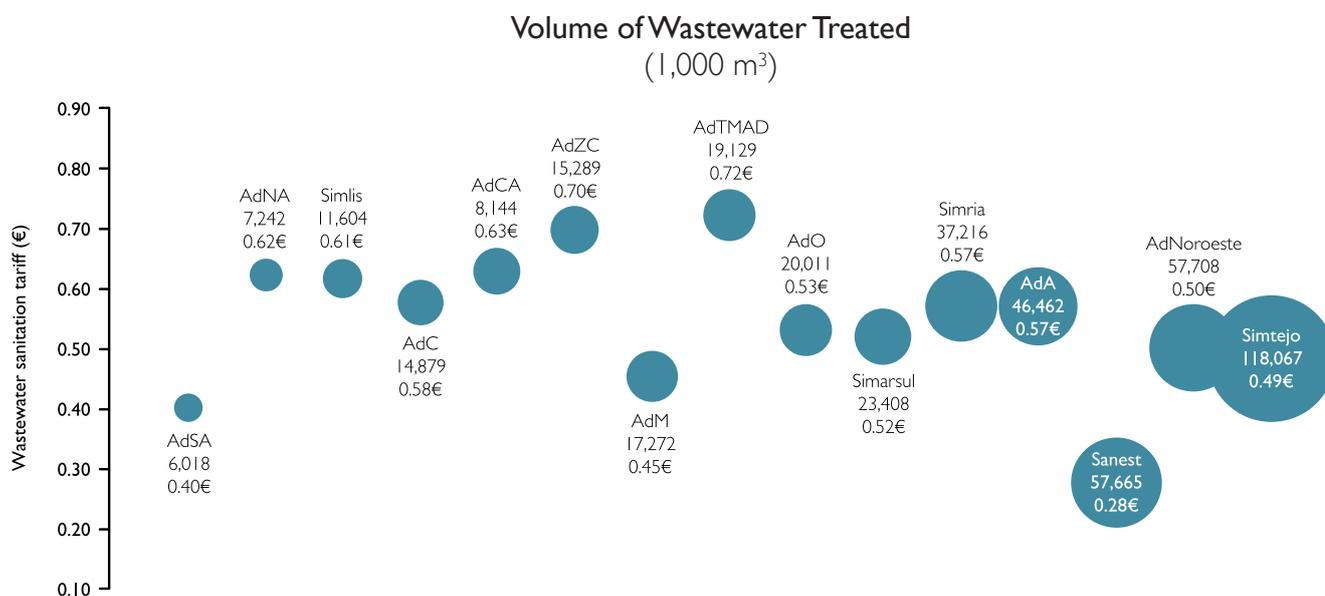
There was significant progress in expanding the number of pumping stations and mains network extension largely due to the work of AgdA - Águas Publicas do Alentejo, AdRA - Águas da Região de Aveiro, Águas do Noroeste, Águas do Norte Alentejano and Águas do Mondego and also the number of WWTP and water intakes, almost entirely due to the work of AgdA - Águas Públicas do Alentejo.

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 2011 from a minimum of €0.3468 per cubic metre to a maximum of €0.6577. Tariffs for wastewater sanitation ranged from a minimum of €0.2764 to a maximum of €0.7219 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. AgdA - 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 potential served population, and a variable component, corresponding to a unit amount, applied according to the level of use of the service.





Investment

The water supply and wastewater sanitation multi-municipal system management companies, over the course of 2011, made infrastructural investments totalling €217 million, with €68 million and €149 million allocated to water supply and wastewater sanitation respectively, against a total of €303 million in 2010.

The 115 construction tenders launched in 2011 corresponded to total investment of €146 million, with 43 tenders worth €31 million for water supply and 72 tenders amounting to €115 million for wastewater sanitation. This compares with €171 million and 110 tenders in 2010.

With regard to the group's commitments to building water supply and sanitation infrastructures, 106 construction contracts were signed following the respective tenders and were worth a total of €90 million – 38 contracts worth a total of €23 million in the area of water supply and 68 contracts worth a total of €67 million in wastewater sanitation. This compares with 100 contracts worth a total of €149 million in 2010.

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.

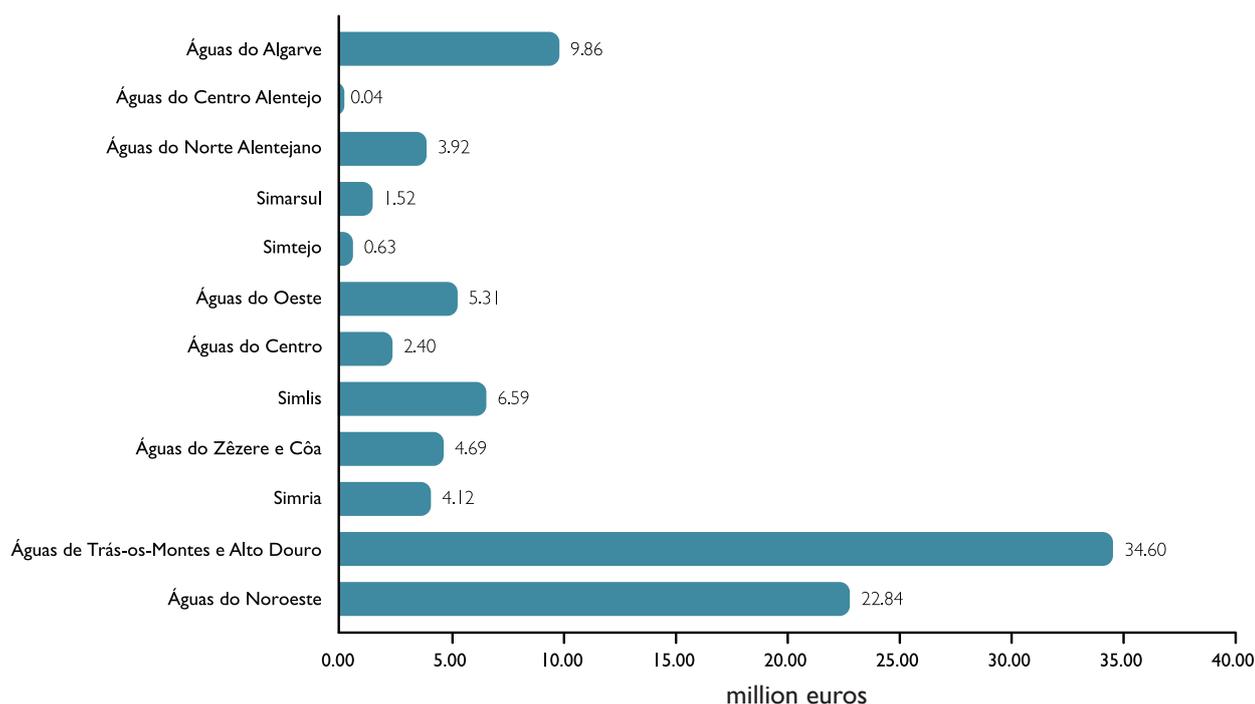
Investment in infrastructures, public tenders and public works contracts

Investment in UNA-PD infrastructures	2009	2010	2011	Δ 2011 / 2010	
				Amount	%
Infrastructure investment (€ million)	390	303	217	(86)	(28.4%)
Water Supply	133	79	68	(11)	(13.9%)
Wastewater sanitation	257	224	149	(75)	(33.5%)
Number of public tenders	90	110	115	5	4.5%
Water Supply	29	38	43	5	13.2%
Wastewater sanitation	61	72	72		
Value of tender processes (€ million)	1,175	171	146	(25)	(14.6%)
Water Supply	37	34	31	(3)	(8.8%)
Wastewater sanitation	138	137	115	(22)	(16.1%)
Number of contracts	92	100	106	6	6.0%
Water Supply	31	46	38	(8)	(17.4%)
Wastewater sanitation	61	54	68	14	25.9%
Value of contracts (€ million)	120	149	90	(59)	(39.6%)
Water Supply	18	57	23	(34)	(59.6%)
Wastewater sanitation	102	92	67	(25)	(27.2%)

As was the case in previous years, a large percentage of the 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.

In 2011 applications for EU co-funding were made for a total of €171.5 million of expenses incurred and paid. Of this amount, the largest part (around 74%) also relates to investments covered by the Cohesion Fund II, under which applications are only eligible for expenses up to 31 December. Financial support from the European Union received in 2011 under the Cohesion Fund II and the National Strategic Reference Framework (QREN) totalled €96.5 million, divided among the different UNA-PD companies as follows:

Income from Cohesion Fund in 2011



EU co-funding was approved for 21 new applications to the QREN 2007-2013 within the scope of the 2nd Notice of Axis II of the POVT. The total investment forecast for these operations is €439.1 million, around €305.4 million of which is expected to be co-funded by Cohesion Fund. 89% of the total approved investment corresponds to building contracts (construction and equipment).

It should be mentioned that the applications approved during the course of the previous year were initially presented by the AdP Group in 2009 and were based on investment plans similar to those forecast in the concession contracts. However, given the country's financial difficulties and the restrictions placed on public investments, it has been necessary to reformulate a large number of the applications, in order to reduce the need for national funding, given the difficulties in obtaining other credit, and bring the schedule of the approved operations in line with this new situation.

Given that a significant percentage of the applications submitted by the AdP Group in 2009 were based upon the signing of protocols for entering into partnerships for the downstream organisation of a vast range of municipalities and that, for a range of reasons, it was not possible to create the necessary conditions to advance in some regions, while there were also other municipalities that did not confirm their interest regarding the projects that had been under negotiation, POVT moved to issue notification of "non-acceptance" in these cases, within the scope of its competences as the management authority.

Despite all of this, there were developments regarding the downstream partnerships, with four applications presented by AdRA - Águas da Região de Aveiro being approved by the POVT, with a total investment of €45 million, in relation to a partnership between the State and the Local Authorities. An application related to downstream in the Noroeste region was also approved, with an investment of around €64 million. The contract will be drawn up after the formal partnership has been made.

Economic and financial analysis

The group of companies that comprise UNA-PD closed 2011 with a consolidated net profit of €46.8 million, up by the amount of €22.7 million (+ 94.3%) on the previous financial year.

Contributing towards this result was the strong operational result of around €169 million that more than offset the negative behaviour of financial results that recorded a loss of €65.3 million.

This advance in UNA-PD operational results, rising by 88.1% on 2010, is essentially explained by the increase in the gross margin by around 22%.

The performances of Águas do Noroeste, Águas de Trás-os-Montes e Alto Douro and Águas do Algarve stand out from the remainder for turning in the largest operational results, €22.660 million, €19.596 million and €16.160 million, respectively.

The positive 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 although with greatest impact at Sanest (€7.3 million), Águas de Trás-os-Montes e Alto Douro (€6.4 million) and Águas do Douro e Paiva (€5.9 million).

The negative value recorded in the financial results item in 2011 and its worsening on the 2010 result, surging by around 160%, reflects, on the one hand, the significant increase in interest rates and respective spreads and, on the other, the growing recourse to bank debts by companies as a means of financing continuing investments given the significant delays experienced in the settlement of grants approved within the framework of European Union funding. Added to this situation, also with financial repercussions, is the large increase in moneys owed by municipal clients, which had reached a total of €308 million by 31 December 2011, €247 million of which is due debt.

Águas de Trás-os-Montes e Alto Douro, Águas do Algarve and Águas do Noroeste are the three companies most exposed in these terms. In addition, only Sanest and Águas de Santo André returned positive financial results.

The unfavourable evolution of the financial structure indicator reveals an increase in the debts of the UNA-PD companies in relation to previous years. The slight improvement in this indicator in 2011 is due to the increase in equity, since the financial liabilities followed the same downward trend as in 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 three years, is shown in the following table.

UNA-PD aggregated systems - Economic and Financial Indicators

Unit: € thousands

	2009	2010	2011	Δ 2011 / 2010	
				Amount	%
Turnover (no tariff adjustments)	311,084	351,982	388,324	36,342	10.32%
Turnover (with tariff adjustments)	351,375	387,319	474,258	86,939	22.45%
Operating cash flow (EBITDA)	188,310	231,569	330,265	98,696	42.62%
Net profit for the year	18,581	24,109	46,832	22,723	94.25%
Assets	4,341,156	4,976,663	5,260,892	284,229	5.71%
Current liabilities	762,436	736,894	848,012	111,118	15.08%
Non-current liabilities	3,124,180	3,725,350	3,831,334	105,984	2.84%
Financial results	(60,640)	(40,734)	(65,343)	(24,609)	60.41%

In the case of the operating cash flow indicator, this evolution over time must be interpreted by taking into consideration the contribution of the investment grants in the operating result.

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

Economic and financial indicators	2009	2010	2011
EBITDA margin	65.25%	65.79%	85.05%
General Liquidity	0.69	0.69	0.68
Financial structure	5.76	6.25	6.05
Solvency	0.79	0.86	0.84

Important events

In terms of activities taking place in 2011, the management companies completed a series of infrastructures with their subsequent entry into operation, enabling the launch of 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 quality are indeed confirmed by the rising levels of drinking water quality, as published annually by ERSAR.

On 31 December of 2011, the commercial credit situation of the multi-municipal systems concession companies in relation to the municipalities, referring to their outstanding debt, stood at €246.6 million, marking an increase on the previous year of about €101.3 million. At that time, the outstanding debt represented about 80% of the total debt for the group of companies comprising the UNA-PD. The companies Águas de Trás os Montes e Alto Douro, Águas do Zêzere e Coa, Simarsul, Águas de Santo André and Águas do Centro Alentejo 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. Debt recovery agreements signed in 2011 amounted to €46.2 million, with injunctive orders totalling approximately €76.1 million. Compared to the previous year, these are increases of 0.76% and 118.9%, 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. A procedure has been set in motion with the objective of avoiding the imposed limit.

The year saw the completion of the project "PAST21 – National Water and Wastewater Treatment Plant Performance Evaluation Initiative", which commenced in 2009 under the supervision of the National Laboratory of Civil Engineering (LNEC), which involved a study of 10 WTP and 17 WWTP across the nation's territory. The project enabled the development and consolidation of a range of systems for assessing the performance of the WTP and WWTP, with a view to enhancing decision-making in the areas of infrastructural operation and rehabilitation.

The scope of this project focuses upon aspects related to the quality of drinking water/treated wastewater and the operational means in effect throughout the various treatment phases and their respective levels of efficiency. Its main aims are:

- identifying the relationship between treatment efficiencies and operation data;
- identifying optimal ranges to define excellent operating performance indices regarding the functioning of the bodies of which the treatment premises are comprised.

UNA-PD's involvement in this project brought a variety of corporate and operations benefits for the AdP group companies, notably the following:

- contributing to robust methodologies for measuring the efficiency of plants and their respective treatment components;
- optimizing the operation of treatment plants, maximizing output at the various levels of treatment and minimizing energy and reactant consumption;
- equipping the UNA-PD with a standardised and quantitative performance evaluation system, focused on the operational capability of treatment plants and enabling comparisons between the Group's different projects that are managed by the companies and their service providers.

Along with revisions to the system of Performance Indicators made by ERSAR in 2011, which led to the System for the Assessment of the Quality of Water and Waste Services Provided to Users – 2nd edition, there have also been some improvements and corrections to the

systems of Performance Indicators that were internally developed for UNA-PD companies, supplementing the recommendations obtained from the annual assessments conducted by ERSAR. These changes were effected to reinforce the UNA-PD's indicators with increased functionality and technical rigor.

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, Esposende, Fafe, Felgueiras, Guimarães, Lousada, Maia, Melgaço, Monção, Mondim de Basto, Paredes de Coura, Ponte da Barca, Ponte de Lima, Póvoa de Lanhoso, Póvoa de Varzim, Santo Tirso, Terras de Bouro, Trofa, Valença, Viana de Castelo, Vieira do Minho, Vila do Conde, Vila Nova de Cerveira, Vila Nova de Famalicão, Vila Verde and Vizela.	70,000,000	52,428,327	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, Semancelhe, 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	70.54%
Águas do Douro e Paiva, S.A.	Multi-municipal Water Supply System Concession	30 Years 1996-2025	Amarante, Arouca, Baião, Castelo de Paiva, Cinfães, Espinho, Felgueiras, Gondomar, Lousada, Maia, Matosinhos, Oliveira de Azeméis, Ovar, Paços de Ferreira, Paredes, Porto, São João da Madeira, Santa Maria da Feira, Valongo and Vila Nova de Gaia.	19,402,500	19,402,500	51.00%
Simdouro, S.A.	Multi-municipal Wastewater Sanitation System Concession	50 Years 2009-2059	Arouca, Baião, Castelo de Paiva, Cinfães, Paredes, Penafiel and Vila Nova de Gaia.	20,046,075	5,596,579	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	16,258,218	67.72%
AdRA - 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%

Company	Management Model and Object	Duration	Municipalities Participating	Subscribed Equity Capital (€)	Equity Capital Attained (€)	AdP Stake
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%
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	30 Years 2001-2030	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	29,733,970	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 e 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 Sôr, Portalegre and Sousel.	7,500,000	7,500,000	51.00%
Águas do Centro Alentejo, S.A.	Multi-municipal Water Supply and Wastewater Sanitation 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 for 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%
AgdA - Águas Públicas do Alentejo, S.A.	State/Municipality partnership for integrated municipal systems	50 Years 2009-2059	Alcácer do Sal, Aljustrel, Almodôvar, Alvito, Anraiolos, 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	35 Years 2001-2037	Albufeira, Alcoutim, Aljezur, Castro Marim, Faro, Lagoa, Lagos, Loulé, Monchique, Olhão, Portimão, S. Brás de Alportel, Silves, Tavira, V. R. Sto. António and Vila do Bispo.	29,825,000	29,230,875	54.44%

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

EPAL 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 Tagus River and for home delivery across the Lisbon municipality, where it directly services around 350,000 customers and reaches a global population in the region of 2.9 million people. Outside the Municipality of Lisbon, EPAL supplies water to municipal and multi-municipal management companies who distribute it to end-users.

Region Supplied by EPAL

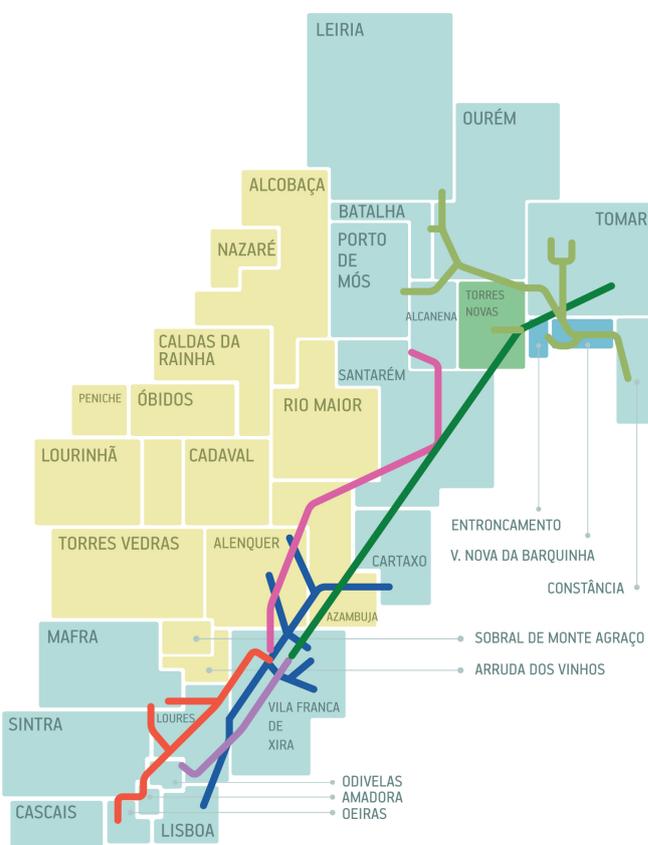
Summary of Supply System:

Production and Transport:

- 1,110,000 m³/ day of collection capacity
- 2 Water Treatment Plants
- 710 km of water mains
- 31 Pumping Stations
- 28 Storage Facilities

Distribution:

- 4 Altimetric Zones
- 84 mil ramais de ligação
- 1,430 km of distribution network
- 10 Pumping Stations
- 14 Storage facilities



— ALVIELA AQUADUCT	■ MUNICIPALITIES DIRECTLY SUPPLIED BY EPAL
— CASTELO DO BODE MAINS	■ MUNICIPALITIES SUPPLIED BY EPAL THROUGH ÁGUAS DO OESTE
— MÉDIO TEJO SYSTEM	■ MUNICIPALITIES SUPPLIED BY EPAL THROUGH ÁGUAS DO CENTRO
— TEJO AQUADUCT	■ MUNICIPALITIES SUPPLIED BY EPAL THROUGH ÁGUAS DO RIBATEJO
— CIRCUNVALAÇÃO AQUADUCT	
— VILA FRANCA DE XIRA - TELHEIRAS MAINS	

Activity	2009	2010	2011
Total Volume of Water Sold (m ³)	217,085,364	213,799,910	210,286,101
N.º of Direct Clients	348,050	349,413	348,790
N.º of Municipalities Supplied Upstream (inc. Lisbon)	33	34	35
N.º of Consumers ⁽¹⁾	2,803,537	2,825,444	2,870,314
Total Area Supplied (km ²)	6,599	6,681	7,090
N.º of Employees at 31 December	768	746	739

⁽¹⁾ Population resident in the area supplied

In 2011 EPAL continued to promote a number of initiatives aimed at more efficient asset management, protection of water quality, mitigation of the effects of climate change, infrastructure safety and resilience, in order to increase efficiency and improve customer services, so as to fully comply with its mission, ensuring financial sustainability and delivering fair and adequate returns to the shareholder.

In asset management, we would highlight our systems integration and removal of processes projects, which are important methods for consolidating an asset management strategy based on knowledge and systematization of information based on risk analysis and critical infrastructure.

In the area of water protection, and after a pilot project employing solid-state technology water quality probes undertaken in Lisbon (starting 2010), EPAL consolidated a water quality program for its distribution network, testing the technology's reliability and carrying out imperative field studies so that, for 2012, the network of monitoring points can be extended to the Downtown Lisbon.

We further developed and concluded a Code of Good Hygiene Practices within EPAL's Supply System, which sets out hygiene principles and good practices applied at our company in order to ensure the quality of drinking water at all points of the supply process.

The WSmart - Water Assessment Security Management, Research & Technology project made possible the production and approval of the Crisis Management Manual in 2011, which in 2012 will be expanded to include three levels of severity.

We continued our Service Assurance project, aiming to identify and analyse the causes of leaks and to implement a necessary action plan to consistently reduce their incidence, monitoring the effect of the implemented plan. In 2011 EPAL had its best ever performance in terms of non-invoiced water within its distribution network, registering a rate of 10%. This positive performance is accompanied by a reduction in the number of malfunctions, from 36 malfunctions/100km per year in 2010 to 33 malfunctions/100 km in 2011. The total incidence of supply suspensions also decreased by 17% from 2010.

Non-invoiced water in the Lisbon Distribution Network (ERSAR Indicator)

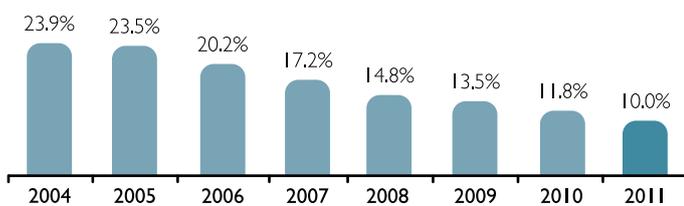


Chart 1 - Incidence of Non-Invoiced Water within the Distribution Network

Pipe malfunctions per 100km/year (ERSAR Indicator)

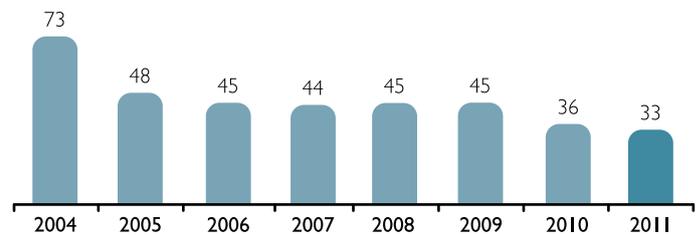


Chart 2 - Incidence of Malfunctions within the Distribution Network

In the area of management systems, we continued to develop a Comprehensive System of Corporate Responsibility, with reference to the Quality Management, Environmental Management, the Workplace Safety & Health and Social Responsibility systems. In the area of asset management, we achieved in early 2011 a certification of our activities, as referenced by ISO9001: 2008.

In Research & Development (R&D), EPAL implemented in 2011 an international agreement for technical-scientific cooperation with the Watercycle Research Institute in the area of water quality and asset management. Domestically, an agreement with the Faculty of Science and Technology (FCT) of Universidade Nova de Lisboa was concluded, upon which was initiated a study on defining the parameters for surface water intakes protection.

Of our current international projects, we would highlight "Fungi Watch: Benefits and Hurdles Associated with the Presence of Fungi in Drinking Water Sources", relying on our collaboration with the Institute of Experimental and Technological Biology (IBET). Additionally, we would note the Smart-project "Smart Monitoring & Pro-Active Control for Contamination Mitigation Management", undertaken with several international partners. 2011 saw the conclusion of a project entitled "SAFEWATER - The Development and Validation of Integrated Processes for Water Consumption in Portugal and Norway", undertaken through a partnership with the IBET, the Norwegian University of Science and Technology, the SMAS of Almada, and Águas do Algarve.

With regard to projects involving local entities, we highlight our partnerships developed with LNEC, the Instituto Superior Técnico (IST), and the FCT, and in particular the projects “LDmicrobiota - The Microbiota of Sediment Distribution Systems and Water Quality for Human Consumption”, financed by the Foundation for Science and Technology, as well as the project “ChloriDec - Technology for the Real-Time Monitoring of the Chlorine Decay rates in Water Supply Systems.”

To address the challenge of climate change, we have continued the PREPARED project, co-financed by the 7th Framework Programme of the European Community, as well as the multi-year study on the Adaptation of the Urban Water Cycle to Climate Change Scenarios (AdaptaClima), in collaboration with the Research Group of the Faculty of Sciences of the Universidade de Lisboa.

The total investment in 2011 was €12 million, falling far short of the sum allotted by our budget.

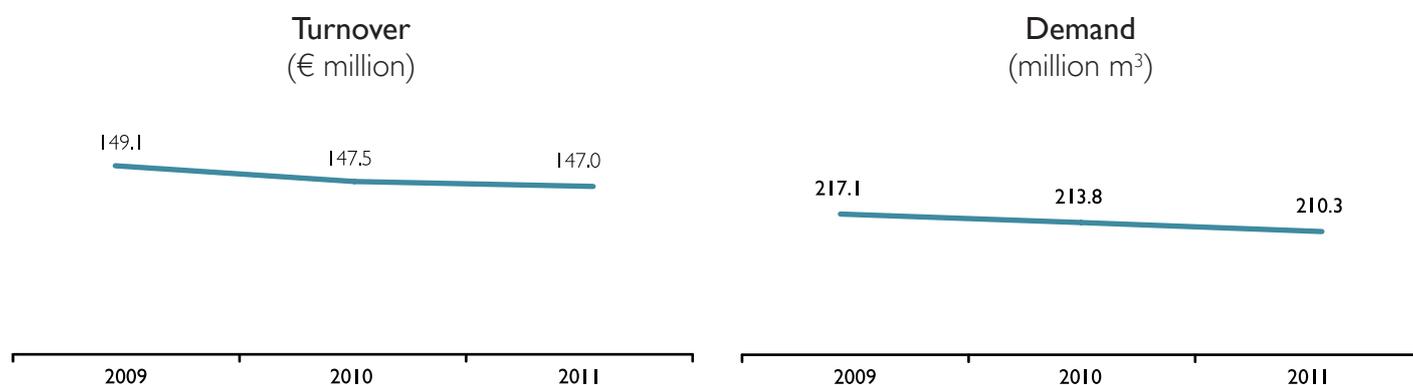
Unit: euros	
Investment	2011
Guaranteeing Capacity	3,707,331
Guaranteeing Reliability and Security	6,356,255
Guaranteeing Quality	435,039
Sustainability and Innovation	192,128
Information & Communication Technology	698,623
Other investments	568,524
Total	11,957,901

Of the investments carried out in 2011, we would highlight:

- The renovation of 14.2 km extension of our distribution network (pipelines and distribution mains), for a value of €2.9 million;
- The doubling of the Castelo de Bode pipeline in the special works zone of Azambuja, for the sum of €2.4 million;
- The repair of the final section of the Castelo de Bode pipeline for €1.2 million;
- A 5.4 km expansion of our distribution network for €1.1 million;
- An information and communication technologies update worth €0.7 million.

EPAL's net profit in 2011 was lower than in the previous year. Despite this decrease, it should be noted that the profit in 2010 was principally due to a significant, one-time annulment of yearly provisions amounting to €11 million.

The turnover reached €147 million, representing a €0.4 million decrease from last year, due to an income reduction in services provided (construction/repair stations and supply processes), in a year in which there was no tariff increase on the water supply.

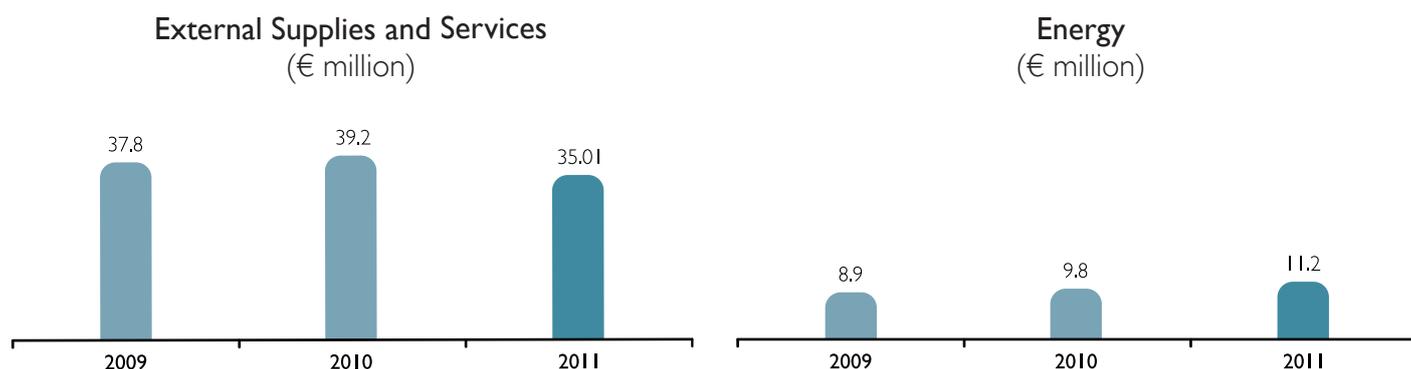


With respect to sales, despite repeating the total result from 2010, there was a 3.5 million m³ decrease in the volume sold. Direct sales to customers were €73.5 million (-€2.0 million from 2010), while sales to multi-municipal and municipal customers were €72.1 million (+€2.2 million). The increase in the value of sales to local customers stems from the recognition of guaranteed minimum values.

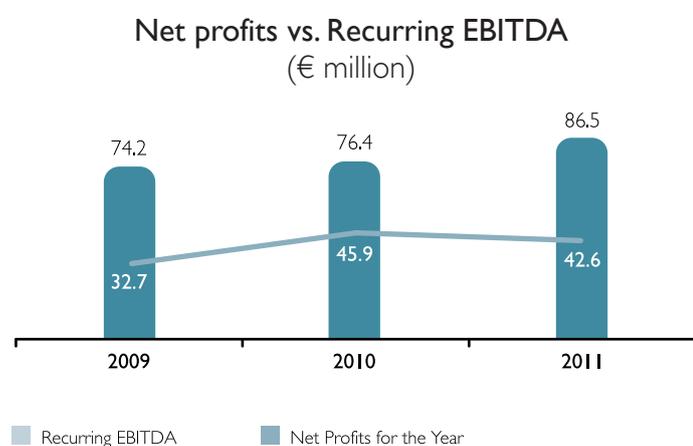
The year's financial performance resulted from the reduction of operating expenses, including about €10 million in external supplies and services & staff costs.

Concerning staff costs, there was an overall reduction of €5.9 million, of which €4.2 million resulted from wage cuts provided for by the 2011 State Budget Law, as well as the non-recognition of holiday pay introduced by the 2012 State Budget Law.

In the area of external supplies and services (FSE), the decrease from 2010 was by €4.1 million, despite the fact that energy costs had increased by €1.4 million. Energy costs have been influenced by very significant price increases since 2010, which have not been entirely offset by the company's efforts in improving efficiency and consumption practices. EPAL has pursued a program of energy efficiency by installing more efficient equipment (installation of variable speed drives in pumping systems), seeking out other energy sources (e.g. photovoltaic systems), and acquiring energy from the liberalised market (EPAL was among the first companies to launch a tender for an energy purchase in the liberalised market).



The 2011 EBITDA generated by the company rose by 13% from the previous year. In fact, there was a €10.1 million growth in EBITDA, which, given the reduction in business turnover of €0.4 million, only proved possible via a reduction in costs, specifically in external supplies and services and staff costs. There was not a similar increase in terms of net income, due to the one-time €11 million annulment of provisions in 2010.

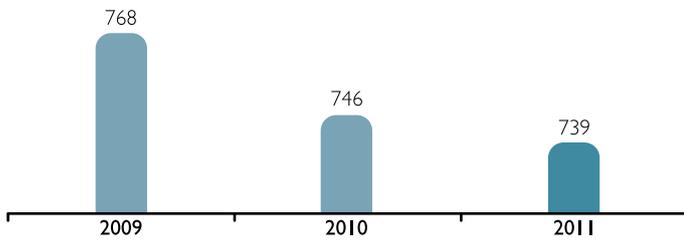


EPAL has a balanced financial structure, marked by an adequate correspondence between the uses and sources of maturities. At the close of 2011, the medium-/long-term indebtedness of the company was €222.4 million, a reduction of €17 million from 2010.

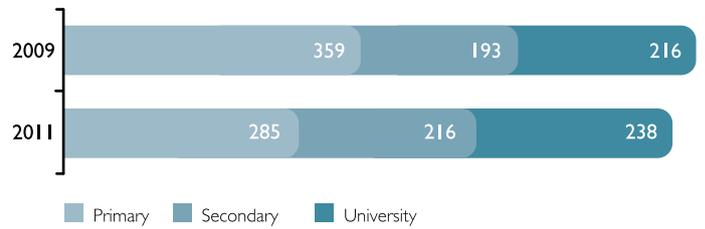
In addition to this good business performance, we would highlight that EPAL has maintained financial robustness, demonstrating a strong capacity to meet all of its short-, medium-, and long-term commitments.

The number of employees as of 31 December was 746 employees, down 7 from the same date in 2010.

N°. of Employees



Level of Education of Employees



EPAL has nurtured the progressive rejuvenation and professional capacity of its employees, namely through programmes such as Novas Oportunidades (New Opportunities), through which 135 employees have already gained certification. Employees with higher and secondary levels of education today represent 61% of the company's employee ranks, a figure that stood at just 53% in 2009.

7.2. Waste

Empresa Geral do Fomento, S.A. is the Águas de Portugal sub-holding company responsible for the waste business unit 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.

Multi-municipal waste treatment and recovery systems are managed by concessionary companies, set up in partnership with the municipalities served, which process about 3.5 million tons of municipal solid waste (MSW) a year, produced in 174 municipalities, serving 58% of the population of Portugal.

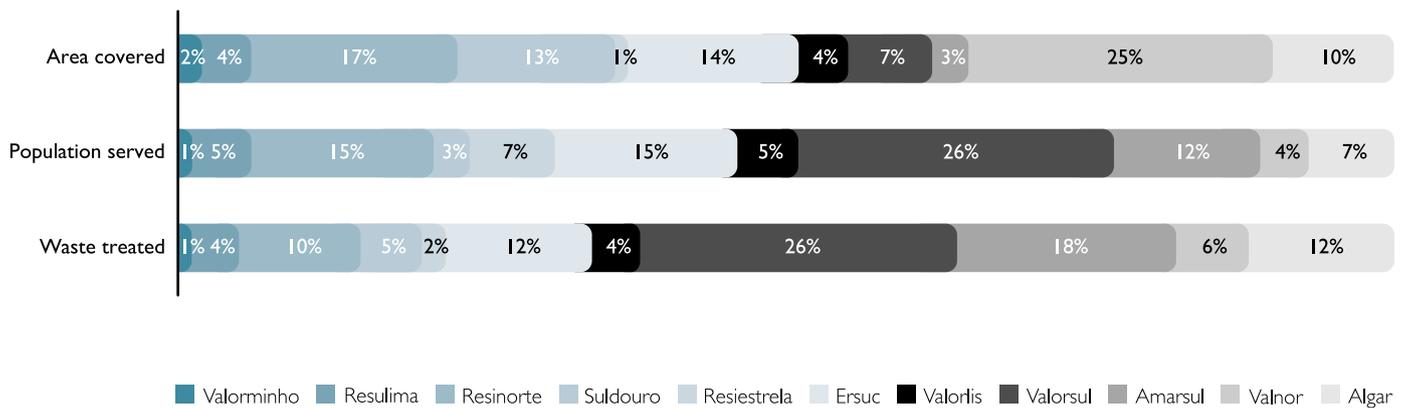
As a company that plays a fundamental role in supporting the configuring and definition of environmental policies in the waste sector, EGF's main priority is to contribute to complying with national and European Union strategies and targets for the industry, particularly in regard to increasing selective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

In the area of 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 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.

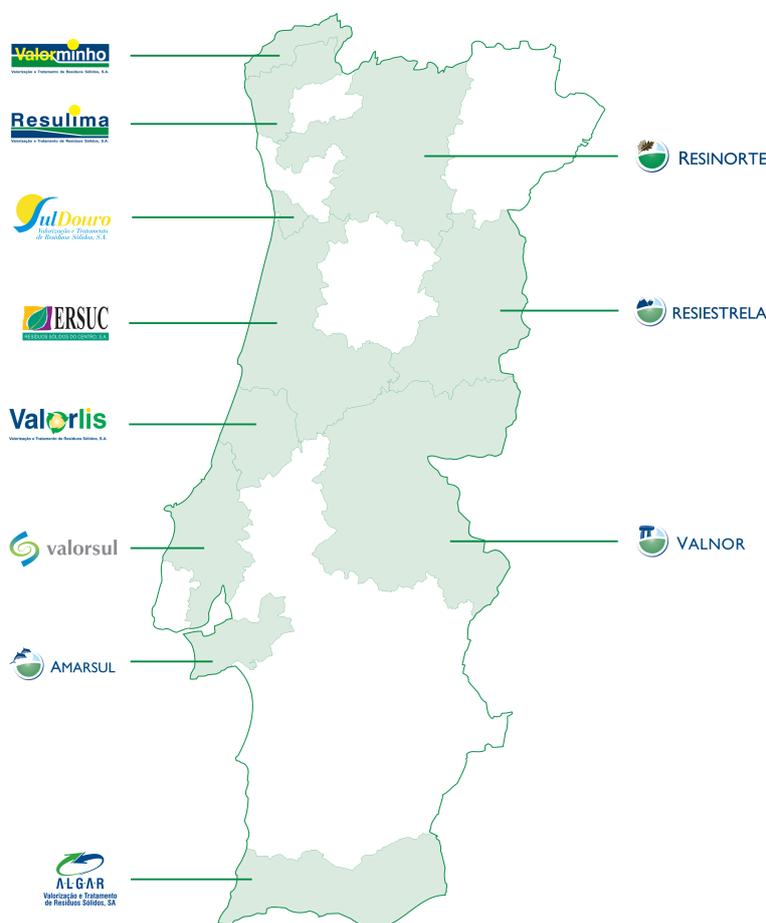
In recent years, energy production from municipal waste (MW), either by incineration or the use of biogas from landfill sites and organic processing, has contributed to the economic sustainability of companies and reduced Portugal's dependence on imported energy resources.

The multi-municipal systems (MMS) managed by EGF companies serve an area of 48,009 sq. km, representing 52% of the total area of Portugal. The following chart shows the area covered, population served and waste treated by each MMS, as well as the relative weight of each company.

Service Coverage



At the end of December 2011, 11 companies were managing waste treatment and recovery systems. Their geographical coverage is shown in the following map.



The main events for the Waste BU in 2011 included:

- investments, in a year of national economic crisis and financing difficulties, totalling more than €125 million, while the accumulated value of the total assets of EGF companies reached more than €1 billion at the end of 2011;
- completion of construction work and operational start-up of mechanical and biological (anaerobic digestion) treatment (MBT) units at the companies Suldouro, Valnor and Valorlis;
- redevelopment of the Cova da Beira Composting Plant at Resiestrela and the installation of a mechanical treatment (TM) unit;
- installation 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 installation of energy production units at the companies Algar, Amarsul, Resiestrela, Valorsul and Valnor. The start-up of these new installation increased the total installed capacity of energy produced from landfill biogas in the EGF group to 22.6 MW;
- installation at Suldouro at two of 150 Kw units using Organic Rankine Cycle (ORC) technology for energy production from the exhaust fumes of motor-generators used in producing energy from landfill sites;
- construction of cell B of the Valoris landfill site for the final disposal of USW;
- as part of soil decontamination at the former national steelworks Siderurgia Nacional and Quimiparque (chemical industry), the removal, transport and landfill disposal of contaminated soils, part of a proposal approved by the POVTV;
- EGF proposals for providing technical and international management services in different countries, including proposals submitted to the Republic of Cape Verde; the Secretary of State and for the Environment of Rio de Janeiro State (Brazil); and the Republic of Dagestan (Russia);
- follow-up of a €145 million European Investment Bank (EIB) financing contracting for investments underway at Amarsul, Algar, Suldouro, Valorlis, Valnor and Ersuc;
- EGF representation on the Executive Committee of the Commission for Climate Change (CECAC) following the appointment of two staff members to the Commission's Technical Secretariat. The CECAC is responsible for the technical management of the Portuguese Carbon Fund (FPC) and for monitoring the National Plan for Climate Change (PNAC).

The waste received, treated and recovered by EGF shareholdings in 2011 totalled about 3.5 million tons.

Waste treated

MMS	Waste treated/ recovered	%	Municipal USW	Private USW/ Non-hazardous Industrial Waste	Inert/ Construction and Demolition Waste	Selective Collection	
						Multimaterial	Organic/ Other
Valorminho	38	1%	33	1	1	3	0
Resulima	133	4%	119	1	0	12	1
Resinorte	374	10%	328	11	1	34	1
Suldouro	198	5%	175	5	0	17	2
Resiestrela	77	2%	72	1	0	4	0
Ersuc	412	12%	368	10	0	34	0
Valorlis	142	4%	127	0	3	12	0
Valorsul	913	26%	654	153	0	82	24
Amarsul	626	18%	414	128	55	29	0
Valnor	213	6%	110	73	15	13	2
Algar	414	12%	325	31	25	32	1
Total	3,539	100%	2,724	414	101	270	31

Main Indicators

The following tables show the main figures for EGF and the individual performance of EGF companies:

(Unit: € thousands)

Indicator (consolidated data)	2011	2010
Turnover	186,805	159,734
EBITDA	101,130	63,634
Financial earnings	(5,790)	(2,038)
Net profit	8,630	1,569
Assets	1,062,636	1,013,900
Current liabilities	132,726	127,637
Non-current liabilities	807,142	789,020
Equity capital	122,768	97,243

EGF Operations (consolidated data)	2011	2010
Solid waste (1,000 t)	3,539	3,699
Population served (1,000 residents)	6,381	6,410
No. of municipalities covered	174	174
Geographical area (km ²)	48,009	48,009
Average no. of employees	2,003	1,943

2011 Indicators	Investment Tangible+Intangible ⁽¹⁾	Accumulated Investment ⁽²⁾	Turnover	EBITDA	Net Profit	Total Municipal Customer Debt	Net Assets	Equity Capital
Valorminho	242	11,710	1,640	973	492	353	9,238	1,821
Resulima	852	24,539	5,638	3,454	1,410	859	23,471	4,064
Resinorte	2,165	159,847	17,300	7,037	667	14,689	139,883	9,616
Suldouro	4,151	60,475	10,216	6,981	1,489	2,310	66,157	7,863
Resiestrela	4,172	33,350	4,908	3,445	705	7,899	43,284	5,482
Ersuc	51,029	140,595	17,580	10,418	2,059	4,743	147,797	16,514
Valorlis	3,980	49,996	5,903	4,488	374	1,838	49,505	4,106
Valnor	12,759	64,606	10,196	4,386	1,079	2,471	66,867	14,175
Valorsul	8,704	319,980	60,814	26,814	9,481	6,916	245,344	56,012
Amarsul	24,933	102,977	18,430	8,461	2,042	17,854	112,622	12,945
Algar	13,276	125,509	17,009	8,576	1,546	10,342	120,392	10,943

⁽¹⁾ Net values for 2011; ⁽²⁾ Gross values for 2011.

Holdings Portfolio

Company	Concession Period	Participating Municipalities	AdP Holding	Share Capital
EGF, S.A.	Holding Company	n.a.	100.00%	56,000,000
Valorminho, S.A.	25 years 1996-2021	Caminha, Melgaço, Monção, Paredes de Coura, Valença and Vila Nova de Cerveira.	51.00%	900,000
Resulima, S.A.	25 years 1996-2021	Arcos de Valdevez, Barcelos, Esposende, Ponte da Barca, Ponte de Lima and Viana do Castelo.	51.00%	2,500,000
Resinorte, S.A.	30 years 2009-2039	Alijó, Amarante, Armamar, Baião, Boticas, Cabeceiras de Basto, Celorico de Basto, Cinfães, Chaves, Fafe, Guimarães, Lamego, Marco de Canaveses, Mesão Frio, Moimenta da Beira, Mondim de Basto, Montalegre, Murça, Penedono, Peso da Régua, Resende, Ribeira de Pena, S. João da Pesqueira, Sabrosa, Santo Tirso, Semançelhe, Santa Marta de Penaguião, Tabuaço, Tarouca, Trofa, Valpaços, Vila Nova de Famalicão, Vila Pouca de Aguiar, Vila Real and Vizela.	51.00%	8,000,000
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.	62.95%	3,750,875
Suldouro, S.A.	25 years 1996-2021	Vila Nova de Gaia and Santa Maria da Feira.	60.00%	3,400,000
Ersuc, S.A.	33 years 1997-2030	Águeda, Albergaria-a-Velha, Alvaiázere, Anadia, Ansião, Arganil, Arouca, Aveiro, Cantanhede, Castanheira de Pêra, Coimbra, Condeixa-a-Nova, Estarreja, Figueira da Foz, Figueiró dos Vinhos, Góis, Ílhavo, Lousã, Mealhada, Mira, Miranda do Corvo, Montemor-o-Velho, Murtosa, Oliveira de Azeméis, Oliveira do Bairro, Ovar, Pampilhosa da Serra, Pedrógão Grande, Penacova, Penela, Sever do Vouga, São João da Madeira, Soure, Vagos, Vale de Cambra and Vila Nova de Poiares.	51.46%	8,500,000
Valorlis, S.A.	25 years 1996-2021	Batalha, Leiria, Marinha Grande, Ourém, Pombal and Porto de Mós.	51.00%	2,000,000
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 e Vila Velha de Ródão.	53.33%	10,000,000
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.	56.17%	25,200,000
Amarsul, S.A.	25 anos 1997-2022	Alcochete, Almada, Barreiro, Moita, Montijo, Palmela, Seixal, Sesimbra and Setúbal.	51.00%	7,750,000
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.	56.00%	7,500,000
Empresa Geral do Fomento, SNESGES, URBINDÚSTRIA A.C.E.	n.a.	n.a.	1.00%	0
EGF, QUIMIPARQUE, A.C.E.	n.a.	n.a.	1.00%	0
EGF & Dourgás A.C.E.	n.a.	n.a.	51.00%	0

7.3. Energy and Other Businesses

The activities of the AdP Group in the field of renewable energies are centralised in the company AdP Energias - Energias Renováveis e Serviços Ambientais, S.A (AdP Energias), which embodies the Group's structural goals in the energy area:

- i) to develop the business, maximising use of the Group's assets and endogenous resources;
- ii) to contribute to sustainable development, rationalising the Group's energy consumption and reducing or compensating for its greenhouse gas emissions.

In this context, AdP Energias develops projects for using resources with energy-producing potential across all Group companies, fostering synergies and economies of scale, as well as enhancing related technical knowledge.

These include projects for energy production from RDFs (refuse derived fuels) and from Water and Wastewater Treatment Plant Sludge - Energy Recovery Plants (ERPs), for recovery of low temperature heat (Rankine Organic Cycle Technology), leveraging hydro-electricity capacity through hydropic-peak and micro-hydro energy production, as well as biomass energy and photovoltaic solar energy (traditional technologies and solar photovoltaic concentration).

In parallel, AdP Energias provides working support for Group companies in the adoption of energy efficient solutions, in the optimisation of energy production in existing installations and plants and in the development of regional and local solutions for the environmentally appropriate and energy efficient treatment of sludge in water and wastewater treatment plants.

Activities of particular importance in this area include: assistance in accessing financial incentive programmes for energy efficiency within the PPEC (Plan for Promoting Efficient Consumption); technical support for optimising the use of biogas produced by anaerobic digestion; assistance in the licensing of energy delivery points and installations; and the development of sludge drying and handling projects using of solar energy.

Relevant facts of the year

The year of 2011 can be described as year of some stagnation in the AdP Group's renewable energy area, given that it was not possible to move forward with the implementation of selective energy production units (SEPUs), considered anchor projects for Group's planned growth in this field. It was also a year in which Portugal significantly reduced its strategic investment in the renewable energy sector.

Fiscal consolidation measures included in the government's Stability and Growth Programme (PEC) had already in 2010 imposed limits on the indebtedness of public sector companies, creating obvious restrictions on investment. However, given the status of exception granted to the AdP Group in that year, it nevertheless proved possible to move forward with some priority projects.

In 2011, the worsening of Portugal's economic situation, the commitments made under the terms of the country's Economic and Financial Assistance Programme and the restraints caused by a lack of financial market liquidity led to the imposition of additional limitations on the Group's medium-term operating and investment plans. As a result, non-priority investments were suspended or postponed, including the largest investments planned in the energy sector, specifically planned investments in SEPUs and biomass.

In the renewable energy field, two fundamental pieces of legislation were published in 2011:

- i) Decree-law no. 5/2011, of 10 January, which sets out measures for fostering the production and use of biomass to ensure the supply of energy plants that burn forest biomass;
- ii) Decree-law no. 34/2011, of 8 March, which establishes the legal regime applicable to small-scale energy production, described as mini-production units.

It is all important to highlight, on a different note, the specific commitments contained in that Memorandum on Economic and Financial Policy signed by Portugal, which seeks to ensure that the reduction of the country's dependence on imported energy resources and the fostering of renewable energy is achieved in a way that limits additional costs related to energy production in both the ordinary and the special systems.

This commitment will inevitably lower the tariffs paid in new contracts for renewable energy; the renegotiation of tariffs in some existing contracts and a reassessment of future investments in some less mature technologies, taking into consideration the consequences for energy prices.

In this climate, the remuneration from the different forms of renewable energy is clearly expected to be substantially reduced, raising a question mark over the profitability of some future projects. Banks are also likely to allocate higher risk levels to renewable energy projects, making them more difficult to finance.

Projects underway

In spite the limitations described above, which mainly affect the development of large-scale projects; progress was made with some smaller investments, including:

Mini Photovoltaic Production

The publication in March of new legislation regulating this type of energy production and auctioning of the corresponding tariff, enabled the Group to identify locations covered by multi-municipal systems (MMS) with photovoltaic potential. Proposals were requested for the supply of 14 units with capacities of between 20 kW and 250 kW. Given the restriction placed on investment/indebtedness levels and the fact that medium capacity units have been shown to be more profitable, only four units were commissioned in the 90 kW range, located in the areas managed by Águas do Algarve and Águas do Norte Alentejo.

Micro Photovoltaic

The project for installing 206 micro-production photovoltaic units was concluded in 2011. The related operational control and invoicing processes were also fine-tuned. Besides being economically profitable, this project is emblematic of one of AdP Energias fundamental concepts and missions: producing energy from endogenous resources, in this case the space available in the installations of MMS management companies.

The micro-generation photovoltaic units were installed throughout Portugal on land and buildings belonging to 15 AdP Group companies.

The end of 2011 marked the first two years of energy production by the first units to be installed and the production guarantees provided by the installation companies were conferred.

Photovoltaic Concentration

AdP Energias belongs with Dreen and Solfocus to the consortium that was classified in first place in the international public tender for the construction of five solar photovoltaic concentration demonstration units, with a unit potential of 1 MW, the respective PIP having been granted in July 2010 by DGEG. Although the contract was adjudicated in July, the legislation regulating the tariff regime applicable to these demonstration units was only published in October 2010. On this basis, the respective economic viability study was revised. The request to the government to authorise the setting up of a corporate vehicle responsible for implementing the project was also updated.

Although it has not been possible to obtain this authorisation, the consortium has move forward with a number of work initiatives related to the installation, namely locating and negotiating for available land and licencing the plant. In March, a sub-letting contract was signed for a plot of land in Martim Longo and the licence for installing the plant was obtained in October.

Low Temperature Heat Recovery (ORC)

AdP Energias carried out a technical analysis into the possibilities of using Organic Rankine Cycle (ORC) technology in AdP Group companies. This technology enables electrical energy to be produced by recovering the heat wasted in combustion processes or the running of engines. Groups of motor-generators fuelled by landfill biogas, anaerobic digestion units and energy recovery units were identified as potential applications for this technology in the AdP Group.

In 2010, a partnership was established with Suldouro, a company that manages an municipal waste MMS within the AdP Group, for installing two ORC units in motor-generators fuelled by landfill biogas and an international public tender was launched for the supply and installation of the units, each with a potential capacity of 150 kW.

In 2011, the contract for installing these units was awarded to the company TRI-O-GEN. The installation was completed in July, when the energy produced by the ORC units began to be injected into the national grid.

It is worthy on note that the use of this technology is innovative in Portugal and that these were the first ORC units to come into operation in both the AdP Group and the country as a whole.

Micro-hydro

Although work has continued on developing micro-hydro projects, the Group continues to encounter difficulties in implementing them effectively.

Although significant progress has been made with the Monte-Chãos project, run by Águas de Santo André, profitably levels proved to be very low and a decision was taken not to go ahead with it.

The Beiriz project at Águas do Noroeste was the object of a public consultation. The proposals made are now being assessed and the contract is expected to be awarded in the first half of 2012.

Solar Sludge Drying

Work continued on installing the first solar sludge-drying unit, located in the Algarve, and negotiations continued on acquiring the land required.

After confirmation that the location was compatible with Municipal Master Plan (PDM) for the area, a request was submitted to the municipality of Silves to authorise the prior viability of the project. However, it has not yet been possible to obtain this authorisation. As a result, no significant progress was made with the project in 2011.

7.4. International

The mission of the International Business Unit (UNI) is to conduct the management of the AdP group's business outside Portugal, ensuring the management of shareholdings in companies and other group businesses in an economically sustainable manner. It also seeks to act as a showcase of the group's capacities and skills at an international level, leveraging the internationalisation of group operations.

UNI 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 ongoing basis are geared towards cooperate and social responsibility, rather than being of an exclusively commercial nature. However, the principle driver of the unit's operations is economic sustainability.

To support the international strategy of the AdP Group, AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A. (AdPI) was created in 2001. It is wholly owned by AdP - Águas de Portugal, SGPS, S.A.

AdP Internacional's activities are aligned with the economic and environmental sustainability of the projects and missions in which the company is engaged. The main guidelines of its mission are:

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

Main Events

Brazil

Work continued on the process of winding down da AdB - Águas do Brasil, S.A. which had been initiated in the previous year. Contacts were initiated with decision-makers in the states of Rio de Janeiro, Espírito Santo and Rio Grande do Sul.

Mozambique

Águas de Moçambique

At the end of 2010, AdP Internacional contractually agreed to the sale of its stake in Águas de Moçambique (AdeM), reducing the AdP Group's presence in the Mozambique market to its holding in Aquatec.

From 2012, a reformulation of the business purpose of Aquatec will enable it to compete for technical assistance contracts in Mozambique's water and sanitation sectors.

Aquatec

Following the strategic reorientation of group businesses in Mozambique, AdPI re-launched Aquatec activities in 2010. It has now become an instrumental company in Mozambique.

Angola

In 2011, AdP Angola, the AdP Group's subsidiary in the Angolan market, began full operations, submitting several proposals to the Ministry of Energy and Water and several provincial governments.

A number of contracts based on these proposals are expected to be awarded in 2012.

Consolidation of the Angolan subsidiary's activities should result in new business in the water sector, especially deriving from the tenders launched under the auspices of PDISA – the Programme for the Institutional Development of the Water Sector, financed by the World Bank, as well as new projects financed by the African Development Bank.

Morocco

The AdP Group's first technical assistance contract with Morocco's Office National de l'Eau Potable (ONEP) came into effect at the end of 2011 as part of the Convention AdP with the name Project SIG – Métiers Eau & Assainissement.

Outlook

In accordance with the strategy defined by AdPI's Board of Directors, the outlook for consolidating and developing new business in 2012 involves:

- consolidating AdP's presence in the Angolan market. Following the formal establishment of AdPI's subsidiary, which was named AdP Angola in 2011, it will be easier to establish partnerships with leading local companies to support the development of new business projects;
- AdPI is also expected to increase its activities in the Angolan market in 2012 by strengthening support for the Ministry of the Environment and the Ministry of Energy and Waters, through the National Directorate of Water Supply and Sanitation, as significant World Bank financial support is planned for this national agency, taking into account the implementation of PDISA – the Programme for the Institutional Development of the Water Sector;
- AdPI's activities in the Mozambican market have contracted sharply following the sale of its stake in Águas de Moçambique to FIPAG, the Group's activities now being limited to Aquatec;
- the north of Africa, particularly Morocco, will be a focus for intensified contacts in the wastewater and municipal solid waste treatment sectors with the aim of signing technical assistance contracts;
- in the Brazilian market, new opportunities are emerging for partnerships with Brazilian companies, namely in the wastewater sanitation and municipal solid waste treatment sectors, in public tender bids in several states in the coastal region;
- in accordance with the strategy defined by the Board of Directors, approaches to new markets will be based on the principle of ensuring the economic and financial stability of projects in which AdPI is involved.

7.5. 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 directed towards the provision of 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 group guidelines on IT Systems favouring standardisation and normalisation and 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 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 activities and events

In a context of resource rationalisation and economic restraint, AdP Serviços focused its activities on areas that, both internally and in partnership with other Group companies, would help the AdP Group responded to the challenges that this new climate has created.

The need to rethink processes, redesign procedures and change approaches has given rise to an innovative project involving all AdP Serviços employees called the Ideas Passport. In a bottom-up approach to different ways of working, 48 new ideas were presented during 2011, of which 17 have been implemented or are in the implementation phase.

Internally, several measures for rationalising the uses of resources were developed and implemented, including the creation of a secretarial pool that provides for more efficient management of support services and a carpooling system, currently in the testing phase, for employees to share vehicles when travelling on business.

The AdP Group's Shared Services relational model, which came into operation in April 2010, is now in fully operational and several opportunities for expanding its services and enlarging its operations were identified in 2011.

It is important to note that the consolidation of partnership-based relations resulting from the implementation of this relational model have already led to the conception, development and implementation of important projects in several areas. These include the provision of technical support for Águas de Santo André, following a stoppage in the pre-treatment system for industrial wastewater at Petrogal; the development of a package of services for optimising anaerobic digestion and the production of energy and biogas at Simria and Simlis; and a strategic plan for technological mobility. In regard to the latter, an assessment and selection process for a mobility platform to manage mobile applications and equipment was launched in 2011. A pilot project was developed involving two mobile applications, installed on mobile equipment based on different technologies, integrated with the SAP system, for approving requests and registering metre readings on the mobile equipment. This pilot application was wholly designed and developed by AdP Serviços engineers.

In the area of centralised negotiation, AdP Serviços coordinated and awarded contracts in two public tenders for the acquisition of high-, medium-, and special low-voltage electrical energy for the AdP Group. The value of the contracts totals about €46.2 million, the largest amount to date of any tender process launched and coordinated by AdP Serviços.

In the area of spreading knowledge relevant to the whole Group and sharing experiences from on-going projects, a number of important information sessions involving Group companies were organised, including an engineering seminar, an information systems workshop, a session on the 2012 Government Budget and a training session on Auditing and Financial Controls in Public Contracting.

Following the implementation of the International Financing Reporting Standards (IFRS) in 2010, AdP Serviços continued to provide follow-up support to Group companies by developing and introducing parameters into SAP for the correct registration of IFRIC 12 service commission arrangements by Group companies and developing tools for improving internal accounting processes.

Other highlights among the projects and initiatives developed by AdP Serviços departments in 2011 include:

- implementation of a SAP-PD module for supporting human resource management processes related to personal development, specifically recruitment and training management;
- implementation of "Good Energy", an awareness campaign on efficient energy use held at the head office;
- participation in the AWARE-P (infrastructure asset management) projects in representation of the AdP Group and an end-user;
- implementation of a new integrated supplier assessment system, wholly designed and developed by an AdP Serviços team, for making multidimensional assessments of suppliers. The system was successfully introduced at EPAL;
- negotiations with ERSAR on regulatory models for operating public drinking-water supply and wastewater sanitation systems;
- preparation of the public proceedings for contract-award processes to be launched in 2012 in the areas of communications, chemical reagents, laboratory materials, insurance, meters and vehicles.

AdP Imobiliária

The activities of the company AdP Imobiliária have been suspended.

Aquasis

The mission of Aquasis, Sistemas de Informação, S.A., one of the AdP Group's shared services companies, is to develop and consolidate information technology systems able to:

- set up a range of information system products 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 and municipal solid waste collection, treatment and recovery systems;
- provide services and implement solutions at group companies and in companies and management entities in the sector; across all the respective components, specifically, support 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;

- deepen strategic development programmes, support for the technical management of AdP Group 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 wastes;
- proximity and collaborative development with operational companies, which, allied with the existing engineering knowhow, 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 a real ambience, thus giving guarantees as regards their appropriateness to the reality of the sector and the business;
- the guarantee of lasting solutions, with permanent teams dedicated to the development, implementation, training and post- installation support and responding to operational/technological evolutions and the constant needs of users.

The main specialist fields of Aquasis are the following:

- Maintenance and Asset Management Information Systems (SMGA);
- Integrated Operational Management Information Systems (SIGIO);
- Automated Control and Communication Network Systems (Remote management);
- Geographic Information Systems (SIG).

In the aforementioned specialist fields, Aquasis has pioneered the development and application of innovative information technologies for the analysis of engineering problems and support in decision-making and operation and maintenance of basic sanitation infrastructures in Portugal. Aquasis, on one hand, ensures the standardisation of company and management business procedures and, on the other hand, leverages synergies in the development of activities, rendering them competitive. Solutions are implemented at companies and management entities in accordance with the specific features and their respective level of development. Whatever the form of implementation of the solutions developed, Aquasis guarantees high technological standards and the quality of the work undertaken and, especially, a global vision of information systems, guaranteeing their convergence around more effective and efficient management.

In the field of Maintenance and Asset Management Information Systems, Aquasis has developed a complex corporative project for the AdP Group, incorporating the IBM Tivoli MAXIMO Asset Management software, fully integrating the ERP (Enterprise Resource Planning) tool in operation at this group (SAP).

Currently, the system has been adopted by 17 AdP Group companies and now represents an essential system for maintenance activities, whether carried out by the companies, by their own members of staff or under an outsourcing regime.

In the field of integrated operational management information systems, Aquasis has developed, in partnership with the MdeMaquina company, the Navia.AdP platform. This platform corresponds to a productivity tool for the operational field and is able to meet the day-to-day needs of companies, supporting working practices, information, management and decision making. Endowing operational management with the operational tools that rationalise resources and optimise results, the introduction of the Navia.AdP platform at AdP Group companies, in addition to guaranteeing benefits in service quality, drove a significant reduction in operational costs. Currently, the system is in effect at eight AdP Group companies with a further five due to install the system in the short term.

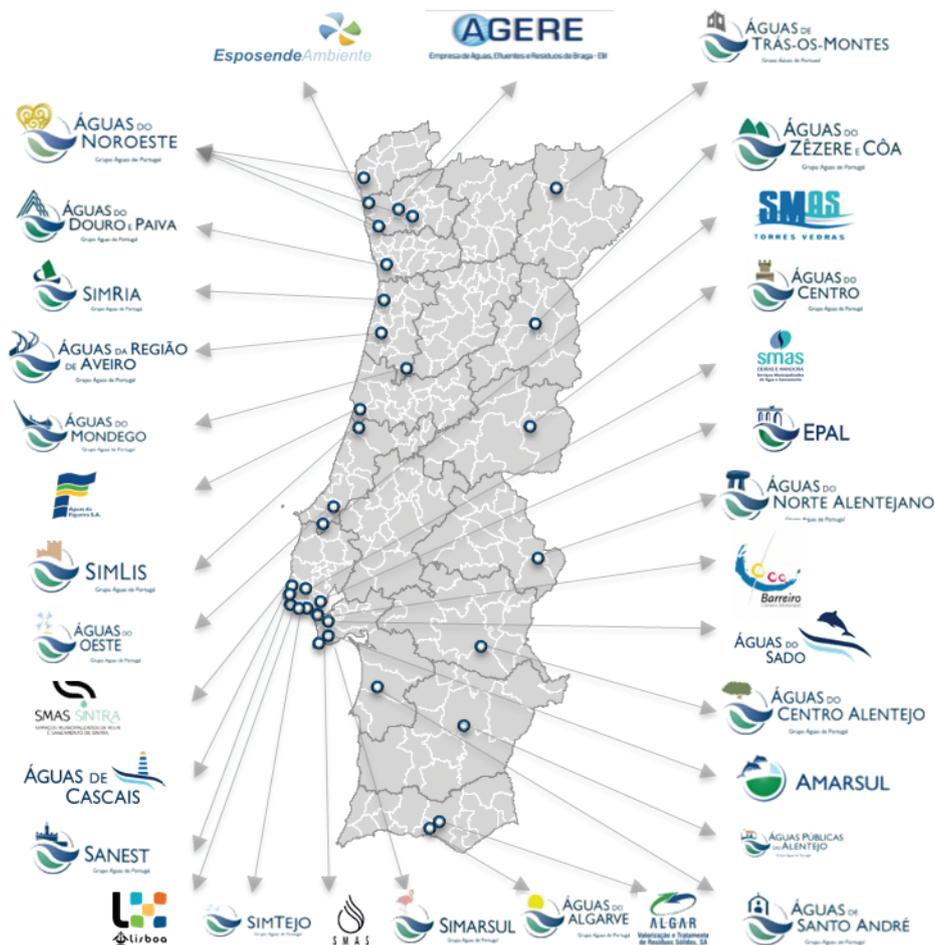
In the field of automated control and communication network systems, Aquasis has been developing its activities in conjunction with AdP Group companies and the marketplace in general across various fields, including:

- support for companies in negotiating communication solutions with telecommunications operators, boosting the synergies inherent to the scale of the AdP Group;
- design and production of remote management projects and their respective operational communication networks, including drafting the submissions for tenders, evaluating proposals and the provision of supervisory and auditing services;
- design and production of multi-service communication networks (VPN-IP MPLS), supported by operator broadband circuits, including drafting the submissions for tenders, evaluating proposals and the provision of supervisory and auditing services;
- design and production of integrated video-surveillance IP solutions, voice over IP (fixed and mobile) and wireless LAN coverage for company operational installations, including drafting the submissions for tenders, evaluating proposals and the provision of supervisory and auditing services for their installation.

Within the field of geographic information systems, referred to by its Portuguese acronym SIG, Aquasis has set out an integrated management solution for water supply and wastewater and rainwater treatment (upstream and downstream from a multi-user perspective, designated by G/InterAqua. SIG G/InterAqua is an integrated solution based on a common technological platform that includes desktop, web and mobile components and provides support in registering processes for infrastructure assets and in the general planning, operational and maintenance activities of most operating and management companies in the sector.

The SIG G/InterAqua solution currently represents, not only the corporate AdP Group solution for its companies, but also, unquestionably, the SIG solution used most in Portugal by both water supply and wastewater and rainwater sanitation system companies and management entities.

The following shows the geographical distribution of the companies and management entities that use the SIG G/InterAqua solution in Portugal.



More recently, Aquasis, S.A. extended the SIG G/InterAqua to the solid waste sector, developing a specific solution for the sector in partnership with Algar (the AdP Group company for solid waste collection, recovery and treatment in the Algarve region).

In this context, the SIG G/InterAqua solution uses a motor to optimise collection routes and a USW mobility component with navigation functions guaranteeing greater effectiveness and efficiency in collection activities with a consequent reduction in operating costs. In addition to Algar, Aquasis has also been providing services to Amarsul (the AdP Group company responsible for solid waste collection, recovery and treatment in the area south of the Tagus river).

The significant number of management entities that have deployed solutions developed by Aquasis now form a user community with shared interests, thus fostering synergies and the sharing of experiences and ideas that Aquasis hopes to encourage and support.

The high level of implementation at companies operating or managing basic sanitation infrastructures management entities, together with the commitment to develop technologically innovative solutions, gained due recognition and received international prizes in 2006, 2007 and 2009 at the Registered Solutions Provider Awards run by the Intergraph Corporation, which recognises proven performance in the development and implementation of solutions based on Intergraph Corporation technologies at a global level, being in the case of Aquasis the SIG G/InterAqua solution.

Aquasis is an Intergraph Corporation Registered Solution Provider (RSP) and currently one of the most longstanding partners of Intergraph Portugal. The partnership dates from 1991 and enables Aquasis, whenever necessary, to seek the support of Intergraph's technical experts. Aquasis is also a member of the Oracle Partner Network, where it has Golden Partner status.

8. Future Perspectives

The new Board of Directors of AdP SGPS began its mandate for 2012-2014 with an acute sense of responsibility, recognising that the difficult domestic and international context in which we live will inevitably entail consequences for the management of the different companies belonging to the AdP universe.

But it is also during crises that opportunities emerge and the new management of the AdP Group is determined to make use of the difficulties we are experiencing to introduce reforms that produce biggest cost savings and more efficient services.

Important opportunities are also emerging in international markets, where the experience gained by AdP companies and staff in recent years has equipped the Group with important competitive advantages that could prove decisive in our highly competitive sector.

Together with our municipal partners, our management will focus on the goal of increasing the scale and strengthening the sustainability of AdP Group companies, by merging “upstream” systems and by moving forward with the vertical integration of the sector. This will enable us to provide integrated services with marked advantages in terms of quality and efficiency.

In this way, supported by the Group’s business experience and the competence of its staff, we look to the future of the AdP Group and its companies with optimism and confidence.

9. Relevant facts after the close of the financial year

- In January 2012 the Portuguese state signed a guarantee for financing the EGF group in the amount of €139 million.
- UNA-PD was authorised to use EIB funds totalling €252 million.
- Municipal company Águas de Gaia transferred EIB financing in the amount of €13 million to Simdouro.
- The new governing bodies of AdP SGPS, EPAL and EGF were elected for the 2012-2014 period.
- In accordance with government guidelines, studies were undertaken on restructuring the sector with a view to merging “upstream” systems and subsequent vertical integration.

10. 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, created a subsidiary in Angola named AdP Angola.

11. Final Considerations

The Board of Directors expresses its recognition of and gratitude for the efforts and commitment of all those who, directly or indirectly, participated in 2011 in seeking to achieving the goals of the AdP Group, namely:

- to the staff and employee of AdP SGPS and all Group companies for the skill, professionalism and dedication shown in performing their duties;
- to the directors of all Group companies for their commitment and the work they accomplished;
- to the municipalities, private partners and financial institutions for their trust and cooperation;
- to the members of the Board of the General Meeting, the Supervisory Board, the Statutory Auditor and the External Auditor for the way in which they have superintended the Group's activities;
- to our Shareholders for their guidance and for the commitment, trust and support;
- to the Regulatory Authority for 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.

Lisbon, 6 March, 2012

The Board of Directors



Afonso José Marçal Grilo Lobato de Faria
(Chairman)



Álvaro António Magalhães Ferrão de Castelo-Branco
(Member)



Gonçalo Ayala Martins Barata
(Member)



Manuel Joaquim Barata Frexes
(Member)



Manuel Maria Pereira Fernandes Thomaz
(Member)



Joaquim José de Oliveira Reis
(Non-executive Member)

12. Proposed appropriation of profit

AdP SGPS recorded a net profit for 2011 of €27,153,623.06 (twenty-seven million, one hundred and fifty three thousand, six hundred and twenty three euro and 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 2011, as recorded in the separate financial statements, be applied as follows:

- To the Legal Reserve - €1,357,681.16 (one million, three hundred and fifty seven thousand, six hundred and eighty one euros and sixteen cents).
- To Carried-over Earnings - €10,795,941.90 (ten million, seven hundred and ninety-five thousand, nine hundred and forty one euros and ninety cents).
- For distribution as dividends - €15,000,000 (fifteen million euros).

Lisbon, 6 March, 2012

The Board of Directors



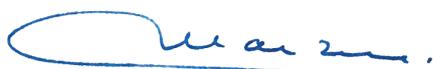
Afonso José Marçal Grilo Lobato de Faria
(Chairman)



Álvaro António Magalhães Ferrão de Castelo-Branco
(Member)



Gonçalo Ayala Martins Barata
(Member)



Manuel Joaquim Barata Frexes
(Member)



Manuel Maria Pereira Fernandes Thomaz
(Member)



Joaquim José de Oliveira Reis
(Non-executive Member)

13. Notes to the Annual Report

On the closing day of the 2011 financial year, the equity capital of AdP - Águas de Portugal, SGPS, S.A. was wholly owned by the following shareholders:

Shareholders	%	No. of shares	Value (€)
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
Total	100.00	86,900,000	434,500,000

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



Optimising selective waste collection

The AdP Group supports the creation of information technologies for assisting the operations of solid waste management companies through the company Aquasis, which has been developing specific solutions for the sector in partnership with Algar and Amarsul.

This is the case of the SIG G/InterAqua USW solution, which uses an engine for optimising collection routes and an USW Mobility component with navigation functions, guaranteeing greater effectiveness and efficiency in developing collection operations and reducing operating costs.

C - Financial Statements for 2011





Maximising biogas energy production

In partnership with Suldouro, AdP Energias has installed a system for increasing potential energy production from the biogas emitted by the Sermonde sanitary landfill site. The system uses equipment based on the Organic Rankine Cycle, which uses the heat of the exhaust fumes from motor generator groups to produce electricity. This is an innovative system in Portugal and the first to come into operation in the Iberian peninsula. It uses exhaust fumes that would otherwise be dispersed into the atmosphere, thus making an important contribution to the reduction of CO₂ emissions as well as reducing the use of fossil fuels.

Separate Financial Statements

for the year ended 31 December 2011

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Statement of financial position

(amounts in euros)

	Notes	2011	2010
ASSETS			
Non-current assets			
Intangible assets	7	-	1,509,319
Tangible fixed assets	8	11,875	28,017
Investments	9	741,359,026	731,291,204
Loans to group companies	10	239,214,100	224,551,800
		980,585,001	957,380,339
Current assets			
Customers	11	13,633,108	7,078,827
Group companies	12	106,373,778	36,194,848
Other receivables	13	3,674,554	11,088,908
Tax for year		-	-
Cash and cash equivalents	15	80,686,435	144,744,618
		204,367,875	199,107,201
Total assets		1,184,952,877	1,156,487,540
EQUITY			
Share capital	16	434,500,000	434,500,000
Adjustments of shareholdings in subsidiaries and associated companies	16	27,094,733	27,638,892
Free reserves		-	19,000,764
Legal reserves	16	11,530,460	10,163,283
Retained earnings	16	18,482,051	(39,246)
Net income for financial year	16	27,153,623	27,343,552
Total equity		518,760,866	518,607,244
LIABILITIES			
Non-current liabilities			
Provisions	17	11,216,885	7,818,454
Bank loans	18	601,591,950	597,772,414
Derivatives	19	36,864,384	14,914,691
		649,673,219	620,505,559
Current liabilities			
Bank loans	18	-	4,581,657
Suppliers	20	800,447	834,637
Tax for year	14	9,159,270	3,870,432
Other creditors	21	6,559,075	8,088,011
		16,518,792	17,374,737
Total liabilities		666,192,011	637,880,296
Total liabilities and equity		1,184,952,877	1,156,487,540

Lisbon, 6 March 2012

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria (Chairman)
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 Manuel Maria Pereira Fernandes Thomaz (Member)
 Joaquim José de Oliveira Reis (Non-Executive Member)

The Chartered Accountant
 Carla Isabel Costa Pinto Ribeiro

Income statement

(amounts in euros)

	Notes	2011	2010
Provision of services	22	10,666,382	9,412,493
Turnover		10,666,382	9,412,493
External supplies and services	23	(6,163,625)	(6,392,949)
Personnel costs	24	(4,707,193)	(4,461,916)
Amortisations in year	25	(16,116)	(16,981)
Provisions and reversals in year	17	(3,398,429)	-
Other operating expenses	26	(1,707,798)	(386,455)
Other operating income and gains	27	1,568,393	2,104,835
Operating income		(3,758,387)	259,027
Financial expenses	28	(42,640,614)	(26,169,035)
Financial income	29	71,536,789	53,479,198
Current income		25,137,789	27,569,190
Profits before tax		25,137,789	27,569,190
Income tax for the year	14	2,015,834	(225,638)
Net income for financial year		27,153,623	27,343,552
Income per share (basic and diluted)	16	0.31	0.31
	Notes	2011	2010
Net profit		27,153,623	27,343,552
		-	-
Comprehensive income		27,153,623	27,343,552

Lisbon, 6 March 2012

The Board of Directors

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The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Statement of changes in equity

(amounts in euros)

	Share capital	Adjst. shareholdings	Legal reserves	Free reserves	Retained earnings	Net profit	Total
Balances 31 December 2009	434,500,000	29,934,672	7,867,715	-	(2,688,283)	46,264,622	515,878,725
Cancellation of exchange variation effects	-	(1,500,262)	-	-	1,500,262	-	-
Other adjustments	-	-	-	-	-	-	-
Realisation of revaluation reserves (subsidiaries)	-	(795,518)	-	-	795,518	-	-
Allocation of 2009 profits	-	-	2,295,568	19,000,764	24,968,291	(46,264,622)	-
Distribution of dividends	-	-	-	-	(24,615,034)	-	(24,615,034)
Net profits for 2010	-	-	-	-	-	27,343,552	27,343,552
Balances 31 December 2010	434,500,000	27,638,892	10,163,283	19,000,764	(39,246)	27,343,552	518,607,244
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
Balances 31 December 2011	434,500,000	27,094,733	11,530,460	-	18,482,051	27,153,623	518,760,866

Lisbon, 6 March 2012

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 cash flows

(amounts in euros)

	2011	2010
Operating activities		
Cash flows generated by operations		
Receipts from customers	38,291,997	32,311,856
Payments to suppliers	(7,323,752)	(7,419,788)
Payments to personnel		
Salaries	(2,428,285)	(2,518,064)
Personal income tax	(939,688)	(1,128,662)
Social security	(1,016,206)	(1,009,941)
Other	(50,486)	(50,821)
Cash flows generated by operations	26,533,581	20,184,579
Other cash flows before extraordinary items		
(Payment)/ Receipt of income tax and VAT	(2,510,842)	(1,826,901)
Other receipts/ (Paymts.) related to operating activity	426,676	43,519,606
Other cash flows before extraordinary items	(2,084,165)	41,692,704
Total operating activities (1)	24,449,415	61,877,284
Investments		
Receipts from:		
Financial investments	52,028,618	136,055,420
Tangible fixed assets		
Intangible assets		
Investment grants		
Interest and similar income	5,718,350	7,463,876
Dividends	41,674,490	30,209,501
Sub-total	99,421,458	173,728,797
Payments relating to:		
Financial investments	(141,803,949)	(193,848,817)
Tangible fixed assets	(207,478)	
Intangible assets		
Sub-total	(142,011,426)	(193,848,817)
Total investments (2)	(42,589,968)	(20,120,019)
Funding activities		
Receipts from:		
Loans received	207,478	-
Sub-total	207,478	-
Payments relating to:		
Loans received		
Amortisation of financial lease contracts	-	(21,772)
Interest and similar costs	(15,055,566)	(18,394,365)
Dividends	(26,487,885)	(26,120,748)
Cap, reduction, addnl, paymts		
Sub-total	(41,543,451)	(44,536,885)
Total funding activities (3)	(41,335,973)	(44,536,885)
Changes in cash and cash equivalents (1 + 2 + 3)	(59,476,526)	(2,779,620)
Effects of exchange rate differences		
Cash and cash equivalents at start of year	140,162,962	142,942,582
Cash and cash equivalents at end of year	80,686,436	140,162,962

See together with Note 15.

Lisbon, 6 March 2012

The Board of Directors

Afonso José Marçal Grilo Lobato de Faria (Chairman)
 Álvaro António Magalhães Ferrão de Castelo-Branco (Member)
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 Manuel Joaquim Barata Frexes (Member)
 Manuel Maria Pereira Fernandes Thomaz (Member)
 Joaquim José de Oliveira Reis (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

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

I.2 Activity

AdP SGPS 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 1996 the Company's mission was extended when it started to diversify in terms of 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, SGPS, S.A became sole owner of Empresa Geral do Fomento, S.A. (EGF), thereby gaining control of its subsidiaries, which have been made responsible for developing multi-municipal systems of collecting and treating municipal 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 secure 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 (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, S.A. with respect to the Company's mission for the current mandate, where each business unit's mission and guidelines are 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 relevant 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.

1.3 Shareholders

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

Shareholders	% Capital	Amount subscribed	No. of shares	Type of shares
Parpública, SGPS, S.A.	72.18%	313,613,590	62,722,718	Nominal
Parcaixa, SGPS, S.A.	19.00%	82,555,000	16,511,000	Nominal
Direção Geral do Tesouro	8.82%	38,331,410	7,666,282	Nominal
	100.00%	434,500,000	86,900,000	

1.4 Approval of financial statements

These financial statements were approved by the Board of Directors on 6 March 2012. The Board of Directors is of the opinion that they faithfully reflect the operations of AdP SGPS, 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 2011.

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 SGPS 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 2011 financial year with respect to those considered in the preparation of the financial information relating to the previous year; presented in the comparisons.

New standards, amendments and interpretations issued for the years starting on 1 January 2011, already endorsed by the EU:

- IAS 24, Related party disclosures, clarifies the definition of related parties. This standard has no bearing on the Company's financial position or results.
- IAS 32, Financial instruments: disclosures, amendments related to how certain rights should be accounted for when the instruments issued are denominated in a currency other than the issuer's functional currency; Regulation 1293/09 of 23 December.
- IFRS 1 (Amendment), First-time adoption of the IFRS, exemptions from some disclosures required by IFRS 7. This amendment enables the entities adopting the IFRS for the first time to enjoy the same transition regime as IFRS 7 (Financial Instruments – Disclosures), which does not require the presentation of comparative information in relation to the disclosures required by IFRS 7 Financial Instruments: Disclosures when the comparative years start on a date prior to 31 December 2009. Not relevant to AdP SGPS.
- IFRIC 14, Prepayment of a minimum funding requirement. If a particular plan of defined benefits is subject to a minimum funding requirement, the amendment to IFRIC 14 establishes that the payment should be treated like any other prepayment, as if it were an asset. Regulation 633/10 of 19 July.

- IFRIC 19, Extinguishing financial liabilities with Equity instruments, IFRIC 19 clarifies which equity instruments issued to a creditor with the purpose of extinguishing financial liabilities are regarded as payments for the purposes of paragraph 41 of IAS 39. Equity instruments issued in an Equity Swap should thus be measured at fair value of the equity instruments issued, if this can be reliably determined, or if this is not possible, at the fair value of the extinguished financial liability on the date of its extinction. Any gain or loss is immediately recognised in gains or losses. This IFRIC does not apply to situations in which the original agreement has foreseen the extinction of liabilities through the issuance of equity instruments nor to situations that directly or indirectly involve owners acting as such.

Improvements introduced by the IASB during the year (Regulation 149/11, of 18 February):

- IFRS 1, accounting policy changes in the period covered by the first financial statements; use of revaluation base as deemed cost can be held to apply to the period covered by the first financial statements in IFRS; use of deemed cost for operations subject to rate regulation.
- IFRS 3, transition requirements for contingent remunerations based on a combination of activities that occurred before the effective date of IFRS 3 (revised in 2008); change in definition for measuring non-controlling interests; payment of premiums based on shares – replacement premiums and non-replaceable premiums. IAS 32, changes that result from amendments to IFRS 3 introduced by the Improvements (contingent remuneration agreements). IAS 39, changes that result from amendments to IFRS 3 introduced by the Improvements (contingent remuneration agreements).
- IFRS 7, clarification of some disclosures. The objective of the amendment to IFRS 7 is to explain the interaction between qualitative and quantitative disclosure of the nature and extent of the risks resulting from financial instruments. The main change relates to the requirement to provide, in addition to the description of the collateral guarantees held as surety, a description of the respective financial effects in relation to the amount of maximum credit risk exposure.
- IAS 1, clarification of the statement of changes in equity (SCE). One important change was the need to include in the SCE or the Notes an analysis by item of the other comprehensive incomes included in the SCE for each component of the equity.
- IAS 21, IAS 28 and IAS 31, transition requirements for the amendments resulting from IAS 27 (as amended in 2008). The amendments explain that the “consequent alterations” should be applied prospectively.
- IAS 34, significant events and transactions. The purpose of the change is to amend IAS 34 in order to put greater emphasis on the principles (significant events and transactions, up-to-date information) and include additional examples relating to the latest disclosure requirements.
- IFRIC 13, changes to definition of fair value of award credits.

New standards, amendments and interpretations issued, but not yet in force:

- IFRS 7, Financial instruments (disclosures), changes that aim to help users of the financial statements to better understand the risk exposures related to the transfer of financial assets and the effect of such risks on an entity's financial position. The purpose of the amendments is to promote transparency in the disclosure of transfer operations, in particular when the securitisation of financial assets is involved. Regulation 1205/11 of 22 November: Changes taking effect from 1 January 2012 (obligatory for periods starting 30 June 2011).

New standards, amendments and interpretations issued for the years starting on 1 January 2011, not yet endorsed by the EU:

- IFRS 1, (Amendment), First-time Adoption of International Financial Reporting Standards, functional currency subjected to hyperinflation.
- IFRS 9, Financial instruments, Introduces new measuring and classification requirements for financial assets and liabilities.
- IFRS 10, Consolidated Financial Statements, new control concept.
- IFRS 11, Joint Ventures, new control concept.
- IFRS 12, Disclosure of Interests in Other Entities, establishes a minimum disclosure level.
- IFRS 13, Fair Value Measurement, guidelines for measuring fair value.

- IAS 1 (Amendment), Presentation of Financial Statements, changes the aggregation of items presented in the statement of comprehensive income.
- IAS 12, Income Taxes, clarifies the determination of deferred tax in relation to Investment Properties measured at fair value.
- IAS 19 (Revised), Employee Benefits, elimination of the option to defer actuarial gains and losses by the 'corridor' method; new disclosures; recognition of employment termination benefits; distinction between short and medium and long term.
- IAS 27 (revised 2011), Consolidated and Separate Financial Statements, accounting treatment of subsidiaries, jointly controlled entities and associates in separate accounts.
- IAS 28, Investments in Associates and Joint Ventures, describes the application of the equity method to jointly controlled entities.

The application of the above standards is not expected to have any relevant impact or result in significant changes to the financial statements of AdP SGPS, S.A.

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, either by negotiation or by contracting, 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 transferred substantially 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:

	Head office	% capital held	Currency	Share capital	Equity	Net profit for fin. year
UNA-PD						
Águas do Algarve, S.A.	Faro	54%	EUR	29,230,875	35,114,568	3,239,065
Águas do Centro Alentejo, S.A.	Évora	51%	EUR	5,000,000	2,650,763	811,659
Águas do Centro, S.A.	Castelo Branco	70%	EUR	24,000,000	13,613,327	(2,763,812)
Águas do Douro e Paiva, S.A.	Porto	51%	EUR	19,402,500	26,907,834	3,326,684
Águas do Mondego, S.A.	Taveiro	51%	EUR	18,262,743	19,720,609	1,236,476
Águas do Norte Alentejano, S.A.	Portalegre	51%	EUR	7,500,000	(3,871,232)	(901,537)
Águas do Noroeste, S.A.	Barcelos	57%	EUR	62,569,297	51,809,718	400,613
Águas do Oeste, S.A.	Óbidos	51%	EUR	29,733,970	23,556,943	395,801
Águas de Santo André, S.A.	V. N. de S. André	100%	EUR	1,000,000	7,050,268	4,698,183
Águas de Trás-os-Montes e Alto Douro, S.A.	Vila Real	71%	EUR	26,966,250	660,120	(1,402,736)
Águas do Zêzere e Côa, S.A.	Guarda	87%	EUR	26,607,560	12,522,751	1,270,015
AgdA - Águas Públicas Alentejo, S.A.	Beja	51%	EUR	500,000	569,414	68,000
Sanest, S.A.	Cascais	51%	EUR	11,000,000	28,059,806	855,034
Simarsul, S.A.	Setúbal	51%	EUR	25,000,000	24,529,305	(843,128)
Simdouro, S.A.	Vila Nova de Gaia	51%	EUR	8,411,566	8,583,377	216,318
Simlis, S.A.	Leiria	70%	EUR	5,000,000	(2,765,769)	335,719
Simria, S.A.	Aveiro	68%	EUR	16,712,225	16,823,109	1,206,640
Simtejo, S.A.	Lisbon	51%	EUR	38,700,000	63,278,354	7,735,259
EPAL						
EPAL, S.A.	Lisbon	100%	EUR	150,000,000	524,414,751	42,555,550
UNA-DR						
AdRA - Águas Região de Aveiro, S.A.	Aveiro	51%	EUR	15,000,000	17,070,114	2,001,707
UNR						
Algar, S.A.	Faro	56%	EUR	7,500,000	10,942,544	1,545,547
Amarsul, S.A.	Moita	51%	EUR	7,750,000	12,945,214	2,041,515
Empresa Geral do Fomento, S.A.	Lisbon	100%	EUR	56,000,000	89,121,108	6,386,456
Ersuc, S.A.	Coimbra	51%	EUR	8,500,000	16,513,835	2,058,616
Resiestrela, S.A.	Fundão	63%	EUR	3,750,875	5,481,823	705,121
Resinorte, S.A.	Celorico de Basto	51%	EUR	8,000,000	9,616,462	666,879
Resulima, S.A.	Vila Nova de Anha	51%	EUR	2,500,000	4,063,949	1,409,541
Suldouro, S.A.	Sermonde	60%	EUR	3,400,000	7,862,503	1,488,896
Valnor, S.A.	Alter-do-Chão	53%	EUR	10,000,000	14,174,672	1,079,435
Valorlis, S.A.	Leiria	51%	EUR	2,000,000	4,439,226	707,065
Valorminho, S.A.	Valença	51%	EUR	900,000	1,821,245	492,301
Valorsul, S.A.	S. João da Talha	56%	EUR	25,200,000	56,012,422	9,480,993
International						
AdP Internacional, S.A.	Lisbon	100%	EUR	175,000	(683,400)	(1,215,974)
Águas do Brasil, S.A.	Cabo Frio - Brazil	100%	BRL	2,050,100	(1,331,794)	-
Aquatec, Lda.	Maputo - Mozambique	100%	MZM	2,476,580	(27,656,806)	8,170,661
Corporate						
AdP Serviços, S.A.	Lisbon	100%	EUR	50,000	3,685,475	1,690,730
Aquasis, S.A.	Lisbon	55%	EUR	50,000	450,146	28,357
AdP Energias, S.A.	Lisbon	100%	EUR	250,000	2,685,431	(66,596)

AdP SGPS holds interests in entities that qualify as associates.

The associates are:

Company	Head office	% capital held	Share capital
Trevo Oeste, S.A.	Alcobaça	35.00%	1,336,085
Clube de Golf das Amoreiras, S.A. (inactive)	Lisboa	100.00%	350,000
Miese	Vila Real	40.00%	200,000
Águas de Timor, S.A. (inactive)	Timor	100.00%	5,000

Included here are two subsidiaries that do not engage in any activity and are therefore not consolidated.

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	31.12.2011		31.12.2010	
		average	final	average	final
Brazil	Real	2.34	2.42	2.32	2.22
Cape Verde	Cape Verde Escudo (CVE)	110.27	110.27	110.27	110.27
Mozambique	Metical	40.51	34.96	45.44	43.65
Japan	Yen	111.32	100.2	115.26	108.65
USA	USD	1.4	1.29	1.22	1.34

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 where 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 SGPS 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 other leases are classified as operating leases. Their payments are recognised 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, costs 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 3 to 6 years.

2.6 Financial assets and liabilities

2.6.1 Classification of financial assets

The financial assets of AdP SGPS 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. 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 SGPS 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 customers 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 SGPS 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 fair value through profit or loss

This category covers: **(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, under the heading "Financial income". These assets are classified as current assets if they are held for sale or if their realisation is expectable 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 suppliers and other 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 are classified thus 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 SGPS discharges the liability within 12 months of the balance sheet date, in which case it is classified in current liabilities.

2.6.2.3 Suppliers and other payables

The balances of suppliers and other 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 SGPS'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

Through the holding company, the AdP group uses derivatives for the sole purpose of managing the financial risks to which it is subject. Under its financial policies AdP SGPS does not use derivatives for speculation. Even though the derivatives contracted by AdP SGPS 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 recognised on their trade date, at their fair values. 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, as at the transaction date (prospectively) and throughout the operation (retrospectively);
- iii) with respect to cash flow hedges, it should be highly probable 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 31 December 2010 and 2011, even though there were hedge derivatives not all the formal requirements demanded by IAS 39 were in place to enable them to be classified as hedges

2.9 Customers and other receivables

The balances of customers and other 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 SGPS 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.

Customers, debtors and other financial assets

Adjustments for impairment losses are recorded when there are objective indicators that AdP SGPS 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, for example: (i) analysis for breach; (ii) debtor's financial difficulties; (iii) probable bankruptcy of the debtor.

Adjustment for impairment losses is determined as the difference between the recoverable amount and the balance sheet amount of the financial asset, and it is recorded against the profits for the year. The balance sheet amount of these assets is lowered to the recoverable amount through an adjustment account. When a sum receivable from customers 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 customers 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 SGPS are analysed at each balance sheet date to see if there are 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 SGPS 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 SGPS 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 regarded as 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 cash inflows, 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 the equity. Costs incurred directly by the issuance of new shares or options are presented in equity as a deduction, net of respective 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 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 SGPS will disclose this fact as a contingent liability, unless an assessment of chargeability 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 associated unavoidable 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 actual 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.

2.16 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, on 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 rate currently in force or already officially communicated 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 expectable 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 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, SGPS are exposed to several financial risk factors: credit risk, liquidity risk and market risk (interest rate risk, cash flow risk associated with the interest rate). The AdP group 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 SGPS and its investee companies. Risk management is the responsibility of the central treasury department, based on policies approved by the Board. The treasury pinpoints, assesses and undertakes operations designed to minimise the financial risks in close cooperation with 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 defines 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 SGPS. AdP SGPS 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 customers and loans granted. This risk is theoretically low, given the nature of the service rendered (to Group companies). But given the circumstances of Portugal's financial and economic situation in the past year, with direct consequences on local authorities, non-payment to Group companies may have direct implications on 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 adjustments for receivables are calculated keeping these points 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 customers' and other debtors' balances) as at 31 December 2011, 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.

Banking financial assets	31.12.2011
Current accounts	4,372,707
Term deposits	76,220,000
	80,592,707
Rating (Moody's)	31.12.2011
A1	3,449
Aa3	3,667,567
Ba1	11,458
Ba2	74,518,858
Ba3	2,369,237
Baa2	22,138
	80,592,707

Note: rating notation taken from the sites of the financial institutions in January 2012.

3.3 Exchange rate risk

Exposure to exchange risk arises basically from 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 SGPS 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 SGPS treasury intends to secure floating debt flexibility, keeping credit lines available for that purpose. AdP SGPS 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 flow, for future payment (without the interest to which these liabilities are subject).

31.12.2011	<1 year	1 to 5 years	> 5 years
Loans	-	101,591,950	500,000,000
Suppliers 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 associated with the interest rate. AdP SGPS manages interest rate-associated 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

		31.12.2011
Interest paid	Real	11,253,506
Interest paid	av. rate +1%	14,556,360
Interest paid	av. rate -1%	8,359,941

3.6 Capital risk

AdP SGPS'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 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 the AdP SGPS holding 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.

	31.12.2011	31.12.2010
Non-current loans	601,591,950	597,772,414
Current loans	-	4,581,657
Cash assets	(80,686,435)	(144,744,618)
Debt	520,905,515	457,609,452
Total equity	518,760,867	518,607,244
Share capital	1,039,666,382	976,216,697
Debt/ Total capital	0.50	0.47

4. Estimates and judgments

Estimates and judgments that have an impact on AdP SGPS's financial statements are assessed continuously and they represent, as at the date of each report, the best estimate of the Board, 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 the following:

4.1 Provisions and adjustments

AdP SGPS 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 is essential to calculate the amount of depreciation and amortisation to be recognised in the income statement.

These two parameters were defined in accordance with the Board's best estimate for the assets and businesses in question, which may be changed in the meantime if the sector's international practice with respect to identical situations indicates a different benchmark.

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 SGPS, 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 Company. 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, 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. Restatement

We have made the following restatement in Note 28:

	31.12.2011	31.12.2010 Restatement	31.12.2010
Interest paid	14,094,551	15,433,158	17,337,113
Exchange differences incurred	-	-	7,478,991
Other expenses and losses	28,546,063	10,735,877	1,352,930
	42,640,614	26,169,035	26,169,035

The exchange rate expenses incurred are directly related to the funding obtained in Japan. Since the amount of these exchange differences has an associated hedging operation (swap) it has been reclassified under financial instruments (where it is given in net terms), under the heading "Other financial expenses and losses", as presented in 2011.

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	Not 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
Customers	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
Total assets	443,581,975	16,248,189	-	-	459,830,164	725,122,712	1,184,952,877
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
Suppliers	-	-	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
Total liabilities	-	-	618,110,742	36,864,384	654,975,126	11,216,885	666,192,011

	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	Not classified financial instruments	Balance sheet total as at 31.12.2010
Intangible assets	-	-	-	-	-	1,509,319	1,509,319
Tangible fixed assets	-	-	-	-	-	28,017	28,017
Financial investments	-	-	-	-	-	731,291,204	731,291,204
Loans to group companies	224,551,800	-	-	-	224,551,800	-	224,551,800
Other receivables	11,088,908	-	-	-	11,088,908	-	11,088,908
Customers	7,078,827	-	-	-	7,078,827	-	7,078,827
Group companies	36,194,847	-	-	-	36,194,847	-	36,194,847
Derivatives (a)	-	2,227,586	-	-	2,227,586	(2,227,586)	-
Tax for financial year	-	-	-	-	-	-	-
Cash and cash equivalents	144,744,618	-	-	-	144,744,618	-	144,744,618
Total assets	423,659,000	2,227,586	-	-	425,886,586	730,600,954	1,156,487,540
Provisions	-	-	-	-	-	7,818,454	7,818,454
Bank loans	-	-	602,354,071	-	602,354,071	-	602,354,071
Derivatives	-	-	-	14,914,691	14,914,691	-	14,914,691
Suppliers	-	-	834,637	-	834,637	-	834,637
Other creditors	-	-	8,088,011	-	8,088,011	-	8,088,011
Tax for financial year	-	-	3,870,432	-	3,870,432	-	3,870,432
Total liabilities	-	-	615,147,151	14,914,691	630,061,842	7,818,454	637,880,296

(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

AdP SGPS'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 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.

	31 December 2011			31 December 2010		
	level 1	level 2	level 3	level 1	level 2	level 3
Financial assets at fair value through profit or loss						
Derivatives (a)	-	16,248,189	-	-	2,227,586	-
Financial assets at fair value through comprehensive income						
Derivatives	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss						
Derivatives	-	36,864,384	-	-	14,914,691	-
Financial liabilities at fair value through comprehensive income						
Derivatives	-	-	-	-	-	-

(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

	31.12.2011	31.12.2010
Intangible assets in progress	-	1,509,319
	-	1,509,319

Various studies and projects (prepared jointly with other Group companies) are recorded in "Intangible assets in progress" that were submitted to the Cohesion Fund in 2001. These applications were closed by the Fund in 2011 with grants in the sum of 178,487 euros having been received (transferred in the meantime to AdP Serviços and AdP Energias). In 2011, bearing in mind the facts set out earlier, that part of the projects not subsidised was cancelled, along with the provision established in previous years in the sum of 1,218,787 euros. At the same time, deferrals in the sum of 911,412 euros (gain) and grants receivable in the sum of 37,202 euros (expense) were reversed.

8. Tangible fixed assets

Net assets	31.12.2011	31.12.2010
Transport equipment	-	-
Office equipment	11,875	28,017
Other tangible assets	-	-
	11,875	28,017

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

One vehicle was returned to the lessor in 2011. In addition, the Company wrote-off sundry office equipment which was fully amortised, and not working.

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)

Gross assets	31.12.2010	Additions	Disposals and write-offs	Transf.	31.12.2011
Transport equipment	102,072	-	(72,073)	-	29,999
Office equipment	305,789	-	-	-	305,789
Other tangible assets	1,058	-	-	-	1,058
	408,919	-	(72,073)	-	336,846

Amortisations and adjustments	31.12.2010	Appropriations	Cancellation/Reversal	31.12.2011
Transport equipment	(102,072)	-	72,073	(29,999)
Office equipment	(260,790)	(16,981)	-	(277,771)
Other tangible assets	(1,058)	-	-	(1,057)
	(363,920)	(16,981)	72,073	(308,827)

9. Financial investments

		31.12.2011	31.12.2010
Investments in subsidiaries	9.1	741,151,549	730,718,213
Investments in associates	9.1	-	572,991
Other financial investments	i)	207,478	-
		741,359,026	731,291,204

i) The amount recorded in other financial investments relates to sums received from investee companies Simlis, Valorminho and Valorlis (see Note 21) that were invested in the Instituto de Gestão e Crédito Público (IGCP). Since the IGCP does not allow investment of amounts below 100,000 euros, all the investments of the Group companies that were less than that were concentrated in the holding company prior to being invested in the IGCP.

9.1 Movements in the period

		31.12.2011	31.12.2010
Opening balance		731,291,204	708,163,888
Capital increase	i)	10,433,336	18,443,180
Merger and capital increase		-	3,442,500
Loss apportionment		-	1,241,636
Financial investment impairment	ii)	(572,991)	-
Closing balance		741,151,549	731,291,204

i) In the 2011 financial year AdP SGPS undertook the following capital increases:

	31.12.2011	31.12.2010
Águas de Santo André	-	500,000
Águas do Zêzere e Côa	-	13,000,000
Simria	348,086	149,180
Águas da Região de Aveiro	-	1,275,000
Simdouro	2,052,750	3,519,000
Águas do Noroeste	8,032,500	-
	10,433,336	18,443,180

ii) Bearing in mind the financial and economic situation of the associate Trevo Oeste, and the uncertainty as to its future, the Board decided to undertake an adjustment equal to the balance sheet amount of its financial holding (impairment).

9.2 Individual value of shareholdings

	31.12.2011	31.12.2010
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	19,058,555
Águas do Oeste	18,772,261	18,772,261
Simarsul	16,792,440	16,792,440
Águas do Zêzere e Coa	29,451,416	29,451,416
Águas do Mondego	11,170,388	11,170,388
Águas do Douro e Paiva	10,891,901	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	4,349,381	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	5,571,750	3,519,000
Águas do Noroeste	56,301,275	48,268,775
Subsidiaries	741,151,549	730,718,213
Trevo Oeste	-	572,991
Associates	-	572,991
	741,151,549	731,291,204

10. Loans to group companies

	31.12.2011	31.12.2010
Simtejo	30,000,000	30,000,000
Águas do Zêzere e Coa	17,500,000	20,000,000
Águas do Cávado	-	20,000,000
Águas do Minho e Lima	-	10,000,000
Águas de Trás-os-Montes e Alto Douro	40,000,000	40,000,000
Águas do Algarve	55,000,000	50,000,000
Simria	25,000,000	25,000,000
Empresa Geral do Fomento	6,500,000	8,500,000
Águas da Região de Aveiro	-	21,000,000
Águas do Norte Alentejano	2,115,050	-
Simdouro	18,047,250	-
Águas do Noroeste	45,000,000	-
Águas do Brasil	51,800	51,800
	239,214,100	224,551,800

10.1 Movements in the period

	31.12.2011	31.12.2010
Opening balance	224,551,800	179,821,330
Advance (Águas do Minho e Lima)	-	(15,000,000)
Advance (Águas do Zêzere e Côa)	2,500,000	-
Repayment (Águas do Zêzere e Côa)	(5,000,000)	(9,812,530)
Advance (Águas do Ave)	-	(35,000,000)
Advance (Águas do Algarve)	5,000,000	50,000,000
Advance (Simria)	-	25,000,000
Advance (Águas do Norte Alentejano)	2,115,050	-
Advance (Águas da Região de Aveiro)	-	30,000,000
Repayment (Águas da Região de Aveiro)	(21,000,000)	(9,000,000)
Repayment (Empresa Geral do Fomento)	(2,000,000)	8,500,000
Advance (Águas do Noroeste)	15,000,000	-
Advance (Simdouro)	18,047,250	-
Advance (Águas do Brasil)	-	43,000
Closing balance	239,214,100	224,551,800

Bearing in mind the considerable cash flow problems that most of the Group's companies are suffering, during the year AdP SGPS has both made advances and provided cash flow support (see Note 12).

11. Customers

	31.12.2011	31.12.2010
Simtejo	75,678	37
Águas do Noroeste	1,899,561	1,620,505
EPAL	485,137	223,759
Águas do Zêzere e Côa	670,053	577,615
EGF	310,519	521,828
Águas do Algarve	5,607,853	1,282,790
Aquapor	176,882	498,950
Águas de Trás-os-Montes e Alto Douro	1,254,636	964,376
Sanest	32,278	186,323
Águas do Centro	32,879	44,636
Águas do Mondego	173,849	261,308
Águas do Centro Alentejo	36,710	225,153
Águas Públicas do Alentejo	884,412	304,592
Simarsul	719,949	30,846
Águas de Portugal Serviços Ambientais	174,510	38,057
Águas do Norte Alentejano	386,808	7,174
Simdouro	187,044	106,059
Águas da Região de Aveiro	223,699	-
Other customer balances <150,000 euros	300,651	184,819
	13,633,108	7,078,827

The considerable cash flow problems that most of the Group's companies are suffering (due to customers defaulting on payments) are being reflected directly in their debt payments to AdP SGPS. The worst case is Águas do Algarve, which rose by around 4,325,000 euros.

12. Group companies

	31.12.2011	31.12.2010
AdP Serviços	506,569	4,587,464
Águas do Noroeste	5,000,000	-
Águas de Trás-os-Montes e Alto Douro	13,944,684	-
Simria	-	-
Águas do Oeste	10,000,000	5,000,000
Águas Públicas do Alentejo	10,019,639	5,000,000
Águas do Algarve	-	-
AdP Energias	1,200,000	1,200,000
Águas da Região de Aveiro	-	1,000,000
EGF	6,200,000	6,200,000
Valorsul	10,000,000	4,500,000
Águas de Santo André	3,483,994	2,567,532
Águas do Zêzere e Côa	20,000,000	-
Simarsul	9,049,011	-
Águas do Mondego	3,500,000	-
Águas do Norte Alentejano	2,250,000	-
Aquasis	436,000	-
Recoverable tax from fiscal consolidation	2,102,305	
EPAL	8,681,576	6,139,852
	106,373,778	36,194,848

The above table shows various entries of cash flow support to Group companies. In the 2011 financial year this support increased by around 56,500,000 euros.

In 2010 AdP SGPS 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 parente company with the investee companies belonging to the tax consolidation being debtors or creditors with respect to the amount of tax involved. As at the year end, AdP SGPS was owed the following sums:

	31.12.2011	31.12.2010
AdP Serviços	506,569	587,464
Águas de Santo André	2,473,497	1,557,035
EPAL	8,681,576	6,139,852
	11,661,642	8,284,351

The amount recorded as recoverable tax from the fiscal consolidation (2,102,305 euros) is related to the tax gain for 2011 because AdP SGPS participated in the tax consolidation with reportable tax losses (see Note 14).

13. Other receivables - current

		31.12.2011	31.12.2010
Earnings to be billed	i)	2,194,615	1,762,421
Interest on term deposits	ii)	259,152	537,505
Bank charges		847,910	956,680
Deferral of EIB set-up charges		171,269	191,962
Reimbursement applied for – Cohesion Fund	iii)	-	726,207
CA shareholding	iv)	150,612	506,439
Other balances from other debtors	v)	50,995	6,407,694
		3,674,554	11,088,908

i) Earnings to be billed take the following form:

		31.12.2011	31.12.2010
Earnings to be billed			
Interest to be billed		1,667,900	1,156,232
EIB fees		339,967	344,704
Other		186,748	261,485
		2,194,615	1,762,421

The increase in interest to be billed basically comes from the increased funding (advances and cash flow support) agreed between Group companies and AdP SGPS in 2011, and higher interest rates debited by SGPS;

ii) The reduction in term deposit interest is due to the Company having invested a much lower amount at the year end compared with 2010;

iii) See Note 7;

iv) The reduction in deferrals of shareholdings in CA is solely due to the implementation of various minutes of the remuneration committee (pending at the end of 2010);

v) The debt of the DST/Criar Vantagens/Investhome Grouping is recorded under the heading "Other debtors" in 2010, in the sum of 6,188,122 euros.

14. Income tax for the year

		31.12.2011	31.12.2010
Profit before tax		25,137,789	27,569,190
Dividends received		(41,694,129)	(30,116,770)
Other adjustments		3,681,835	8,265,426
Assessment base (tax loss)/tax profit		(12,874,505)	5,717,846
Income tax 25%		-	-
Municipal surcharge (derrama) 1.5%		-	178,714
Normal charge		-	-
Tax-free allowance		-	(5,717,846)
Income tax collectable and Municipal surcharge (recoverable)/ payable		-	178,714
Autonomous assessment – 12.07%		86,471	46,925
Current tax		86,471	225,638
Payment on account		146,834	948,574
Tax withheld at source		1,999,223	1,408,623
Current tax of fiscal perimeter		(11,218,856)	(6,001,991)
		(9,159,270)	(3,870,432)

14.1 Deferred tax

Heading	Rate	31.12.2010	Allocation/ Correction	Utilisation/ Reduction	31.12.2011
Deferred tax assets					
Provisions		7,818,454	4,617,227	(1,218,799)	11,216,882
Reportable losses		30,154,804	-	-	30,154,804
Assessment base...		37,973,258	4,617,227	(1,218,799)	41,371,686
Tax rate:					
Income tax...	25.00%	9,493,314	1,154,307	(304,700)	10,342,921
Municipal surcharge...	1.50%	117,277	69,258	(18,282)	168,253
Tax...		9,610,591	1,223,565	(322,982)	10,511,175
Impairment...		9,610,591	1,223,565	(322,982)	10,511,175
Deferred tax asset	-	-	-	-	-
Deferred tax liabilities					
Revaluations		-	-	-	-
Reinvestment of capital gains		-	-	-	-
Other		-	-	-	-
Assessment base...	-	-	-	-	-
Tax rate:					
Income tax...	25.00%	-	-	-	-
Municipal surcharge...	1.50%	-	-	-	-
Deferred tax liability	-	-	-	-	-

Heading	Rate	31.12.2010	Allocation/ Correction	Utilisation/ Reduction	31.12.2011
Deferred tax assets					
Provisions		5,365,582	2,452,872	-	7,818,454
Reportable losses		46,312,380	(10,439,730)	(5,717,846)	30,154,804
Assessment base...		51,677,962	(7,986,858)	(5,717,846)	37,973,258
Tax rate:					
Income tax...	25.00%	12,919,490	(1,996,715)	(1,429,462)	9,493,314
Municipal surcharge...	1.50%	80,484	36,793	-	117,277
Tax...		12,999,974	(1,959,921)	(1,429,462)	9,610,591
Impairment...		12,999,974	1,959,921	1,429,462	9,610,591
Deferred tax asset	-	-	-	-	-
Deferred tax liabilities					
Revaluations		-	-	-	-
Reinvestment of capital gains		-	-	-	-
Other		-	-	-	-
Assessment base...	-	-	-	-	-
Tax rate:					
Income tax...	25.00%	-	-	-	-
Municipal surcharge...	1.50%	-	-	-	-
Deferred tax liability	-	-	-	-	-

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.

	31.12.2011	31.12.2010
Tax losses to recover		
2006 financial year	3,055,370	3,055,370
2007 financial year	27,099,433	27,099,433
Total	30,154,804	30,154,804

15. Cash and cash equivalents

	31.12.2011	31.12.2010
Current accounts	4,372,707	1,533,538
Term deposits	76,220,000	142,970,000
Cash	93,728	241,080
	80,686,435	144,744,618
Bank overdrafts and similar	-	(4,581,657)
	80,686,435	140,162,962

16. Equity

16.1 Shareholders

Shareholders as at 31.12.2011	% Capital	Amount subscribed	N.º 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 (Treasury)	8.82%	38,331,410	7,666,282	Registered
	100.00%	434,500,000	86,900,000	

As at 31 December 2011 the capital was wholly subscribed and paid up, represented by 86,900,000 shares with a par value of 5 euros each.

There was no change in the shareholders and their stakes between 2010 and 2011.

16.2 Earnings per share

	31.12.2011	31.12.2010
Net profit for financial year	27,153,623	27,343,552
Number of shares	86,900,000	86,900,000
Earnings per share	0.31	0.31

17. Provisions

	31.12.2011	31.12.2010
Studies and projects (multi-municipal systems)	-	1,218,799
Liabilities for subsidiaries and associates	5,688,110	1,599,655
Other liabilities	5,528,775	5,000,000
	11,216,885	7,818,454

17.1 Movements in the period

	Studies and projects	Subsidiaries and associates	Other liabilities	Total
Balance as at 31 December 2010	1,218,799	1,599,655	5,000,000	7,818,454
Increases	-	4,088,453	528,774	4,617,227
Reductions	(1,218,799)	-	-	(1,218,799)
Balance as at 31 December 2011	-	5,688,109	5,528,774	11,216,885

The reduction in provisions for studies and projects is explained in Note 7. 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 528,774 euros is the existence of legal contingencies.

18. Loans

	31.12.2011	31.12.2010
Foreign currency loans - JPY	100,000,000	100,000,000
Bond issues	500,000,000	500,000,000
Exchange adjustment of JPY	17,840,138	8,675,386
Exchange hedge swap	(16,248,188)	(10,902,972)
Non-current loans	601,591,950	597,772,414
Bank overdrafts	-	4,581,657
Current loans	-	4,581,657
Total loans	601,591,950	602,354,071

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 debt maturity.

18.1 Loans by maturity

	31.12.2011	31.12.2010
Up to 1 year	-	4,581,657
From 1 to 2 years	-	-
From 2 to 3 years	-	-
From 3 to 4 years	100,000,000	-
From 4 to 5 years	-	-
More than 5 years	500,000,000	600,000,000
	600,000,000	604,581,657

18.2 Loans by maturity and type of interest rate

Variable interest rate	31.12.2011	31.12.2010
Up to 1 year	-	4,581,657
From 1 to 2 years	-	-
From 2 to 3 years	-	-
More than 3 years	600,000,000	600,000,000
	600,000,000	604,581,657
Fixed interest rate	31.12.2011	31.12.2010
Up to 1 year	-	-
From 1 to 2 years	-	-
From 2 to 3 years	-	-
More than 3 years	-	-
	-	-
	600,000,000	604,581,657

18.3 Credit lines agreed and not used

There are no credit lines agreed and not used.

18.4 Fair value of loans

	Book value 31.12.2011	Book value 31.12.2010	Fair value 31.12.2011	Fair value 31.12.2010
	600,000,000	600,000,000	270,197,176	404,176,736
Non-current	600,000,000	600,000,000	270,197,176	404,176,736

The rates employed for fair value were 8.4% for 2011 and 3.6% for 2010.

19. Derivatives

Swaps	Notional	Maturity	31.12.2011		31.12.2010	
			Asset	Liability	Asset	Liability
Exchange rate	100,000,000	2015	16,248,188	-	10,902,972	-
Interest rate	50,000,000	2022	-	(9,725,000)	-	(7,487,000)
Interest rate	75,000,000	2022	-	(18,470,438)	-	(6,031,461)
Interest rate	50,000,000	2023	-	(6,230,560)	-	(1,132,470)
Interest rate	20,000,000	2023	-	(2,438,386)	-	(263,760)
Total			16,248,188	(36,864,384)	10,902,972	(14,914,691)

Note: the exchange rate swap is presented in the heading "Non-current loans"

The Group uses derivatives for the sole purpose of managing the financial risks to which it is subject. Under its financial policies AdP SGPS group does not use derivatives for speculation. Even though the derivatives contracted by AdP SGPS 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 values of derivatives are estimated by the discounted cash flow method, calculated by external bodies, based on valuing techniques accepted by the market.

Derivatives are recognised on their trade date, at their fair values. 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.

20. Suppliers

	31.12.2011	31.12.2010
Suppliers c/ac - national	344,737	292,194
Suppliers c/ac – other countries	1,225	-
Suppliers c/ac – Group companies	454,485	542,443
	800,447	834,637

21. Other current liabilities

		31.12.2011	31.12.2010
Interest and commission payable	i)	4,284,994	2,749,360
State and other public entities	ii)	917,750	867,280
Holidays and holiday allowance	iii)	256,062	531,566
General charges and expenses of AdP Serviços	iv)	19,474	416,602
Grants receivable - Cohesion Fund	v)	-	1,166,178
Group companies	vi)	650,263	2,282,360
Other creditors		430,532	74,666
		6,559,075	8,088,011

i) The table below presents tax accruals and commission payable by entity:

Interest payable	31.12.2011	31.12.2010
BEI	899,971	120,113
Dexia	621,895	479,335
Mitsubishi	730,466	728,550
Depfa	1,928,471	1,337,710
BPI	104,190	83,652
	4,284,994	2,749,360

The increase in the guarantee commission payable to the Portuguese State through EIB loans increased significantly because a longer accrual period is considered in this financial year (3 months and 15 days in 2011 and 15 days in 2010). With respect to the higher interest accrual for Depfa, this is mainly due to the increased interest rates for the loan, from 1.567% in 2010 to 2.318% at the end of 2011;

ii) The following amounts should be noted in the heading "State and other public entities":

	31.12.2011	31.12.2010
Employee income tax withheld and other earnings	58,186	72,731
VAT	780,098	721,786
Social security	76,582	71,700
Other taxation	2,885	1,063
	917,750	867,280

iii) The reduction of liabilities for holidays and holiday allowances is a result of the 2012 Budget (Lei do Orçamento de Estado), which determined the non-payment of holiday allowances in 2012, which is usually calculated in the preceding year;

iv) The decrease in charges related to AdP Serviços is explained by the fact that in 2010 the amount estimated includes significant sums relating to the study with the new Government model of 48,000 euros and support to LNEC worth 79,000 euros.

v) The cancellation of the sum from the Cohesion Fund is explained in Note 7;

vi) 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 Tax Scheme). Thus:

	31.12.2011	31.12.2010
EGF	53,674	195,687
AdP Internacional	367,401	1,965,484
AdP Energias	18,710	121,189
AdP Imobiliária	3,000	-
	442,785	2,282,360

The remaining sum recorded in Group companies relates to the amounts received from the investees Simlis, Valorminho and Valorlis (see Note 21), which were invested with the Instituto de Gestão e Crédito Público – IGCP, as mentioned in Note 9. The amount received by AdP SGPS from investees was as follows:

	31.12.2011	31.12.2010
Simlis	83,305	-
Valorminho	38,454	-
Valorlis	85,718	-
	207,477	-

22. Provision of services

	31.12.2011	31.12.2010
EPAL	2,573,168	2,580,458
Águas do Douro e Paiva	544,039	533,768
Simtejo	701,629	650,736
EGF	861,494	814,234
Águas do Algarve	788,976	796,432
Sanest	257,454	245,164
Águas de Santo André	377,978	289,712
Águas do Oeste	504,200	393,401
Simria	243,510	242,580
Águas do Zêzere e Côa	310,357	294,340
AdP Serviços	221,496	239,594
Águas do Mondego	258,274	232,100
Águas do Centro	218,825	200,712
Águas de Trás-os-Montes e Alto Douro	398,481	337,056
Simarsul	225,824	200,024
Águas do Centro Alentejo	149,588	129,539
Simlis	118,853	82,458
Águas do Norte Alentejano	119,428	101,318
Águas do Noroeste	650,246	636,331
Águas da Região de Aveiro	747,660	412,536
Águas Públicas do Alentejo	250,396	-
Simdouro	144,506	-
	10,666,382	9,412,493

The amounts by which investees were debited for management agreements are listed in provision of services.

23. External supplies and services

	31.12.2011	31.12.2010
Specialised work	4,883,638	4,779,854
Advertising	573,045	929,096
Rents and hires	242,382	270,230
Travel and accommodation	55,676	136,772
Other external supplies and services	408,884	276,996
	6,163,625	6,392,949

Costs related to the rental of space (including the rent, hire of office equipment, etc.) are entered under the heading "Specialised work", for a total sum of 2,099,936 euros (2,192,433 euros in 2010). Also entered under this heading are "Sundry services provided by AdP Serviços" in the sum of 1,940,037 euros (1,742,289 euros in 2010), and legal services in the sum of 82,320 euros (77,821 euros in 2010). Advertising expenses are lower because the Company did not enter into any sponsorship deals in 2011.

24. Personnel costs

		31.12.2011	31.12.2010
Remuneration of corporate bodies	i)	743,074	839,270
Payroll	ii)	2,904,650	2,884,733
Compensation	iii)	128,464	-
Social security contributions		678,075	696,888
Other personnel costs		248,229	407,463
Corrections for previous years	iv)	4,701	(366,439)
		4,707,193	4,461,916

i) The lower remuneration expenses are due to the implementation of Law 12-A/2011 of 30 June which established 5% salary cuts for corporate bodies, and Law 55-A/2010 of 31 December which provides for a 10% cut in managers' salaries from January 2011. Furthermore, three directors resigned in 2011, effective from 30 November 2011;

ii) Despite the application of Law 55-A/2010 of 31 December, which cut employee salaries between 3.5% and 10% from January 2011, and two employees leaving the Company, employee remuneration expenses did in fact rise. This is because five employees who were on the Board of Group companies exercised their right to their original remuneration, under Article 20(4) of the Public Manager Statute (EGP) approved by Decree-Law 71/2007 of 17 March;

iii) Two employees left the Company in 2011 by mutual agreement, and their severance package amounted to 128,000 euros;

iv) The sum of 366,439 euros (debit balance) relates to the cancellation of bonuses estimated in 2009.

24.1 Corporate bodies

	31.12.2011	31.12.2010
Board of Directors	594,336	694,243
Supervisory Board	57,398	60,323
Statutory Auditor (a)	72,000	80,000
Other (a)	19,340	4,704
	743,074	839,270

(a) The fees of the statutory auditor were 72,000 euros in 2011 (80,000 euros in 2010). The amount of VAT on the statutory auditor's invoice is entered in "Other", in the sum of 8,004 euros, and the rest of the amount is due to an overestimate made during the year.

24.2 Establishment

Nature	Average number		Year end	
	2011	2010	2011	2010
Board of Directors	4	5	4	5
Supervisory Board	4	4	4	4
Permanent/ temporary workers	60	63	63	64
	68	72	71	73

Debts	31.12.2011		31.12.2010	
	assets	liabilities	assets	liabilities
Corporate bodies	152	(124)	3,125	-
Personnel	183	(2,003)	9,861	(682)
	335	(2,127)	12,987	(682)

25. Amortisations in year

	31.12.2011	31.12.2010
Depreciation of tangible fixed assets	16,116	16,981
	16,116	16,981

26. Other operating expenses

	31.12.2011	31.12.2010
Taxes and charges	i) 154,506	241,867
Other operating expenses	ii) 639,990	48,105
Fines and penalties	24,288	500
Donations and membership fees	90,436	88,604
Impairment of financial investments	9.1 572,991	-
Corrections for previous years	iii) 119,660	6,461
Other extraordinary expenses and losses	iv) 105,926	917
	1,707,798	386,455

i) The stamp tax for the sundry funding undertaken during the year is recorded in the heading "Taxes";

ii) The effect of cancelling intangible assets in progress is recorded in "Other operating expenses" (see Note 7);

iii) The sum of 119,660 euros almost entirely relates to the VAT corrections for previous years, which arose from the tax inspection conducted on the Company in 2011;

iv) The year-long effect of pro-rata VAT is entered in "Other extraordinary expenses and losses".

27. Other operating income and gains

	31.12.2011	31.12.2010
Additional income	1,516,901	1,839,356
Gains in fixed assets	-	1,966
Other extraordinary earnings and gains	9,535	331,289
Corrections for previous years	41,957	(67,775)
	1,568,393	2,104,835

Additional income relates to remuneration of duties carried out by AdP SGPS staff on the corporate bodies of companies in which the Company has shareholdings.

28. Financial expenses

		31.12.2011	31.12.2010 Restatement	31.12.2010
Interest paid	i)	14,094,551	15,433,158	17,337,113
Exchange differences incurred	ii)	-	-	7,478,991
Other expenses and losses	iii)	28,546,063	10,735,877	1,352,930
		42,640,614	26,169,035	26,169,035

i) The reclassification of interest that had been classified as EIB and which is actually guarantee commission paid to the Portuguese State for guarantees provided for these loans is entered in the heading "Interest paid". The table below shows the main changes in interest paid:

		31.12.2011	31.12.2010 Restatement	31.12.2010
Bond issues and "Japan"	a)	14,052,975	15,412,124	15,412,124
Other interest		41,575	21,034	21,034
EIB	b)	-	-	1,903,955
		14,094,550	15,433,158	17,337,113

a) The table below gives the interest paid by entity and changes vis-à-vis 2010:

	31.12.2011	31.12.2010
"Japan"	2,799,919	3,451,415
BPI	2,946,138	4,554,124
Depfa	3,941,452	2,868,606
Dexia	4,365,466	4,537,980
	14,052,975	15,412,124

The reduction of the interest on the loan from Japan is due to a positive change in interest rates of about 1.2%. With respect to the BPI bond issue, the lower interest rates are due to the payment of the associated derivative in the first six months of 2011. The loan with Depfa, meanwhile, suffered a worsening of the interest rate of about 0.5%, thus leading to higher associated financial expenses.

b) The sum recorded relates to the guarantee commissions paid to the Portuguese State for the guarantees provided for the AdP group's EIB loans. The Company reclassified this amount in other financial expenses and losses.

ii) The exchange rate expenses incurred are directly related to the funding from Japan. Since the exchange differences have an associated hedging operation they were reclassified to the heading "Financial instruments", as presented in 2011.

iii) Changes in fair value of financial instruments and bank expenses with guarantees, surety, costs incurred setting up the EIB, etc. are recorded in this heading. Note that the guarantees are subsequently invoiced to Group companies.

		31.12.2011	31.12.2010 Restatement	31.12.2010
Financial instruments	19	25,769,228	7,478,991	-
Commissions		2,447,489	2,768,395	864,439
Other financial expenses		329,346	488,491	488,491
		28,546,063	10,735,877	1,352,930

29. Financial income

		31.12.2011	31.12.2010
Interest received	i)	29,839,505	20,426,321
Dividends received	ii)	41,694,129	30,116,770
Gains in financial instruments and collateral	19	-	2,845,794
Other financial income and gains		-	90,313
Corrections for previous years		3,156	-
		71,536,789	53,479,198

i) The table below shows the main sources of interest received by AdP SGPS:

		31.12.2011	31.12.2010
Interest on treasury cash flow and loans to the Group	a)	14,922,351	8,726,048
Interest on term deposits	b)	5,512,472	1,918,027
Commissions	c)	9,221,846	9,391,171
Other interest		182,837	391,075
		29,839,505	20,426,321

- 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 SGPS funding these companies with considerable sums (see Notes 10 and 12). Furthermore, interest rates and the spreads applied increased in 2011.
- b) The higher interest on term deposits was due to the fact that investment levels were high in 2011 (as a rule these investments are used as consideration for credit limits with banks), and the increased interest rates applied to these deposits. At the end of 2011, however, the Company released several sums that were used to finance the investee companies.
- c) The sums debited from the investees for guarantee costs, loan set-up fees, guarantee commissions, etc. are recorded in the heading "Commissions".

ii) Dividends received/ allocated by company

	31.12.2011	31.12.2010
Águas do Cávado	-	1,112,016
Águas do Douro e Paiva	407,694	762,129
Sanest	3,015,213	448,800
Simtejo	1,645,651	1,447,336
Águas do Mondego	472,853	344,789
Águas do Algarve	2,709,588	1,977,518
EPAL	24,000,000	24,024,062
Aquasis	60	120
Águas de Santo André	101,664	-
Águas da Região de Aveiro	661,767	-
Águas Públicas do Alentejo	79,639	-
EGF	3,000,000	-
AdP Internacional	5,000,000	-
AdP Serviços	600,000	-
	41,694,129	30,116,770

30. Transactions with related entities

2011	Subsidiaries	Shareholders	Management bodies
Income			
Revenue	36,405,471		
Dividends received/allocated	41,694,129		
Expenses			
Personnel costs			651,734
Other expenses	3,927,753		
Assets			
Customers	13,633,108		
Loans	239,214,100		
Other debtors	104,271,473		
Liabilities			
Suppliers	454,485		
Other creditors	650,263		
Cash flows			
Dividends paid/payable		27,000,000	

2010	Subsidiaries	Shareholders	Management bodies
Income			
Revenue	29,257,673		
Dividends received/ allocated	30,116,770		
Expenses			
Personnel costs			754,566
Other expenses	3,981,625		
Assets			
Customers	7,078,827		
Loans	224,551,800		
Other debtors	36,194,848		
Liabilities			
Suppliers	542,443		
Other creditors	2,282,360		
Cash flows			
Dividends paid/ payable		24,615,034	

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:

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
Commitments	-	-	-
Securities	5,600,000	-	5,600,000
	290,885,469	1,416,605,199	1,707,490,668

Under the loan agreements entered into with the EIB related to the investment in infrastructure to be made through various investees, the Company is jointly and severally liable for the liabilities contracted.

2010	National banks	Foreign banks	Total
Guarantees	64,152,168	1,122,586,441	1,186,738,609
Comfort letters	66,878,120	-	66,878,120
Surety	232,243,989	-	232,243,989
Commitments	25,000,000	-	25,000,000
Securities	5,600,000	-	5,600,000
	393,874,277	1,122,586,441	1,516,460,718

32. Information required by law

Of the information legally required under other laws, specifically in Articles 66, 324, 397, 447 and 448 of the *Código das Sociedades Comerciais* (CSC)(Companies Code), the provisions established in Decree-Law 328/95 of 9 December and those stated 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 2011;
- 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 2011 resulting from withholding at source the discounts and contributions relating to December, whose payment was made in January 2012, within the legal 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

At the General Meeting of AdP - Águas de Portugal, SGPS, S.A. on 2 February 2012 the following members were elected to the corporate bodies:

Board of the 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:

Executive 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 José de Oliveira Reis, representing Parpública, SGPS, S.A. and Parcaixa, S.A.

Supervisory Board:

Chairman: Paulo Alexandre dos Santos Ferreira

Member: Ana Luísa Videira Gomes

Member: Mário José Alveirinho Carrega

Reserve Member: Graça Maria Valente Nunes Montalvão Fernandes

Remuneration Committee

Chairwoman: Filomena Maria Amaro Vieira Martinho Bacelar

Member: Ana Maria Amália Freire de Almeida

Member: Isabel Maria Goulão da Câmara Pestana Ferreira

Lisbon, 6 March 2012

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)

The Chartered Accountant



Carla Isabel Costa Pinto Ribeiro



Infrastructure Asset Management

AWARE - Advanced Water Asset Rehabilitation, a research project in which the AdP Group is participating, aims to make the necessary knowhow and tools available to assist companies managing urban water services make the best possible decisions in the area of infrastructure asset management. The results of the project include the development of an IT planning tool for infrastructure recuperation, as well as best practice handbooks, pilot studies, demonstration cases and training sessions. The open-source pilot software programme was launched in February 2012 and can be found at www.baseform.org. Participation in this project, through AdP Serviços, is part of a new approach adopted by AdP in view of the end of the current cycle of investment in infrastructures and the mature phase of the companies involved, to create new planning and operating methods in the area of infrastructure asset management.

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, SA for the 2011 financial year, presented by the Board of Directors.
2. The Audit Committee monitored the management of AdP - Águas de Portugal, SGPS, SA and the evolution of its business, through contacts with those primarily responsible, attending meetings of the Board of Directors, as well as through the reading of the minutes of other meetings of this governing body. It regularly held meetings, which were attended, as a rule, by the director responsible for financial matters and the statutory auditor. The Audit Committee obtained all the clarifications requested and was provided with all the documentation deemed necessary to carry out its supervisory role.
3. The Audit Committee also appraised compliance with applicable legal and statutory requirements, finding no situations of 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 2011 Management Report and Accounts provides information on compliance with the Principles of Good Governance aimed at State-owned companies, embodied in Council of Ministers Resolution no. 49/2007, despite the analysis of the Group's sustainability in the economic, social and environmental fields also benefiting from the presentation of the 2011 Sustainability Report, demonstrating material compliance with those principles.
6. The remuneration reductions defined in Law no. 55-A/2010 of 31 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 individual accounts, finding no point of disagreement in relation to its content.
8. The Audit Committee analysed the Statutory Audit Certificate of the Separate 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 Certificate 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 at 31 December 2011, the statement of income by nature and statement of comprehensive income, the statement of changes in equity, statement of cash flows for the year ended on that date and the notes to the financial statements), are adequate for providing an understanding of the financial situation of AdP - Águas de Portugal, SGPS, SA on 31 December 2011, 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, the Statutory Auditor and the departments of AdP - Águas de Portugal, SGPS, SA.

Opinion

As a result of the above-stated, it is the Audit Committee's opinion that the General Meeting of AdP - Águas de Portugal, SGPS, SA approve:

- a) The separate management report and accounts for the 2011 financial year;
- b) The appropriation of profit proposed by the Board of Directors in its report.

Lisbon, 4 April 2012

The Audit Committee

Paulo Alexandre dos Santos Ferreira (Chairman)

Mário José Alveirinho Carrega (Member)

Ana Luísa Videira Gomes (Member)

Legal Certification of Separate Accounts

Alves da Cunha, A. Dias & Associados
Statutory Audit Firm

Statutory Audit Certificate of Separate Accounts

Introduction

1. We have examined the individual separate statements of AdP - Águas de Portugal, SGPS, SA, comprising the Statement of Financial Position at 31 December 2011 (which reports a total of 1,184,953,000 euros and total equity of 518,761,000 euros, including a net profit of 27,154,000 euros), the Statement of comprehensive income, the Statement of changes in equity, and the Statement of cash flows for the year ended on that date and the notes 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 audit we performed 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 2011, of the financial position of AdP - Águas de Portugal, SGPS, SA, the results 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.

9.1 As referred to in section 3.2 of the Notes to the financial statements, the collection of the debts of local government to the companies of the Group can directly impact on the credit risk of AdP - Águas de Portugal, SGPS, SA and, at the same time, on the evaluation of its shareholdings.

Lisbon, 29 March 2012

Alves Da Cunha, A. Dias & Associados
Statutory Audit Firm
Represented by José Duarte Assunção Dias

Auditors' Report (Separate Financial Statements)

Ernst & Young

Ernst & Young
 Audit & Associados - SROC, S.A.
 Avenida da República, 90 6º
 1600-206 Lisbon
 Portugal
 Telephone: +351 217 912 000
 Fax: +351 217 957 586
 www.ey.com

Auditors' Report (Separate Financial Statements)

Introduction

1. We have examined the attached financial statements of AdP - Águas de Portugal, SGPS, S.A., comprising the Statement of Financial Position at 31 December 2011 (which reports a total of 1,184,952,877 euros and total equity of 518,760,866 euros, including a net profit of 27,153,623 euros), the Statement of comprehensive income, the Statement of changes in equity, and the Statement of cash flows for the year ended on that date and the notes thereto.

Responsibilities

2. The Board of Directors is responsible for preparing the financial statements in a manner that presents a true and appropriate view of the financial position of the Company, the profit and comprehensive income of its business activities, the changes in equity and the cash flows. That responsibility also extends to the adoption of adequate accounting criteria and policies and ensuring an appropriate system of internal control.
3. Our responsibility is to express a professional and independent opinion, based on our examination of those financial statements.

Scope

4. The examination we performed was conducted in accordance with the Technical Standards and Audit Directives of the Portuguese Association of Statutory Auditors, which require that the audit be planned and performed in such a manner as to obtain a reasonable level of assurance that the financial statements do not contain materially relevant distortions. To that end, the audit included:

- The verification, by sampling, of the elements underlying the amounts and information disclosed in the financial statements and the evaluation of the estimates used in their preparation, based on the judgements and criteria defined by the Board of Directors;
- The appraisal of the suitability of the accounting policies adopted and their disclosure, bearing in mind the circumstances;
- 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 2011, of the financial position of AdP - Águas de Portugal, SGPS, S.A., 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.

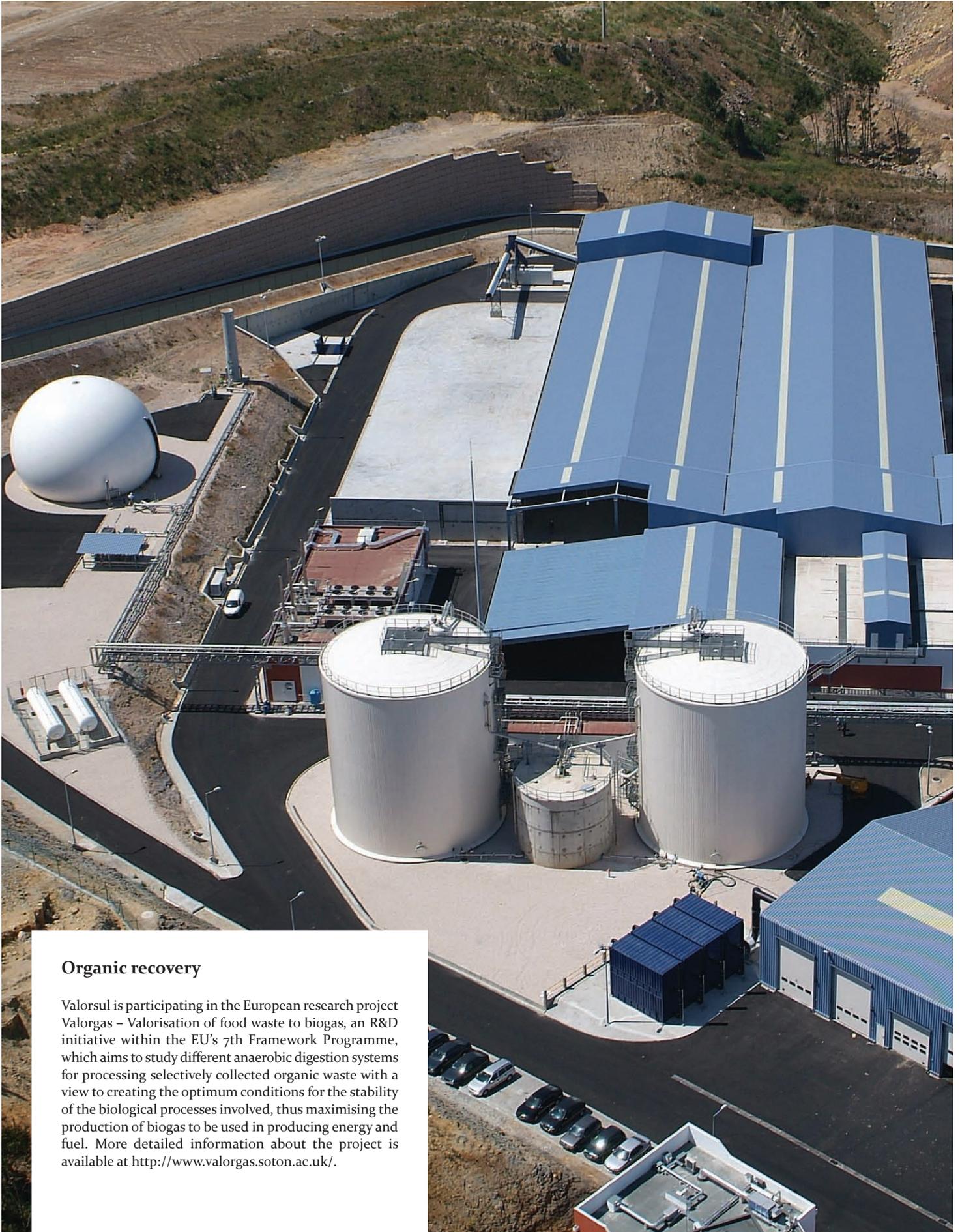
Emphases

7. We highlight the following, which has no impact on our opinion, that the financial statements of a significant part of the group companies include balances receivable from municipalities that have significantly worsened in terms of their age, a situation for which no adjustment has been recorded in the financial statements of subsidiaries. In a climate of restricted access to credit, this may affect the financial equilibrium of the subsidiaries. The Board of Directors believes that the solutions will be found in the ongoing processes of renegotiation, which may ensure the economic and financial stability of the companies.

Lisbon, 29 March 2012

Ernst & Young Audit & Associados - SROC, S.A.
Statutory Audit Firm (no. 178)
Represented by:

Rui Abel Serra Martins (ROC no. 1119)



Organic recovery

Valorsul is participating in the European research project Valorgas – Valorisation of food waste to biogas, an R&D initiative within the EU's 7th Framework Programme, which aims to study different anaerobic digestion systems for processing selectively collected organic waste with a view to creating the optimum conditions for the stability of the biological processes involved, thus maximising the production of biogas to be used in producing energy and fuel. More detailed information about the project is available at <http://www.valorgas.soton.ac.uk/>.

Consolidated Financial Statements

for the year ended 31 December 2011

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Consolidated statement of financial position

(amounts in euros)

	Notes	31.12.2011	31.12.2010
Non-current assets			
Intangible assets	8	4,795,074,634	4,573,734,850
Tangible fixed assets	9	808,566,586	831,267,198
Investment properties	10	1,165,151	1,261,033
Investments	11	110,414,665	105,668,629
Investments in associates	12	191,784	1,077,064
Deferred tax assets	13	251,961,551	239,211,070
Derivatives	14	-	2,227,586
Tariff deviation - asset	15	430,171,545	310,762,868
Customers and other non-current assets	16	142,661,600	124,610,736
Total non-current assets		6,540,207,518	6,189,821,034
Current assets			
Inventories	17	7,714,534	8,100,566
Customers	18	408,813,873	296,433,690
State and other public entities	19	14,205,353	12,385,344
Other current assets	20	235,736,978	227,815,360
Cash and cash equivalents	21	286,273,575	478,840,367
Total current assets		952,744,312	1,023,575,327
Total assets		7,492,951,831	7,213,396,361
Shareholders' equity			
Share capital	22	434,500,000	434,500,000
Reserves and other adjustments	23	11,497,153	29,253,475
Retained earnings	24	220,702,587	151,060,893
Net income for financial year		89,602,511	79,459,018
		756,302,251	694,273,385
Non-controlling interests	25	278,136,832	234,196,760
Total equity		1,034,439,083	928,470,145
Non-current liabilities			
Provisions	26	15,699,696	13,411,726
Pension liabilities	27	12,119,946	12,640,738
Loans	28	2,365,063,667	2,416,057,836
Suppliers and other non-current liabilities	29	183,618,271	170,811,987
Deferred tax liabilities	13	308,535,750	248,662,999
Accrued contractual investment costs	30	546,009,446	571,054,561
Investment grants	31	1,950,784,151	1,842,471,849
Tariff deviation - liability	15	112,488,776	135,317,264
Derivatives	14	38,456,333	14,914,691
Total non-current liabilities		5,532,776,036	5,425,343,651
Current liabilities			
Loans	28	612,837,601	509,375,118
Suppliers	32	125,188,965	158,784,662
Other current liabilities	33	137,660,057	119,158,242
Income tax for the year	34	20,849,772	43,219,244
State and other public entities	19	29,200,317	29,045,299
Total current liabilities		925,736,711	859,582,565
Total liabilities		6,458,512,748	6,284,926,216
Total liabilities and equity		7,492,951,831	7,213,396,361

Lisbon, 6 March 2012

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 José de Oliveira Reis (Non-Executive Member)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Consolidated statement of income by nature

(amounts in euros)

	Notes	31.12.2011	31.12.2010
Sales	35	406,176,565	396,469,894
Provision of services	35	315,774,677	290,929,601
Cost recovery tariff deficit/surplus	35	112,297,346	37,336,274
Turnover		834,248,588	724,735,769
Sales expenditure/inventory change	37	(32,900,261)	(30,281,249)
Gross margin		801,348,327	694,454,521
External supplies and services	38	(216,264,644)	(224,716,644)
Personnel costs	39	(131,745,428)	(146,586,559)
Amortisation, depreciation and reversals for the financial year	40	(243,216,536)	(225,048,112)
Provisions and reversals for the financial year	41	(2,361,311)	25,171,766
Impairment losses and reversals for the financial year	42	(5,688,592)	(5,131,849)
Fair value gains/losses		191	4,116
Investment grants	31	80,823,249	67,137,886
Other operating expenses and losses	43	(12,863,902)	(26,404,585)
Other operating income and gains	44	17,595,181	17,682,383
Operating profit		287,626,536	176,562,921
Financial expenses	45	(127,508,312)	(72,136,023)
Financial income	46	37,138,302	20,464,765
Gains/(losses) on investments	47	(235,507)	1,125,186
Financial profit		(90,605,517)	(50,546,071)
Profit before tax		197,021,018	126,016,850
Income tax for financial year	48	(40,072,267)	(62,112,366)
Deferred tax	48	(16,953,147)	32,829,732
Net profits for financial year as an ongoing concern		139,995,605	96,734,216
Net profit attributable to shareholders of AdP SGPS		89,602,511	79,459,018
Net profit attributable to non-controlling interests		50,393,094	17,275,198
		139,995,605	96,734,216
Earnings per share	22	1.03	0.91

Lisbon, 6 March 2012

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 José de Oliveira Reis (Non-Executive Member)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Consolidated statement of comprehensive income

(amounts in euros)

	31.12.2011	31.12.2010
Net profit for financial year	139,995,605	96,734,216
Gains/losses on currency conversion	(122,737)	(81,092)
Other gains and losses	(248,640)	(6,331,554)
Comprehensive income	139,624,228	90,321,570
Net profit attributable to shareholders of AdP SGPS	89,231,134	72,782,455
Net profit attributable to non-controlling interests	50,393,094	17,539,115
	139,624,228	90,321,570
Earnings per share	1.03	0.84

Lisbon, 6 March 2012

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 José de Oliveira Reis (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	Free reserve	Retained earnings	Profit for the year	Total	Non-controlling interests	Total Equity
Balance at 31.12.2009	434,500,000	3,749,355	7,867,714	-	134,400,154	65,325,489	645,842,712	214,167,440	860,010,152
Allocation of 2009 profit	-	-	2,295,568	19,000,764	44,029,157	(65,325,489)	-	-	-
Currency conversion	-	(3,659,926)	-	-	3,578,834	-	(81,092)	-	(81,092)
Distribution of dividends	-	-	-	-	(24,615,034)	-	(24,615,034)	(8,403,767)	(33,018,801)
Changes in shareholdings	-	-	-	-	263,254	-	263,254	10,893,972	11,157,226
Other adjustments	-	-	-	-	(6,595,473)	-	(6,595,473)	263,919	(6,331,554)
Non-controlling interests	-	-	-	-	-	-	-	-	-
Net profit 2010	-	-	-	-	-	79,459,018	79,459,018	17,275,196	96,734,216
Balance at 31.12.10	434,500,000	89,429	10,163,282	19,000,764	151,060,893	79,459,018	694,273,385	234,196,760	928,470,145
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)
Changes in shareholdings	-	-	-	-	(450,910)	-	(450,910)	6,054,730	5,603,821
Other adjustments	-	-	-	-	-	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-
Net profit 2011	-	-	-	-	-	89,602,511	89,602,511	50,393,094	139,995,605
Balance at 31.12.11	434,500,000	(33,308)	11,530,460	-	220,702,587	89,602,511	756,302,250	278,136,832	1,034,439,083

Lisbon, 6 March 2012

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 José de Oliveira Reis (Non-Executive Member)

The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

Consolidated statement of cash flow

(amounts in euros)

	31.12.2011	31.12.2010
Operating activities		
Cash flow generated by operations		
Receipts from customers	711,695,551	743,822,379
Payments to suppliers	(340,589,085)	(283,067,560)
Payments to personnel	(107,660,528)	(121,984,009)
Cash flow generated by operations	263,445,938	338,770,810
Other operating cash flow		
Income tax (payments)/ receipts	(61,727,681)	(27,832,708)
Other operating activity receipts/(payments)	(95,907,878)	(99,973,770)
Other operating cash flow	(157,635,559)	(127,806,478)
Total operating activities (1)	105,810,379	210,964,332
Investments		
Receipts from:		
Financial investments	59,291,325	63,096,292
Tangible fixed assets	131,157	152,334
Intangible assets	3,254,296	258,826
Investment grants	157,488,873	174,994,628
Interest and similar income	14,313,741	11,541,505
Dividends	-	24,793
Sub-total	234,479,391	250,068,378
Payments relating to:		
Financial investments	(63,052,639)	(48,126,221)
Tangible fixed assets	(21,911,374)	(62,124,427)
Intangible assets	(372,842,412)	(422,712,871)
Sub-total	(457,806,425)	(532,963,519)
Total Investments (2)	(223,327,034)	(282,895,141)
Funding activities		
Receipts from:		
Loans	536,514,734	877,044,789
Capital contributions, supplementary capital contributions	4,282,348	7,203,218
Sub-total	540,797,081	884,248,007
Payments relating to:		
Loans	(536,317,877)	(552,888,828)
Interest and similar expenses	(93,842,829)	(71,165,986)
Dividends	(35,048,269)	(36,203,510)
Reduction of capital and supplementary capital contributions	-	-
Sub-total	(665,208,974)	(660,258,324)
Total funding activities (3)	(124,411,893)	223,989,683
Change in cash and cash equivalents (1 + 2 + 3)	(241,928,547)	152,058,874
Effect of exchange rate differences	69,540	8,907
Cash and cash equivalents at start of period	301,026,170	148,952,995
Changes in perimeter	-	5,394
Cash and cash equivalents at end of period	59,167,163	301,026,170
	31.12.2011	31.12.2010
Cash and banks	286,273,575	478,840,367
Bank overdrafts	(227,106,412)	(177,814,198)
	59,167,163	301,026,170

Lisbon, 6 March 2012

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 José de Oliveira Reis (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. (hereunder called AdP SGPS and AdP group when intended 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 Lisbon. The shareholders of AdP SGPS are: Parpública, SGPS, S.A. (72.18% of the share capital), Parcaixa, SGPS, S.A. (19.00%) and Direção Geral do Tesouro (8.82%).

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 solid waste. The Company's mission was extended in 1998, when it began diversification of its business segments and geographical scope. It expanded into water distribution systems and the collection of effluents directly from the communities served, in Portugal and abroad.

I.2 Business activity

I.2.1 Regulated and licensed activity, and partnerships

The standard concession agreement created for the multi-municipal systems 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 grantor, endorsed by the regulatory entity (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 the concession agreements. These concessions generally have a duration of 25 to 50 years.

I.2.1.1 UNA-PD (Water – Production and Purification business unit) and Partnerships

The companies operating in 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 feature high levels of investment to be made by the concession holder. Funding is obtained through EU funds, bank loans, equity and funds obtained internally. The municipalities to which the company provides its services are also the company's shareholders. The service is paid through the tariff fixed by the concession grantor, endorsed by ERSAR and billed to the municipalities served by each of the concessions. One of the features of the concession agreement is that it has secured the return on the invested capital.

I.2.1.2 UNR (Waste Business Unit)

In the 2000 financial year, in the context of the strategic guidelines leading to the consolidation of the primary business group of the environmental area, AdP SGPS became the sole owner of Empresa Geral do Fomento, S.A. (EGF) and gained full control of its subsidiaries, which have been made responsible for developing the multi-municipal systems of collecting and treating solid waste. The companies in this segment have an exclusive concession granted by the State for the management and recovery of solid waste. The concession agreements envisage high levels of investment to be made by the concession holding company, with funding by EU funds, bank loans, equity and funds obtained internally. The municipalities to which the company provides its services are also the company's shareholders. The service is paid through the tariff fixed by the concession grantor, endorsed by ERSAR and billed to the municipalities served by each of the concessions. One of the features of the concession agreement is that it has secured the return on the invested capital.

I.2.1.3 UNA-DR (Water – Distribution and Collection Business Unit)

The companies comprising this segment originate from a partnership agreement between the Portuguese State and the municipalities of the partnership that, through the same, decided to join forces in a territorially integrated water system, including the infrastructure and equipment constructed by the partnership, in accordance with a comprehensive technical solution. The municipalities delegate to the State, in a public partnership, the operation and management of water services. Hence, the partnership has exclusivity for the

distribution of drinking water and, where applicable, for the collection and treatment of water for that purpose as well as exclusivity for the collection of urban waste water and, where applicable, for its treatment and disposal, in the areas covered by the system. It also comprises the construction, renovation, 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, indexed to turnover. The service is paid through a fixed tariff and invoiced to the customers (residents of the municipality) who are provided with services by each of the partnerships. One of the features of the partnership agreement is that it has ensured the return on invested capital and its infrastructures.

1.2.2 Unregulated business activity

1.2.2.1 EPAL

EPAL is responsible for the collection, transport, treatment and distribution of drinking water, aiming to provide a quality service while respecting essential social and environmental criteria. It covers distribution to the city of Lisbon (residential distribution) and supply upstream in the respective chain to 34 municipalities on the north bank of the Tagus river. EPAL has a delegated management mandate, embodied in Decree-Law 230/91 of 21 June, which approves its articles of association. The mandate has no time limit, investment obligation or remuneration. The tariffs are administratively defined.

1.2.2.2 International

This segment aims to develop international business and comprises operations performed abroad, which includes the technical assistance contract in Angola. It should be noted that the subsidiary Águas de Moçambique was sold at the end of 2010.

1.2.2.3 Corporate services

Consists of the shared services provided by the holding company, AdP Serviços, Aquasis and AdP Energias, in order to optimise resources and achieve synergies within the Group.

1.3. Strategy

The Council of Ministers Resolution 72/2004 of 16 June, which established 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 should therefore pursue its activity in core areas and sell the rest, or make them autonomous. In March 2005, the manifesto of the 17th Constitutional Government emphasised the contribution of the AdP group to the national challenge represented by the renovation of the environmental infrastructures and their management in order to achieve service levels identical to those of the developed countries, foreseeing an alternative strategy for the water and waste business sector to that arising from Council of Ministers Resolution no. 72/2004. The guidelines formulated point to the consolidation of this business group, endowing it with the conditions to ensure the development of the State's environmental policy for the sector in fields such as water supply, wastewater treatment and waste processing. These policies did not jeopardise the establishment of strategic partnerships to enable it to improve its response capacity, develop national capabilities and plan investments, keeping in mind the goals of the Strategic Plan for Water Supply and Waste Water (PEAASAR) and the Strategic Plan for Urban Solid Waste (PERSU).

1.4 Mission and guidelines

Joint Order no. 169/2006 and 300/2007 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, S.A. with respect to the Company's mission for the current mandate, where each business unit's mission and guidelines are established. The business model of 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 relevant multi-municipal systems, on an exclusive basis for a specified period of time. These concessions establish the criteria for setting and approving the tariffs applied by the companies each year, so as to ensure 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), and ensure an adequate return on the investments made on the concession holders' equity, based on when the capital was paid up.

1.5 Organisation

The business model and organisational structure centrally adopted by the AdP group is based on three fundamental pillars: **(i)** the companies are in a framework of business units, usually enjoying management autonomy and the financial resources appropriate to each specific activity, supported by resources available at the corporate centre and shared services; **(ii)** legal establishment of the relationship; **(iii)** an integrated information system platform that is scalable for the entire Group.

1.6 Approval of financial statements

These financial statements were approved and authorised for publication by the Board of Directors on 6 March 2012.

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 interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) which preceded it, adopted by the EU, in force since 31 December 2011.

The most important accounting policies used in the preparation of these consolidated 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 otherwise stated. The AdP group's consolidated financial statements were prepared on a historic cost basis, except for land, buildings and basic equipment included in tangible fixed assets that are reported at revalued cost, and derivative financial instruments, financial investments held for trading and financial investments held for sale that are recorded at their fair value (market value). The preparation of financial statements requires the use of estimates and assumptions that influence the amounts of assets and liabilities reported, and the amounts of income and expenses recorded 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 2011 financial year 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 2010.

New standards, amendments and interpretations issued for the years starting on 1 January 2011, already endorsed by the EU:

- IAS 24, Related party disclosures, clarifies the definition of related parties. This standard has no bearing on the Company's financial position or results.
- IAS 32, Financial instruments: disclosures, amendments related to how certain rights should be accounted for when the instruments issued are denominated in a currency other than the one used by the issuer; Regulation 1293/09 of 23 December. This standard has no bearing on the Company's financial position or results.
- IFRS 1 (Amendment), First-time adoption of the IFRS, exemptions from some disclosures required by IFRS 7. This amendment enables the entities adopting the IFRS for the first time to enjoy the same transition regime as IFRS 7 (Financial Instruments – Disclosures), which does not require the presentation of comparative information in relation to the disclosures required by IFRS 7 Financial Instruments: disclosures when the comparative financial years begin on a date prior to 31 December 2009. This standard has no bearing on the Company's financial position or results.
- IFRIC 14, Prepayment of a minimum funding requirement. If a particular plan of defined benefits is subject to a minimum funding requirement, the amendment to IFRIC 14 establishes that the payment should be treated like any other prepayment, as if it were an asset. Regulation 633/10 of 19 July. This standard has no bearing on the Company's financial position or results.

- IFRIC 19, Extinguishing financial liabilities with Equity instruments, IFRIC 19 clarifies which equity instruments issued to a creditor with the purpose of extinguishing financial liabilities are regarded as payments for the purposes of paragraph 41 of IAS 39. Equity instruments issued in an Equity Swap should thus be measured at fair value of the equity instruments issued, if this can be reliably determined, or if this is not possible, at the fair value of the extinguished financial liability on the date of extinction. Any gain or loss is immediately recognised under gains or losses. This IFRIC does not apply to situations in which the original agreement has foreseen the extinction of liabilities through the issuance of equity instruments nor to situations that directly or indirectly involve owners acting as such. This standard has no bearing on the Company's financial position or results.

Improvements introduced by the IASB during the year (Regulation 149/11, of 18 February):

- IFRS 1, accounting policy changes in the period covered by the first financial statements; use of revaluation base as deemed cost can be held to apply to the period covered by the first financial statements in IFRS; use of deemed cost for operations subject to rate regulation. This standard has no bearing on the Company's financial position or results.
- IFRS 3, transition requirements for contingent remunerations based on a combination of activities that occurred before the effective date of IFRS 3 (revised in 2008); change in definition for measuring non-controlling interests; payment of premiums based on shares – replacement premiums and non-replaceable premiums. IAS 32, changes that result from amendments to IFRS 3 introduced by the Improvements (contingent remuneration agreements). IAS 39, changes that result from amendments to IFRS 3 introduced by the Improvements (contingent remuneration agreements). This standard has no bearing on the Company's financial position or results.
- IFRS 7, clarification of some disclosures. The objective of the amendment to IFRS 7 is to explain the interaction between qualitative and quantitative disclosure of the nature and extent of the risks resulting from financial instruments. The main change is the requirement, besides the description of collateral held as guarantees, to provide a description of the respective financial effects in relation to the amount of maximum credit risk exposure. The group implemented the amendments to this standard.
- IAS 1, clarification of the statement of changes in equity (SCE). One important change was the need to include in the SCE or the Notes an analysis by item of the other comprehensive incomes included in the SCE for each component of the equity. This standard has no bearing on the Company's financial position or results. The group implemented the amendments to this standard.
- IAS 21, IAS 28 and IAS 31, transition requirements for the amendments resulting from IAS 27 (as amended in 2008). The amendments explain that the "consequent alterations" should be applied prospectively. Not significant in the context of the group.
- IAS 34, significant events and transactions. The purpose of the change is to amend IAS 34 to put greater emphasis on the principles (significant events and transactions, up-to-date information) and include additional examples relating to the latest disclosure requirements.
- IFRIC 13, changes to definition of fair value of award credits. This standard has no bearing on the Company's financial position or results.

New standards, amendments and interpretations issued, but not yet in force:

- IFRS 7, Financial instruments (disclosures), changes that aim to help those reading financial statements to better understand the risk exposures related to the transfer of financial assets and the impact of such risks on an entity's financial position. The purpose of the amendments is to promote transparency in the disclosure of transfer operations, in particular when the securitisation of financial assets is involved. Regulation 1205/11 of 22 November. Changes taking effect from 1 January 2012 (mandatory for periods starting 30 June 2011). The Group is assessing the implications of implementing the changes to the standard and its disclosures.

New standards, amendments and interpretations issued for the years starting on 1 January 2011, not yet endorsed by the EU:

- IFRS 1, (Amendment), First-time Adoption of International Financial Reporting Standards, functional currency subjected to hyperinflation.
- IFRS 9, Financial instruments, Introduces new measuring and classification requirements for financial assets and liabilities.
- IFRS 10, Consolidated Financial Statements, new control concept.
- IFRS 11, Joint Ventures, new control concept.

- IFRS 12, Disclosure of Interests in Other Entities, establishes a minimum disclosure level.
- IFRS 13, Fair Value Measurement, guidelines for measuring fair value.
- IAS 1 (Amendment), Presentation of Financial Statements, changes the aggregation of items presented in the statement of comprehensive income.
- IAS 12, Income Taxes, clarifies the determination of deferred tax in relation to Investment Properties measured at fair value.
- IAS 19 (Revised), Employee Benefits, elimination of the option to defer actuarial gains and losses by the 'corridor' method; new disclosures; recognition of employment termination benefits; distinction between short, medium and long-term benefits.
- IAS 27 (revised 2011), Consolidated and Separate Financial Statements, accounting treatment of subsidiaries, jointly controlled entities and associates in separate accounts.
- IAS 28, Investments in Associates and Joint Ventures, describes the application of the equity method to jointly controlled entities.

The implementation of the above-described standards (the standards that were not adopted and only have mandatory implementation in future years) is not expected to have any relevant impact on the consolidated financial statements of the AdP group.

2.2 Consolidation

2.2.1 Dates

The consolidated financial statements reflect the assets, liabilities, results and cash flows of AdP SGPS and subsidiaries as well as the results in proportion to financial holdings in associates, for the financial years ended 31 December 2011 (and compared to 31 December 2010).

2.2.2 Shareholdings in subsidiaries

Investments in subsidiaries and in companies where the Group directly or indirectly holds more than 50% of the voting rights at the General Meeting of Shareholders or has the power to govern the financial and operating policies of the Company, were included in the consolidated financial statements by the full consolidation method. Subsidiaries are included in the consolidation from the date on which control is acquired to the date on which it effectively ends. The purchase method is used to account for the acquisition of subsidiaries.

Acquisitions subsequent to 2010:

In the acquisition method the difference between: **(i)** the remuneration transferred together with the non-controlling interests (previously referred to as "minority interests") and the fair value of the equity interests previously held and **(ii)** the net amount of identifiable assets acquired and liabilities taken on is recognised at the date of acquisition as goodwill, if positive, or as a gain, if negative. The remuneration transferred measured at fair value is calculated as the aggregate of fair values at the date of acquisition of the transferred assets, liabilities incurred and equity instruments issued by the Group. For the purpose of assessing goodwill/ gains from the business combination, the remuneration transferred is any portion of the remuneration from another transaction (e.g. payment for the provision of future services or for the settlement of pre-existing relations) whose margin is recognised separately under profits/losses. The remuneration transferred includes the fair value at acquisition date of any contingent remuneration. Subsequent changes in this value are recognised as: **(i)** equity if the contingent remuneration is classified as equity, **(ii)** an expense or income in profit or loss or as another comprehensive income if the contingent remuneration is classified as a financial asset or liability under IAS 39 and **(iii)** an expense under IAS 37 or other applicable standards, in all other cases.

The costs related to the acquisition are not part of the remuneration transferred and so do not impact on the calculation of the goodwill/gain on the acquisition. They are recognised as expenses in the year in which they occur. On the date of acquisition the classification and description of all assets acquired and liabilities transferred are revalued in accordance with the IFRS, except for leases and insurance contracts which are classified and designated based on the contractual terms and conditions at the contract commencement date. The assets arising from contractual indemnities provided by the seller relating to the outcome of contingencies that are related, in whole or in part, with a specific liability of the combined entity, have to be recognised and measured using the same principles and assumptions as related liabilities. The calculation of the fair value of acquired assets and liabilities has regard to the fair value of contingent

liabilities that result from a present obligation arising from a past event (if the fair value can be reliably measured), regardless of whether a probable financial outflow is expected. The Group may decide, for each acquisition, to measure the "non-controlling interests" at the respective fair value or by the relevant technical share of the transferred assets and liabilities of the acquiree. The choice of one method or another influences the amount of goodwill to be recognised. When the business combination is undertaken in stages, the fair value at the earlier acquisition date of the interests held is remeasured to the fair value on the date on which control is obtained, offset against the profits of the period in which control is achieved, thereby affecting the calculation of goodwill. Goodwill is considered to have an indefinite useful life and so it is not amortised. It undergoes annual impairment tests regardless of whether or not there are signs of being impaired. Whenever a business combination is not completed by the reporting date, adjustments may be made retrospectively, for up to one year after the date of acquisition, to the provisional amounts recognised at the acquisition date and/or additional assets and liabilities that are recognised if new information is obtained about facts and circumstances that existed at the acquisition date and which, had they 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, applying from 1 January 2010, are:

- The cost of an acquisition included the costs directly attributable to the acquisition, thereby impacting on the value of goodwill;

The "non-controlling interests" of the acquired companies (formerly referred to as "minority interests") were measured only according to the share of the identifiable net assets of the acquiree, without being considered in the calculation of the goodwill/gain from the business combination;

- When the business combination was undertaken in various stages, the fair value at the earlier acquisition date of the interests held was not remeasured on the date of obtaining control, and therefore the previously recognised goodwill remained unchanged;

- Any contingent acquisition amount was only recognised if the group had a current obligation, the outflow was probable and the estimate was reliably made. Subsequent changes to this amount were recognised and offset against goodwill;

- The intragroup transactions and balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction demonstrates proof of impairment of a transferred asset. The accounting policies of subsidiaries are changed whenever necessary to ensure consistency with the policies adopted by the Group. In situations where the Group, in substance, has control of special purpose vehicles, although it holds no direct equity investments in these entities, these are consolidated by the full consolidation method.

The companies in the consolidation perimeter (full consolidation method) are detailed below:

Business Unit/Company	Registered office	% shareholding	Currency	Share capital	Equity	Net profit for year
UNA-PD						
Águas do Algarve, S.A.	Faro	54%	EUR	29,230,875	35,114,568	3,239,065
Águas do Centro Alentejo, S.A.	Évora	51%	EUR	5,000,000	2,650,763	811,659
Águas do Centro, S.A.	Castelo Branco	70%	EUR	24,000,000	13,613,327	(2,763,812)
Águas do Douro e Paiva, S.A.	Porto	51%	EUR	19,402,500	26,907,834	3,326,684
Águas do Mondego, S.A.	Taveiro	51%	EUR	18,262,743	19,720,609	1,236,476
Águas do Norte Alentejano, S.A.	Portalegre	51%	EUR	7,500,000	(3,871,232)	(901,537)
Águas do Noroeste, S.A.	Barcelos	57%	EUR	62,569,297	51,809,718	400,613
Águas do Oeste, S.A.	Óbidos	51%	EUR	29,733,970	23,556,943	395,801
Águas de Santo André, S.A.	Vila Nova de Santo André	100%	EUR	1,000,000	7,050,268	4,698,183
Águas de Trás-os-Montes e Alto Douro, S.A.	Vila Real	71%	EUR	26,966,250	660,120	(1,402,736)
Águas do Zêzere e Côa, S.A.	Guarda	87%	EUR	26,607,560	12,522,751	1,270,015
AgdA - Águas Públicas Alentejo, S.A.	Beja	51%	EUR	500,000	569,414	68,000
Sanest, S.A.	Cascais	51%	EUR	11,000,000	28,059,806	855,034
Simarsul, S.A.	Setúbal	51%	EUR	25,000,000	24,529,305	(843,128)
Simdouro, S.A.	Vila Nova de Gaia	51%	EUR	8,411,566	8,583,377	216,318
Simlis, S.A.	Leiria	70%	EUR	5,000,000	(2,765,769)	335,719
Simria, S.A.	Aveiro	68%	EUR	16,712,225	16,823,109	1,206,640
Simtejo, S.A.	Lisbon	51%	EUR	38,700,000	63,278,354	7,735,259
EPAL						
EPAL, S.A.	Lisbon	100%	EUR	150,000,000	524,414,751	42,555,550
UNA-DR						
AdRA - Águas Região de Aveiro, S.A.	Aveiro	51%	EUR	15,000,000	17,070,114	2,001,707
UNR						
Algar, S.A.	Faro	56%	EUR	7,500,000	10,942,544	1,545,547
Amarsul, S.A.	Moita	51%	EUR	7,750,000	12,945,214	2,041,515
Empresa Geral do Fomento, S.A.	Lisbon	100%	EUR	56,000,000	89,121,108	6,386,456
Ersuc, S.A.	Coimbra	51%	EUR	8,500,000	16,513,835	2,058,616
Resiestrela, S.A.	Fundão	63%	EUR	3,750,875	5,481,823	705,121
Resinorte, S.A.	Celorico de Basto	51%	EUR	8,000,000	9,616,462	666,879
Resulima, S.A.	Vila Nova de Anha	51%	EUR	2,500,000	4,063,949	1,409,541
Suldouro, S.A.	Sermonde	60%	EUR	3,400,000	7,862,503	1,488,896
Valnor, S.A.	Alter-do-Chão	53%	EUR	10,000,000	14,174,672	1,079,435
Valorlis, S.A.	Leiria	51%	EUR	2,000,000	4,439,226	707,065
Valorminho, S.A.	Valença	51%	EUR	900,000	1,821,245	492,301
Valorsul, S.A.	S. João da Talha	56%	EUR	25,200,000	56,012,422	9,480,993
International						
AdP Internacional, S.A.	Lisboa	100%	EUR	175,000	(683,400)	(1,215,974)
Águas do Brasil, S.A.	Cabo Frio - Brazil	100%	BRL	2,050,100	(1,331,794)	-
Aquatec, Lda.	Maputo - Mozambique	100%	MZM	2,476,580	(27,656,806)	8,170,661
Corporate						
AdP Serviços, S.A.	Lisbon	100%	EUR	50,000	3,685,475	1,690,730
Aquasis, S.A.	Lisbon	55%	EUR	50,000	450,146	28,357
AdP Energias, S.A.	Lisbon	100%	EUR	250,000	2,685,431	(66,596)

2.2.3 Shareholdings in associates

Investments in associates are shown by the value resulting from applying the equity method. The consolidated financial statements include, according to this method, the Group's share of the total recognised gains and losses from the date on which significant influence begins until the date on which it effectively ends. Associates are entities in which the Group has between 20% and 50% of the voting rights or on which the Group has significant influence, but cannot exercise control. Unrealised gains or losses on transactions between the Group and its associates are eliminated. Dividends paid by the subsidiary are considered reductions of the investment held.

When the share of losses of an associate exceeds the investment in the associate, the Group recognises additional losses in the future concerning the liabilities already taken on.

Any surplus of the acquisition cost of an investment relative to the Group's share in the fair value of assets, liabilities and contingent liabilities identified at the acquisition date of the associate is recognised as goodwill, which is included in the value of the shareholding and its return is assessed annually as an integral part of the shareholding. If the acquisition cost is lower than the fair value of the net value of the assets of the associate acquired, the difference is recorded directly on the income statement.

Entities defined as associates are listed below.

Company	Registered office	% shareholding	Share capital	Assets	Liabilities	Equity	Sales	Net Profit
Trevo Oeste, S.A.	Alcobaça	43.24%	1,236,085	3,218,683	760,183	2,458,500	-	(69,775)
Clube de Golf das Amoreiras, S.A.	Lisbon	100.00%	350,000	1,412,916	1,383,918	28,998	-	(108,902)
Miese (i)	Vila Real	40.00%	200,000	50,404	42,314	8,090	-	(2,811)
Águas de Timor, S.A. (ii)	Timor	100.00%	5,000	-	-	-	-	-

(i) Values reported to 31 December 2010.

(ii) Company not in business.

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. It is recognised as an impairment loss 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 transactions

Intragroup 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 business areas identified are:

I - Regulated business activities

- a. UNA-PD
- b. UNR
- c. UNA-DR

II - Unregulated business activities

- a. EPAL - production and distribution of water;
- b. International - Includes business activity undertaken outside Portugal.
- c. Corporate - includes the activities of AdP SGPS, EGF, AdP Serviços, Aquasis and AdP Energias.

2.4 Currency conversion

2.4.1 Functional / 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 balances expressed in foreign currency were:

Source: Banco de Portugal

Country	Currency	31.12.2011		31.12.2010	
		average	year's end	average	year's end
Brazil	Reais	2.34	2.42	2.32	2.22
Cape Verde	Escudo C.V.	110.27	110.27	110.27	110.27
Mozambique	Meticais	40.51	34.96	45.44	43.65
Japan	Yen	111.32	100.20	115.26	108.65
U.S.A.	USD	1.40	1.29	1.22	1.34

2.5 Regulated activity - recognition of regulatory assets and liabilities

2.5.1 Introduction

The management companies of multi-municipal systems (MMS) operate as regulated activities. The largest effect of regulation on the business activity of the companies arises from the analysis that the Regulatory Authority (ERSAR - DL 362/98 of 18 November, amended by DL 151/2002 of 23 May and DL 277/2009 of 2 October) makes of the tariff for the services provided 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 body granting approval for such tariffs, following the Regulator's opinion on their suitability.

Having regard to 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 Regulator) 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 in order to provide the goods or services and to obtain a certain remuneration.

The activity of the MMS management companies 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 Regulator (ERSAR), and thus falls under the scope of this instrument.

In summary, a company is required to recognise regulatory assets or regulatory liabilities if the Regulator allows the recovery of costs previously incurred or the 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 Regulator; **(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 Regulator in subsequent periods, ensuring the correct balance between revenues 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, operational, financial and tax costs and also the adequate remuneration of the equity of the concession holders. This remuneration may also potentially be supplemented by the remuneration of productivity gains.

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 revenue value of the tariff deviation corresponds to the credit or debit to make to the revenue of regulated activities so that it may demonstrate the income necessary for complying with the contract provisions for the full recovery of costs, including corporate income tax (IRC) and the annual guaranteed return.

If the difference is positive (tariff higher than that required) a negative tariff deviation (tariff surplus) is generated, 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 costs and the guaranteed shareholder return for each year.

If the difference is negative (tariff lower than that required) a positive tariff deviation (tariff deficit) is generated, which must be credited to income. This register 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 Increased contracted investment expenses and amortisation policy

In compliance with the provisions of the concession agreements and management of partnerships and in accordance with regulatory requirements, and whenever applicable, the annual share of estimated expenditure is registered relating to contracted expenses on investments not yet realised (regulated) or on expansion and modernisation investments (regulated) of the concession and partnership. These increases are calculated based on the standard of economic benefits associated with the contracted investment defined in the economic model to support the concession agreement. In the case of concession holding companies of the AdP group, the economic benefits obtained are determined by economic regulation.

For goods (which will embody rights to use infrastructure - IFRIC 12) with lifetimes greater than the concession period, the amortisation of initial investment or those which may subsequently be approved or imposed by the Concession grantor and which comprise the expansion or modernisation of initial obligations, should normally be done for the term of the concession. However, the additional investment for expansion or modernisation, the useful life of which extends beyond the concession period, and which have residual value, will lead to compensation equivalent to the amount not yet amortised on termination of the concession. Amortisation is calculated taking into account initial investment and that still to be implemented, which is included in the economic and financial feasibility study used, based on the wastewater flows billed in that financial year and the effluent to be billed up to the end of the concession as forecast in the feasibility study.

It should be noted that cost increases for contracted investments are aimed at ensuring the principle of accrual-based accounts and balancing of revenues (tariffs) and costs (due and falling due), during the period of the concession agreements signed with the State, that form the basis of that calculation. In practical terms, these increases represent a responsibility for reimbursement at future tariffs, permitting their stabilisation as well as the balancing, during the period of the concession agreements signed with the State, of the above-mentioned revenues (tariffs) and costs (due and falling due).

These increases are recognised in costs under "Amortisations in the year" and "(Non-current) liabilities", and the liability is transferred to accumulated amortisation 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 the population, the development of economic activities and environmental protection (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 framework of continuous improvement of the provision of public water supply, wastewater treatment and waste recovery and treatment with growing production efficiency and environmental gains. 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 regulator - ERSAR – pursuant to legislation in force, regulates the tariff to be charged for services rendered, among other aspects. The Regulator can, in balancing the public interest with the economic and financial balance 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 grantor 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:

2.6.2 Accounting framework

IFRIC 12 sets out the rules to be followed in accounting for concession agreements, considering the services provided and the power of control over the assets of the concession. Pursuant to this standard, the concession holding companies of the AdP Group provide two types of service: the construction, modernisation and renewal of the infrastructure tied to the system; and the operation and management (operation and maintenance) of the system comprising the infrastructure necessary for the provision of services to the users. Accordingly, the Company must recognise and measure revenue (income) 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 a single concession agreement, the receivable value (prices or tariffs) must be distributed according to their fair values when these are individually (separately) identifiable. The nature of the price and tariff determines their accounting treatment. The Company must recognise the revenue and costs related to the construction or upgrading of infrastructure in accordance with IAS 11. The Company must recognise the revenue and costs related to the operation in accordance with IAS 18. Moreover, it specifies that infrastructure under IFRIC 12 must not be recognised as a tangible asset of the operator (or concession holder) because the concession agreement does not give it entitlement to control. The operator has access to and operates the infrastructure to provide a public service on behalf of the concession grantor, in accordance with the terms of the contract. Pursuant to the concession agreement, the operator (or concession holder) acts as a service provider; under this standard. The operator (or concession holder) builds or modernises the infrastructure (construction or modernisation of the services) used to provide public services and operate and maintain the infrastructure (operation) during a specific period of time. If the operator (or concession holder) builds or modernises the infrastructure, the value (tariff) received or receivable by the operator must be recognised at fair value, and this corresponds to a value that is embodied in an entitlement corresponding to: **(a)** a financial asset, or **(b)** an intangible asset. The operator (or concession holder) must recognise a financial asset in that it has a contractual right to receive cash or any other financial asset from the concession grantor for the construction services; the concession grantor cannot avoid the payment, since the contract has the force of law. The operator (or concession holder) has an unconditional right to receive cash if the concession grantor contractually guarantees that payment to the operator, which corresponds to **(a)** a specific amount, or **(b)** the difference, if any, between the amounts received from users of the public service and another specific amount, even if the payment is dependent on the fact that the operator (or concession holder) ensures that the infrastructure complies with quality and efficiency requirements. The operator (or concession holder) must recognise an intangible asset as it receives a right (licence) to charge users for a public service. The entitlement to charge users for a public service is not an unconditional collection right because the amounts are restricted to the fact that users use the service.

2.6.3 Classification of the infrastructure

The Group's companies contractually use models intended to classify infrastructure as a financial asset, since it does not present risk, with the right to a contractually guaranteed annual (minimum) remuneration. The receipt of that remuneration may be deferred in time, but it is assured.

Nonetheless, the definition of a financial asset established by IAS 32 is not associated with the risk but with the present and unconditional right to receive cash or another financial asset. In relation to the various re-equilibrium mechanisms of the concession agreements of the companies of the AdP group - tariff increases, direct compensation from the concession grantor and/or extension of the concession period, the extension of the time period does not meet the requirements established by that standard (IAS 32), since it constitutes a future right to charge users, thereby making the option for recognition of the financial asset unfeasible. Hence, the AdP group companies holding MMS concessions or which manage partnerships, classify the infrastructure of the systems they operate as intangible assets - Right of use of infrastructure.

Intangible assets are recorded at acquisition or production cost, including the costs and (net) income directly and indirectly related to investment projects, which are capitalised as fixed assets in progress. Costs that can be capitalised are those related to realisation of the investment. Operating costs are assigned to the intangible assets in progress on the basis of the allocation of staff to the respective projects. Financial charges related to loans received to fund investment in progress are fully capitalised until their availability for use.

Investments that are deemed to be for expansion or modernisation, by means of economic regulation of the concessions, are specifically remunerated since they contribute to the formation of the tariff (i.e. they have a return that is implicit in acceptance of the amortisation by the Regulator). They are accordingly accounted for as part of the intangible asset. Current upkeep and maintenance costs are recognised as costs in the financial year in which they occur.

2.6.4 Amortisation

The intangible asset (right to use infrastructure) is amortised on a systematic basis in accordance with the standard for obtaining the economic benefits associated with the same, established by economic regulation and the approval of amortisation expenses in the annual formation of the tariffs by the Regulator.

Amortisation in the UNA-PD companies and partnerships are calculated by the sum of units method, i.e. the amortisation of the contracted investments specified in the economic and financial feasibility study used, based on the wastewater flows billed in that financial year and the effluents to be billed up to the end of the concession, as provided for in the economic and financial feasibility study attached to the concession agreement. Amortisation in the UNR companies is calculated based on the concession period provided for in the economic and financial feasibility study.

2.6.5 Residual value

Additional investments for expansion or modernisation approved or imposed by the concession grantor which have a useful life extending beyond the concession period, may have residual value that will give rise to compensation equivalent to the unamortised value at that date. The residual value amounts are classified as financial assets (receivable at amortised cost - discounted).

2.6.6 Revenue - construction services

According to IFRIC 12 – Concession Agreement, the revenue of the construction services must be recognised according to IAS 11 - Construction Contracts. It should 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), without appropriating any margin in the course of its operating activity. Therefore the revenue and cost of the acquisition of infrastructure must record the same amount. Hence, taking into account the regulated activity of the companies of the AdP group, recognised revenue is that resulting strictly from the application of the tariffs approved by the Concession grantor and evaluated by the Regulator; more or less the underlying tariff deviation, as provided for in the concession agreements. Therefore the revenue for construction services is not recognised.

2.7 Tangible fixed assets

Tangible fixed assets are measured overall 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 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 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 for operation are depreciated based on estimated useful life 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 as 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 that are intended to be sold 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 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.

The Board of Directors reviews the depreciation methods and the estimated useful life of each asset at the end of each financial year, so that the consumption patterns of the benefits of the assets in the years they are used by the AdP group are faithfully reflected. Any changes to these assumptions will be treated as a change in accounting estimates and earmarked for prospective application.

Gains or losses from write-downs or disposals are determined as the difference between receipts from disposals and the accounting amount of the asset, and are recognised as income or expenses in the consolidated income statement.

2.7.1 Leasing

The leasing of assets in relation to which the AdP group substantially holds all the risks and rewards inherent to the ownership of the asset, are classified as leases. Also classified as finance leases are agreements in which the analysis of one or more particular situations of the contract indicate such nature. All other leases are classified as operating leases. Finance leases are capitalised at the start of the lease at the lower of the fair value of the leased asset and the present value of the minimum payments of the lease, and the liability is recognised, net of financial charges, in other long-term liabilities. Assets acquired through finance lease are depreciated for the period of the asset's useful life and/or the term of the lease agreement.

2.8 Intangible assets

2.8.1 Right to use infrastructure

See note 2.6.3.

2.8.2 Goodwill

See note 2.2.5.

2.8.3 Other intangible assets

Other intangible assets (software development expenditure, costs with industrial 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 a period from three to ten years. Investments that improve the performance of software programmes beyond their original specifications are added to the original cost of the software. Software deployment costs recognised as assets are amortised by the straight-line method over their useful life, i.e. from three to six years. Most of the Group's corporate and transactional systems developed on SAP platforms are amortised using the straight-line method in accordance with their useful life of 10 years.

2.9 Investment properties

The investment properties of the AdP Group originate from the real estate held for the purpose of obtaining rental income, capital appreciation or both. Investment properties are initially measured at cost, including the transaction costs 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 over 50 years, so as to have equivalent treatment to tangible fixed assets.

2.10 Financial assets and liabilities

2.10.1 Classification of financial assets (excluding investments in shareholdings)

The financial assets of the AdP Group are classified according to the following categories. Classification depends on the purpose for acquiring the investment and it is determined at initial recognition (trade date) of the investments and revalued on each subsequent reporting date. The Board of Directors defines the classification of its investments on the acquisition date and revalues that classification on a regular basis. The Group classifies its financial assets in these 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 under normal operating activities for the supply of water, wastewater treatment, waste management and other associated services, and when there is no intention to trade them; and **(ii)** investments in companies holding multi-municipal concessions which, according to the special terms and conditions of the underlying concession agreements, qualify as a loan granted at an agreed interest 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 the AdP Group will not receive all amounts due under the original terms of the agreements. Indicators such as these are used to identify impairment situations such as: default analysis; debtor's financial difficulties; probable bankruptcy of the debtor.

When the sums receivable from customers or other debtors are overdue and their terms are under renegotiation they are no longer regarded as overdue 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. The investments recorded under this heading are those with fixed maturity and which the Group has the intention and ability to keep 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 covers: (i) financial assets for trading which are acquired with the main aim of being traded in the short term; (ii) financial assets designated at the time of their initial recognition at fair value with changes recognised in profit or loss.

This category encompasses derivatives that do not qualify for the purposes of hedge accounting.

Changes in fair value are recognised directly in profit or loss for the period. 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 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 initial recognition, the assets available for sale are recorded at fair value through reference to their market value at the 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 an impairment loss identified, at which time the accumulated value of potential gains and losses recorded in reserves is transferred to the profit or loss. 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.

2.10.6 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 suppliers and other 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 are classified thus 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 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. Borrowings are classified as non-current liabilities unless their settlement occurs within 12 months of the balance sheet date in which they are classified as a current liability.

2.10.9 Suppliers and other payables

The balances of suppliers and other payables are initially recorded at their nominal value, which is taken to be their fair value, and they 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 in accordance with the contractual substance, regardless of the legal form they take. The equity instruments issued by the Group's companies are recorded at the amount received, net of the costs of their issue.

2.11 Derivatives and hedge accounting

The Group uses derivatives for the sole purpose of managing the financial risks to which it is subject. In accordance with its financial policies, the Group does not use derivatives for speculation. 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. 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 recognised on their trade date, at their fair values. Afterwards, the fair value of derivatives is adjusted on a regular basis and any resulting gains or losses are recorded directly in profit or loss 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 employed whenever there is a relationship between the hedged item and the hedging instrument, and whenever the following conditions exist:

- 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 start date (prospectively) and throughout the operation (retrospectively);
- iii) with respect to cash flow hedges, it must be highly probable 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.

At 31 December 2010 and 31 December 2011, even though there may be hedge derivatives not all the formal requirements demanded by IAS 39 were in place to enable them to be classified as hedges.

2.12 Fair value hierarchy

The AdP Group'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 net market prices at the balance sheet reference date. This level primarily 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 prices, 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 prices, but from evaluation models whose main inputs are not observable on the market.

The table showing the financial assets and liabilities at fair value classified by level is provided in Note 7.2.

2.13 Customers and other receivables

The balances of customers and other receivables are amounts to be received for the sale of goods or 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.

2.14 Inventories

Inventories are valued at whichever is the lowest between acquisition cost (which includes all expenses until their entry into warehouse) and net realisable value. Net realisable value results from the estimated selling price in the course of normal business activities, less variable sale expenses. The costing method adopted for the valuation of warehouse outgoings is the 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 three months or less, without any significant risk of change in value. Bank overdrafts are presented in the balance sheet, in current liabilities, under the heading "Amounts owed to credit institutions - short-term", which are also considered when preparing the consolidated statement of cash flows.

2.16 Impairment

2.16.1 Impairment of financial assets

At each reporting date the Group analyses whether there is objective evidence that 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 profit or loss - is removed from equity and recognised in the income statement. Impairment losses in equity instruments recognised in profit or loss are not reversed through the income statement.

Customers, debtors and other financial assets

Adjustments for impairment losses are recorded when there are objective indicators that the Group will not receive all the amounts to which it is entitled under the original terms of the agreements concluded. Various indicators are used to identify impairment situations, for example: (i) default analysis; (ii) debtor's financial difficulties; (iii) probable bankruptcy of the debtor.

Adjustment for impairment losses is determined as the difference between the recoverable amount and the balance sheet amount of the financial asset, and it is recorded against the profits for the period. The balance sheet amount of these assets is lowered to the recoverable amount through an adjustment account. When an amount receivable from customers and debtors is held to be irrecoverable it is written down via the adjustment account for accumulated impairment losses. Subsequent recoveries of sums that have been written down are recorded in the profit or loss. When the amounts receivable from customers or other debtors are overdue, their terms are subject to renegotiation and they are no longer regarded as overdue and are treated as new credits.

2.16.2 Impairment of non-financial assets

The assets of the Group are analysed at each balance sheet date to detect any 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 estimated annually at the balance sheet date, taking into account the assumptions of the concession agreements. The recoverable amount is the value of use and this, in turn, corresponds to the guaranteed return (dividend) in each year over the concession period. These amounts are part of the EVEF (economic and financial feasibility study) attached to the concession agreements that are annually sent to the sector's regulator. Whenever there are indications of potential impairment loss the recoverable amount of the Group's assets 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 profit or loss for the year.

The Group performs, for cash generating units with operations that began less than a certain period of time beforehand (2-3 years), an analysis of impairment. However, since the respective businesses will have not yet reached maturity, impairment losses are recognised when there are clear indicators that the recoverability is considered remote.

Determining the recoverable amount of assets

The recoverable amount of receivables in the medium and long term corresponds to the present value of estimated future cash inflows, using the effective interest rate implicit in the original operation as a discount factor. 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 only reversed when the reason for the increase of the respective recoverable amount is based on an event that occurred after the date of 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 value, 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 in the issuance of new shares or options are presented in equity as a deduction, net of respective taxes, on the amount issued.

2.18 Dividends payable

Dividends are recognised as a liability, when declared.

2.19 Government grants

Grants related to assets (for investment) are recognised when there is reasonable certainty that the grant will be received and that the AdP Group will meet all the obligations inherent to receiving the grant. 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 account for.

2.20 Provisions, contingent assets and liabilities

Provisions are only recognised when a present obligation exists arising from past events, the discharge of which is likely to require the allocation of internal resources to 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, the AdP Group will disclose this fact as a contingent liability, unless an assessment of the requirement for 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 provisions are measured at current value, at 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 incorporates 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 is underpinned by the payment of supplementary pensions (old age or disability), further supporting the liabilities arising from early retirement situations. The company's pension benefits system consists of two types of pension plans, defined contribution and defined benefits.

Defined contribution

This is a pension plan under which the company's only financial obligation is the provision of fixed contributions to a separate entity (a pension fund). These contributions are recognised as an expense in the period to which they relate.

Defined benefit

A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and remuneration.

The obligation of the defined benefit plan is calculated annually by independent actuaries, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the future payments of benefits, using the interest rate of high-quality bonds denominated in the currency in which the benefits will be paid and with maturity periods similar to those for which the responsibility was taken on.

The liability recognised in the balance sheet regarding the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan's assets, together with adjustments for past service costs.

Past service costs are immediately recognised in profit or loss, unless the changes in the pension plan are conditional on the employees remaining with the company for a certain period of time. In this case, past service costs are amortised on a straight-line basis over the period concerned. Actuarial gains and losses are recognised in accordance with the "corridor" method.

EPAL

EPAL's benefit plan is confined to topping up the retirement pension (for old age or disability) granted by Social Security and early retirement payments. The liabilities in relation to the pension supplement are being funded through an independent fund established and early retirement liabilities are directly supported by EPAL, and independently managed by a financial institution. In other words, it provides a retirement pension supplement plan for its employees, which is a defined benefit plan with an independently established fund. On 22 March 2008, the Company changed the defined benefit pension plan to a mixed plan of defined benefit and defined contribution.

EGF

The EGF benefit plan refers to the payment of a top-up of a retirement pension (old age or disability) granted by Social Security. The liabilities with the pension top-up are being funded through an independent fund, managed by BPI Pensions. EGF changed the defined benefit plan to defined contributions on 31 December 2006. This change had no impact on the responsibilities, since they were fully covered.

2.22 Tax

AdP SGPS is covered by special arrangements for taxation of groups of companies, covering all companies in which AdP SGPS directly or indirectly holds at least 90% of the respective share capital and which are residents of Portugal and taxed for corporate income tax. The remaining subsidiaries not covered by the special tax system of the AdP SGPS group are taxed individually, based on the respective taxable values and the applicable tax rates.

The parent company and subsidiaries directly or indirectly controlled are taxed at a rate of 25% plus the rate of local municipal tax, which has a maximum rate of 1.5% on taxable income, plus a national tax rate of 2.5% on the amount of taxable profit that exceeds 2 million euros, applying from 2010.

Income tax for the period includes current and deferred tax. Income tax is recorded in the consolidated income statement, except when 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, considering temporary differences arising between the tax base of assets and liabilities and their values in the consolidated financial statements. Deferred tax that arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and which on the transaction date does not impact on the accounting outcome or 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 rate currently in force or already officially communicated at the balance sheet date and which is expected to apply on the date on which deferred tax assets are realised or on which the deferred tax liabilities are paid. Differences that may arise from expected changes in rates which will revert to tax timing differences are considered in the consolidated income statement.

Deferred taxes are recognised in 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 the reporting of the transaction or event that give rise to them.

2.23 Revenue

Revenue comprises the fair value of the sale of goods and services, net of taxes and discounts and after elimination of internal sales. As stated in note 2.6.5, the regulated concession holding companies only recognise revenue that results from applying the tariffs approved by the Concession Grantor and approved by the Regulator. Revenue is recognised as follows:

2.23.1 Provision of services

Regulated activity - "Upstream" services - Wastewater treatment

Revenue is recognised based on (i) minimum guaranteed values, or (ii) consumption, i.e. revenue is recorded at the value of the product between the approved tariff and measured and/or estimated consumption.

Regulated activity - "Upstream" services - Waste treatment and recovery - unsorted waste

Revenue is recognised based on consumption, i.e. revenue is recorded at the value of the product between the approved tariff and measured and/or estimated consumption.

Unregulated business activity

The rate of availability is supported by a contract with the customer in which the rental price is set. The contract value is recognised in the month to which the service rendered refers.

2.23.2 Sale of goods

Regulated activity - "Upstream" services - Water supply

Revenue is recognised based on (i) minimum guaranteed values, or (ii) consumption, i.e. revenue is recorded at the value of the product between the approved tariff and measured and/or estimated consumption.

Regulated activity - "Upstream" services - Waste treatment and recovery - sale of products

Treatment and recovery of waste – products: the sale of the products obtained from the recovery of waste is recorded at the time of the transaction.

Regulated activity - "Downstream" services - Partnerships

Revenue is composed of two components, one fixed and one variable. Revenue is recorded by the value of the product between the approved tariff for each bracket and the measured and/or estimated consumption in that bracket (variable component). The fixed component corresponds to the availability of the service and is indexed to the flowrate of the meter. The recognition is undertaken in twelfths.

Unregulated business activity

Water supply to end consumers: the sale of water to end users is based on the cubic metres consumed, with tariffs applied for each of the concessions and non-concessions (EPAL). In some cases it is based on consumption estimates, which are then adjusted when the meters of each individual customer are read.

2.23.3 Tariff deficit and surplus

See note 2.5.2.

2.23.4 Interest

Interest income is recognised based on the effective interest rate, and is recorded in the period in which it is earned, according to the accruals-based principle.

When a receivable is adjusted for impairment, the Group reduces the book value to its recoverable value, while estimated future cash flows are still discounted at the initial actual rate (before impairment) and the regularisation of the discount is considered as 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 will be recoverable through the realisation of those assets. Capitalised financial expenses and certain personnel costs are particularly 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 costs are recorded directly in the balance sheet without impact on the income statement, and they are disclosed in the notes whenever applicable.

2.25 Expenses and losses

Expenses and losses are recorded in the financial year to which they relate, regardless of when they are paid or received, according to the accruals-based principle.

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 activities of the AdP Group are exposed to several financial risk factors: credit risk, liquidity risk and cash flow risk associated with interest rate. It is common practice in the AdP Group to contract derivatives, among other financial instruments, to minimise some of the risks to which it is exposed. The AdP group developed and implemented a risk management programme which, together with the permanent monitoring of the financial markets, is intended to minimise the potential adverse effects on the financial performance of AdP and the companies it has invested in. Risk management is the responsibility of the central cash management department, based on policies approved by the Board. The cash management department 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 the 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 also the exposure limits. All transactions undertaken using derivative instruments require the prior approval of the Board of Directors, which defines 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 the Group. The AdP Group is open to credit risk in its operating, investment and cash management activities.

Credit risk in operations is basically related to receivables for services rendered to customers (water, sewerage and waste services). This risk is theoretically low, given the nature of the service rendered (to State – local government companies). However, given the specific economic and financial situation of the country during the last year, with direct consequences on local government, the amount of overdue balances has grown significantly (see notes 16 and 18 - customers).

The AdP Group has been warning the Government of the unsustainable nature of the current default situation of some municipalities, in order to find alternatives for collecting the amounts due (see note 52.1 subsequent events, local government debts to the water, sewerage and waste sector – Law 64-B/2011 of 30 December, State Budget for 2012).

Impairment adjustments for receivables are calculated keeping these points 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 the Group to credit risk (not including customers' and other debtors' balances) as at 31 December 2011, 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 main balance sheet.

Banking assets	31.12.2011
Current accounts	47,586,672
Term deposits	238,008,654
Equipment renewal fund	4,315,685
Capital replenishment fund	105,635,394
Other	35,639
	395,582,044

Rating	31.12.2011
A1	1,423,448
A2	15,037,483
Aa3	9,439,195
Ba2	252,824,643
Ba3	88,777,769
Baa2	27,315,363
Rating unknown	764,143
	395,582,044

Note: Rating taken from the sites of the financial institutions in January 2012.

3.3 Exchange rate risk

The AdP group's exposure to currency risk is not relevant. This risk embodies future commercial transactions, recognised assets and liabilities, and net investments in foreign operations that were not incurred or expressed in the AdP Group's functional currency. The AdP group's central cash management department manages the net exposure of the Group in each currency, centrally contracting swaps 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 risk inherent to the net assets in foreign currency is managed by taking out loans in the same currency, and loans with exchange rate hedging 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 Group's cash management intends to secure floating debt flexibility, keeping credit lines available for that purpose. The Group undertakes liquidity risk management by taking out and maintaining credit lines and funding facilities, with a firm underwriting commitment from domestic and international financial institutions that allow immediate access to the 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 the AdP Group's liabilities by intervals of contracted residual maturity. The amounts shown in the table are the non-discounted contracted cash flow for future payment (without the interest payable on these liabilities).

	<1 year	1 to 5 years	> 5 years
Loans	612,837,601	322,851,515	2,042,212,153
Suppliers and other liabilities	262,849,022	111,802,897	71,815,374

No problems in the payment of liabilities in the short term are foreseen.

3.5 Cash flow and fair value risk associated with interest rates

The interest rate risk of the AdP group basically stems from taking out long-term loans. Such loans, with interest rates calculated at floating rates, expose the AdP Group to cash flow risk whereas loans with fixed interest rates expose the Group to fair value risk associated with the interest rate. The AdP Group manages interest rate-associated cash flow risk by taking out swaps that enable loans with floating interest rates to be converted to fixed interest rate loans. The guaranteed remuneration of concession agreements, and consequently tariff deviation, is also associated with interest rate volatility.

The table below presents the sensitivity analysis of the financial burden of the debt of the AdP Group exposed to floating interest rates.

	31.12.2011	Average rate + 1%	Average rate - 1%
Interest paid	103,598,068	118,035,947	89,320,409
	103,598,068	118,035,947	89,320,409

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 purpose of managing capital risk is to safeguard the Group as a going concern, with reasonable return for shareholders and the generation of benefits for all stakeholders.

The AdP Group's policy is to take out loans with financial entities, through the parent company, AdP SGPS, S.A. (apart from EPAL and loans for 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.

	31.12.2011	31.12.2010
Non-current loans	2,365,063,667	2,416,057,836
Current loans	612,837,601	509,375,118
Cash assets	(286,273,575)	(478,840,367)
Debt	2,691,627,693	2,446,592,587
Investment grants	1,950,784,151	1,842,471,849
Total equity	1,034,439,083	928,470,145
Capital and grants	5,676,850,928	5,217,534,582
Debt/Total capital	0.47	0.47

The funding model of the AdP Group is typically based on two types. The interest-paying bank loans with particular focus on financing contracted with the EIB, and equity and non-refundable investment grants.

3.7 Regulatory risk

Regulation is the most significant restriction on profitability from the economic activities developed by the Group. The Regulator can take measures with a negative impact on cash flow, with all the adverse consequences arising therefrom. AdP has sought to more closely monitor the activities of the Regulator in order to minimise these risks, thus seeking to anticipate potential negative impacts on the companies arising from the rules issued by ERSAR.

4. Estimates and judgments

Estimates and judgments that have an impact on the AdP Group's consolidated financial statements are assessed continuously and they represent the best estimate of the Board on the date of each report, bearing in mind the historic performance, accumulated experience and expectations regarding 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 these:

4.1 Provisions

The companies of the AdP Group periodically analyse any obligations that arise from past events and that should be recognised or disclosed. The Group 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 it should make a provision for those contingencies (Note 41).

The subjectivity inherent to determining the likelihood and amount of the internal resource 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 is 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 Board's best estimate for the assets and businesses in question. However, since it is mostly a concession-based and regulated activity, the life of assets is associated with the pattern of economic benefits obtained, which are determined by economic regulation (the concession period).

The Group annually tests whether goodwill has undergone any impairment loss. The recoverable amount of the cash-generating units is determined based on value in use, which requires the use of estimates.

4.3 Impairment

The determination of an impairment loss can be triggered by a number of events, many of which are outside the sphere of influence of the AdP Group, such as the future availability of funding, the cost of capital or 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 fair value of assets (or a group of assets) requires a high degree of judgment by the Board, 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, the impairment indicators change with the growth of the network of infrastructure taken on, the expected tariff changes or the current strategies of the shareholders of AdP, which together with other factors could lead to changes in the pattern or amount of future cash flows. 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.

At the issue date of the AdP Group's consolidated financial statements, the existence of any impairment of 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 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.

5. Relevant facts

The AdP Group's profits are influenced by relevant facts in the 2011 financial year:

The changes in fair value of financial instruments had a negative impact in the 2011 financial year of 25,769,228 euros (compared to positive 2,845,794 euros in 2010), as shown in the table below:

	31.12.2011	31.12.2010
Exchange rate swap	(3,819,535)	8,425,662
(Positive) interest rate swap	-	4,467,527
(Negative) interest rate swap	(21,949,693)	(10,047,395)
	(25,769,228)	2,845,794

Additionally, there was an increase in tariff deviations due to the following effects:

- i) Change in the rate used to calculate the guaranteed remuneration, which rose from 5.42% in 2010 to 10.24% in 2011;
- ii) allocation of tariff deviations in three subsidiaries of the Group, to the gross amount of 43,662,480 euros.

The table below shows the total tariff deviations and tariff deviations attributable to 2011 compared to 2010:

Tariff deviations		31.12.2011	31.12.2010
Tariff deviations	35.1.2	68,634,866	37,336,274
Tariff deviations - attributed	35.1.3	43,662,480	-
Gross tariff deviations		112,297,346	37,336,274

Tariff deviations - attributed	Gross value	Deferred tax	Net value	Majority shareholders	Non-controlling interests
Águas do Douro e Paiva, S.A.	5,406,576	(1,432,743)	3,973,833	(2,026,655)	(1,947,178)
Sanest, S.A.	7,883,048	(2,089,008)	5,794,040	(2,954,960)	(2,839,080)
Valorsul, S.A.	30,372,857	(8,048,807)	22,324,050	(4,742,439)	(17,581,611)
	43,662,480	(11,570,557)	32,091,923	(9,724,054)	(22,367,869)

Águas do Douro e Paiva, S.A.

On 19 April 2011, a further addendum was made to the concession agreement of AdDP to also include the municipalities of Amarante and Baião. These municipalities have not yet been made shareholders because the Joint Order of the Ministry of Finance and the Ministry of Agriculture, Sea, Environment and Spatial Planning has not yet been issued to permit the increase of the share capital of the Company. This is expected to be resolved in 2012. This addendum specifically provides for the recognition of the tariff deviations generated in the individual accounts of the Company, notwithstanding productivity gains generated in the meantime under the concession agreement. This recognition resulted in the allocation of 3,973,833 euros of productivity gains, the gross value of which including associated deferred tax is 5,406,576 euros.

Sanest, S.A.

Following the authorisation of the Concession Grantor and in compliance with the provisions of clause 17 of the concession agreement, the Company distributed part of its retained earnings, by way of productivity gains. This recognition resulted in the allocation of 5,794,040 euros of productivity gains, the gross value of which including associated deferred tax is 7,883,048 euros.

Valorsul, S.A.

As a result of the merger of Valorsul with Resioeste, authorised by the Concession Grantor, pursuant to clause 15 of the initial concession agreement of Valorsul and clause 16 of the initial concession agreement of Resioeste, the retained earnings are distributed by way of productivity gains. This recognition resulted in the allocation of 22,324,050 euros of productivity gains, the gross value of which including associated deferred tax is 30,372,857 euros. It is to be noted that the distribution approved at the General Meeting did not take into consideration the percentage holding of each shareholder in the Company.

6. Information by business area

2011	Regulated activity UNA-PD	Regulated activity UNR	Regulated activity UNA-DR	Unregulated activity EPAL	Unregulated activity International	Unregulated activity Corporate	Adjustment	Consolidated Total
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)	-
Total revenue	474,258,154	186,805,098	47,384,976	147,038,145	1,656,195	20,105,604	(42,999,585)	834,248,588
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)
Amortisation, depreciation and reversals 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 the 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	-
Total operating profit	169,061,457	45,603,110	7,908,791	62,864,885	(1,172,439)	3,293,849	66,882	287,626,536
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)	-
Pre-tax profit	103,718,927	39,813,502	4,620,141	60,320,144	(1,354,511)	(10,097,185)	-	197,021,018
Income tax for the financial year	(28,785,686)	(9,885,534)	(2,617,032)	(17,374,188)	341,827	1,295,199	-	(57,025,413)
Net profit for financial year	74,933,242	29,927,968	2,003,109	42,945,956	(1,012,684)	(8,801,986)	-	139,995,605
Attributable to non-controlling interests	28,100,788	21,298,014	981,531	-	-	12,761	-	50,393,094
Attributable to shareholders of AdP SGPS, S.A.	46,832,454	8,629,954	1,021,578	42,945,956	(1,012,684)	(8,814,746)	-	89,602,511
	74,933,242	29,927,968	2,003,109	42,945,956	(1,012,684)	(8,801,986)	-	139,995,605

2010	Regulated activity UNA-PD	Regulated activity UNR	Regulated activity UNA-DR	Unregulated activity EPAL	Unregulated activity International	Unregulated activity Corporate	Adjustment	Consolidated Total
External sales	381,342,654	158,842,153	28,221,637	139,723,222	15,626,295	723,638	-	724,479,599
Inter-segmental sales	5,951,017	891,522	96,972	7,731,497	-	18,164,153	(32,835,162)	-
Total revenue	387,293,671	159,733,676	28,318,609	147,454,719	15,626,295	18,887,791	(32,835,162)	724,479,599
Sales costs/inventory change	(11,203,487)	(11,541,404)	(3,205,714)	(2,810,388)	(1,520,255)	-	-	(30,281,249)
External supplies and services	(121,187,627)	(51,884,299)	(3,580,579)	(35,371,948)	(6,130,994)	(6,561,198)	-	(224,716,644)
Personnel costs	(48,006,818)	(47,031,787)	(4,487,972)	(31,509,792)	(4,737,661)	(10,812,530)	-	(146,586,559)
Amortisation, depreciation and reversals in financial year	(141,589,106)	(52,908,803)	(5,084,710)	(23,129,653)	(395,638)	(1,940,203)	-	(225,048,112)
Provisions and reversals in the financial year	(89,998)	(1,178,976)	-	10,922,884	16,265,979	(748,124)	-	25,171,766
Impairment losses and reversals	(1,980,990)	(163,601)	(348,137)	(275,789)	(2,363,332)	-	-	(5,131,849)
Fair value gains/losses	-	4,116	-	-	-	-	-	4,116
Investment grants	46,733,422	18,356,466	-	2,017,134	22,247	8,617	-	67,137,886
Other operating expenses and losses	(6,759,983)	(3,829,950)	(187,940)	(1,574,557)	(13,389,373)	(662,782)	-	(26,404,585)
Other operating income and gains	8,300,252	2,677,277	73,525	2,039,892	4,272,408	575,200	-	17,938,553
Inter-segmental operating profit	(21,619,587)	(2,684,998)	(6,676,354)	(3,642,925)	(604,546)	2,129,738	33,098,671	-
Total operating profit	89,889,751	9,547,716	4,820,728	64,119,577	7,045,131	876,508	263,510	176,562,921
External financial profit	(24,063,031)	(1,612,004)	(1,196,902)	(2,913,861)	(556,750)	(20,203,523)	-	(50,546,071)
Inter-segmental financial profit	(16,671,054)	(425,568)	(507,683)	(126,888)	(9,245)	18,003,948	(263,510)	-
Pre-tax profit	49,155,666	7,510,145	3,116,144	61,078,827	6,479,136	(1,323,067)	-	126,016,850
Income tax for financial year	(10,703,483)	(3,582,773)	(1,975,124)	(14,642,211)	1,965,484	(344,527)	-	(29,282,634)
Net profit for financial year	38,452,183	3,927,372	1,141,020	46,436,616	8,444,620	(1,667,594)	-	96,734,216
Attributable to non-controlling interests	14,343,165	2,356,909	560,248	-	-	14,876	-	17,275,198
Attributable to shareholders of AdP SGPS, S.A.	24,109,017	1,570,463	580,772	46,436,616	8,444,620	(1,682,471)	-	79,459,018
	38,452,183	3,927,372	1,141,020	46,436,616	8,444,620	(1,667,594)	-	96,734,216

7. Financial instruments

7.1 Classification of financial assets and liabilities according to IAS 39

31.12.2011	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	Total financial instruments	Assets and liabilities not financial instruments	Balance sheet total
Tangible fixed assets	-	-	-	-	-	808,566,586	808,566,586
Intangible assets	-	-	-	-	-	4,795,074,634	4,795,074,634
Investment property	-	-	-	-	-	1,165,151	1,165,151
Financial investments	41,309	110,373,357	-	-	110,414,666	-	110,414,665
Investments in associates	-	-	-	-	-	191,784	191,784
Deferred tax assets	-	-	-	-	-	251,961,551	251,961,551
Derivatives	-	-	-	-	-	-	-
Tariff deviation - cost recovery asset	-	-	-	-	-	430,171,545	430,171,545
Customers and other non-current assets	-	142,661,600	-	-	142,661,600	-	142,661,600
Inventories	-	-	-	-	-	7,714,534	7,714,534
Customers	-	408,813,873	-	-	408,813,873	-	408,813,873
State and other public entities	-	-	-	-	-	14,205,353	14,205,353
Other current assets	-	235,736,978	-	-	235,736,978	-	235,736,978
Cash and cash equivalents	-	286,273,575	-	-	286,273,575	-	286,273,575
	41,309	1,183,859,381	-	-	1,183,900,690	6,309,051,140	7,492,951,830
Provisions	-	-	-	-	-	15,699,696	15,699,696
Pension liabilities	-	-	-	-	-	12,119,946	12,119,946
Non-current loans	-	-	-	2,365,063,667	2,365,063,667	-	2,365,063,667
Suppliers and other non-current liabilities	-	-	-	183,618,271	183,618,271	-	183,618,271
Deferred tax liabilities	-	-	-	-	-	308,535,750	308,535,750
Amortisation of future investment	-	-	-	-	-	546,009,446	546,009,446
Investment grants	-	-	-	-	-	1,950,784,151	1,950,784,151
Tariff deviation - cost recovery liability	-	-	-	-	-	112,488,776	112,488,776
Derivatives	-	-	38,456,333	-	38,456,333	-	38,456,333
Loans	-	-	-	612,837,601	612,837,601	-	612,837,601
Suppliers	-	-	-	125,188,965	125,188,965	-	125,188,965
Other current liabilities	-	-	-	137,660,057	137,660,057	-	137,660,057
Income tax for the year	-	-	-	-	-	20,849,772	20,849,772
State and other public entities	-	-	-	-	-	29,200,317	29,200,317
	-	-	38,456,333	3,424,368,562	3,462,824,894	2,995,687,854	6,458,512,748

7.2 Fair value hierarchy

	31.12.2011			31.12.2010		
	level 1	level 2	level 3	level 1	level 2	level 3
Financial assets at fair value through profit or loss						
Investments in shares	41,309	-	-	92,427	-	-
Derivatives	-	-	-	-	2,227,586	-
Financial liabilities at fair value through profit or loss						
Derivatives	-	38,456,333	-	-	14,914,691	-

8. Intangible assets

		31.12.2011	31.12.2010
Right of use of infrastructures - IFRIC 12	8.2	3,902,087,857	3,783,760,406
Goodwill and right to lease	8.3	3,785,877	3,785,877
Development expenses		5,196,063	3,014,886
Industrial property and other rights		23,953,305	24,065,915
Software		32,995	48,191
Other intangible assets		16,051,459	12,502,539
Intangible assets in progress	8.2	843,967,078	746,557,035
		4,795,074,634	4,573,734,850

The Group does not recognise internally generated intangible assets.

8.1 Movements in the period

Gross value	31.12.2010	Increases	Currency conversion	Reduction/ disposals	Reclassif.	Transf.	Reversals	31.12.2011
Right of use of infrastructure	4,700,760,436	148,810,284	-	(747,905)	(23,641,636)	243,678,653	-	5,068,859,832
Goodwill	3,785,877	-	-	-	-	-	-	3,785,877
Development projects	10,486,863	191,323	-	-	-	235,185	-	10,913,371
Industrial property	37,060,976	705,352	-	-	-	68,814	-	37,835,143
Software	209,527	1,940	-	-	-	22,425	-	233,892
Other intangible assets	29,547,481	105,000	585	-	-	845,889	-	30,498,956
Intangible assets in progress	746,557,035	328,927,710	-	(12,944,147)	(5,423,956)	(213,149,564)	-	843,967,078
	5,528,408,196	478,741,609	585	(13,692,052)	(29,065,592)	31,701,403	-	5,996,094,149

Accumulated amortisation	31.12.2010	Increases	Currency conversion	Reduction/ disposals	Reclassif.	Transf.	Reversals	31.12.2011
Right of use of infrastructure	(917,000,030)	(157,384,569)	-	283,657	(68,857,826)	(23,497,778)	(315,428)	(1,166,771,975)
Development projects	(7,471,977)	(385,372)	-	-	145,604	1,861,988	132,449	(5,717,308)
Industrial property	(12,995,061)	(1,387,355)	-	-	(32,734)	533,311	-	(13,881,838)
Software	(161,336)	(39,561)	-	-	-	-	-	(200,897)
Other intangible assets	(17,044,942)	(722,441)	(585)	-	1,684,228	1,278,425	357,819	(14,447,497)
	(954,673,346)	(159,919,298)	(585)	283,657	(67,060,728)	(19,824,054)	174,839	(1,201,019,514)
Net value	4,573,734,850	318,822,311	-	(13,408,395)	(96,126,320)	11,877,349	174,839	4,795,074,634

8.2 Right of use of infrastructure and intangible assets in progress

Gross value	31.12.2010	Increases	Currency conversion	Reduction/ disposals	Reclassif.	Transf.	Reversals	31.12.2011
Right of use of infrastructure	4,700,760,436	148,810,284	-	(23,641,636)	(747,905)	243,678,653	-	5,068,859,832
Intangible assets in progress	746,557,035	328,927,710	-	(5,423,956)	(12,944,147)	(213,149,564)	-	843,967,078
	5,447,317,471	477,737,994	-	(29,065,592)	(13,692,052)	30,529,089	-	5,912,826,910

Accumulated amortisation	31.12.2010	Increases	Currency conversion	Reduction/ disposals	Reclassif.	Transf.	Reversals	31.12.2011
Right of use of infrastructure	(917,000,030)	(157,384,569)	-	(68,857,826)	283,657	(23,497,778)	(315,428)	(1,166,771,975)
	(917,000,030)	(157,384,569)	-	(68,857,826)	283,657	(23,497,778)	(315,428)	(1,166,771,975)
Net value	4,530,317,441	320,353,425	-	(97,923,418)	(13,408,395)	7,031,311	(315,428)	4,746,054,935

It should be noted that the amount recorded in the column for decreases of intangible assets in progress relates to the subsidiary Sanest, and refers to the fine for the breach of contractual terms issued to the consortium regarding the contract to upgrade the wastewater treatment and sewerage system of the Estoril Coast.

The increase in rights of use of infrastructure and intangible assets in progress results from the continuous investments that the AdP Group companies have been making in recent years. The business units that most contributed to this level of investments were UNA-PD (Water Business Unit - Production and Purification) and UNR (Waste Business Unit).

The main investments made or underway (UNA-PD) are:

- Águas do Algarve: contract for construction of the Olhos de Água Norte wastewater pumping station; contract for construction of the pumping station of the Albacora hotel and the inflow system of the VII Tavira pumping station; contracts associated with the construction of Odelouca dam (adaptation and protection of the railway line, the railway bridge and road bridge affected by the reservoir of Odelouca dam; construction of Sapeira bridge; stabilisation works on the highway linking the crown of Odelouca dam and the Funcho water intake);
- Águas do Centro: Design and construction contract of Castelo Branco WWTP;
- Águas do Centro Alentejo: design and construction contract for Oriola WWTP; contracts for small WWTP of the municipalities of Évora, Borba and Redondo; contract for supply to Castelo Mourão, Motrinos reservoir; the pumping stations of Cumeada and São Manços and water supply to Redondo municipality;
- Águas do Douro e Paiva: contracts associated with the expansion to the municipalities of Amarante and Baião;
- Águas do Mondego: contracts associated with the construction of the Boavista water supply system; contracts associated with the construction of the water supply system of the northern and southern sectors of Mata do Urso; contract for construction of the water supply systems of Alge and Louçainha;
- Águas do Noroeste: contract to double the interceptor of Ave and pumping stations; contract for construction of interceptors on the river Cávado and river Homem; contract for construction of Ponte de Baia WWTP; contract for the construction of Sousa WWTP; contract for construction of Cávado-Homem WWTP; contract for construction of connections to the distribution networks in the municipalities of Póvoa Lanhoso and Vieira do Minho; supply and installation of the communication system to support the remote management of Minho and Lima, supply, installation and commissioning of the remote management system of the multi-municipal water supply and sewerage system of Minho and Lima;
- Águas do Norte Alentejano: contract for renovation of the Alegrete WWTP and respective pumping stations and construction of the WWTP and pumping stations of Urrea and Caia; contract for construction of the wastewater pumping system of Atalaia and Rosmaninhal and renovation of Longomel WWTP; contract for renovation of Amieira do Tejo and Montalvão Tagus and construction of the Pé da Serra WWTP; contract for construction of the Torre Fundeira, Monte Claro, Arneiro and Arez WWTP;
- Águas do Oeste: contract for construction of main outfalls and interceptors; contract for renovation and expansion of the Alenquer, Carregado and Nazaré WWTP; implementation of remote management system – sewerage activity;
- Águas Públicas do Alentejo: contract for construction of Almodôvar reservoir; contract for design and construction of Vila Nova de Milfontes WWTP; contract for design and construction of Mértola WWTP);
- Águas da Região de Aveiro: contract for construction of the water supply network to the locations of Castelões, Presas and Espinheiro; contract to expand the sewerage network of Vila de Vagos - 1st and 2nd phases; contract for construction of the sewerage network of Sobreiro, Póvoa and Zona Central de Bustos; contract for construction of the sewerage network of São Salvador; contract for construction of the sewerage network of Bouca and Ouca - 2nd phase; contract for construction of the wastewater and rainwater drainage network of Covão Lobo; contract for construction of the wastewater and rainwater drainage network of south Vagos;
- Águas de Santo André: contract for construction of pipelines to transport effluent from ZIP3 (heavy industrial area) to Ribeira de Moinhos WWTP; contract for renovation of ZIP3 pumping station; contract to increase supply to ZILS (Sines Industrial and Logistics Zone), phase I; contract for construction of the outfall between Santiago de Cacém WWTP and Ribeira de Moinhos WWTP;
- Águas de Trás-os-Montes e Alto Douro: contract for construction of interceptor and outfall systems of the Douro Norte and Alto Tâmega subsystems; contract for construction of Cachão WWTP and pumping systems;
- Águas do Zêzere e Côa: contracts for construction of the sewerage subsystems of Mondego Superior - Oliveira do Hospital and Seia municipalities; contract for construction of the specialised links of the Sabugal sewerage subsystems; contract for construction of the specialised links of the Guarda sewerage subsystems;
- Simarsul: contracts for construction of the WWTP and drainage and pumping systems of the Barreiro – Moita subsystem; contract for design and construction of Quinta do Conde WWTP;
- Simria: contract for construction of the Laje and Caster interceptors; contract for concrete renewal – south interceptor;
- Simtejo: contract for design and construction of the adaptation and addition to Alcântara WWTP; contract for the construction of interceptors and outfalls of the Trancão - Sintra river basin and outfall L - Phase II - Loures; contract for construction of Foz do Lizandro WWTP; contract for construction of the pumping systems of Avieiros and Icesa;
- Simdouro: Integration of infrastructure of the municipalities of Gaia, Paredes and Penafiel.

Investment by UNR in 2011 were around 125,814,373 euros, the main portions of which were made in the following subsidiaries:

- Resinorte: supply and installation of the motor-generator set for biogas energy recovery at Baixo Tâmega landfill; Santo Tirso landfill;
- Suldouro: Organic energy recovery plant; Organic Rankine Cycle;
- Resiestrela: Design, construction and supply of the expansion and upgrading of Cova da Beira composting plant; design, construction, supply and installation of the biogas recovery system at Fundão landfill;
- Ersuc: mechanical and biological treatment, Aveiro; mechanical and biological treatment, Coimbra; Aveiro Sorting Station; Coimbra Sorting Station; Aveiro TMB Landfill; Coimbra TMB Landfill; Aveiro TMB biogas recovery system; Coimbra TMB biogas recovery system;
- Valnor: anaerobic digestion contract; sealing the Concavada landfill cell/biogas power generation plant; design, construction and supply of a CDR preparation plant;
- Valorlis: Organic energy recovery plant; B-ASL cell;
- Valorsul: Incinerator;
- Amarsul: Seixal organic energy recovery plant; Expansion of Seixal organic energy recovery plant; biogas power generation system (CVO Seixal); TM Palmela;
- Algar: Algarve anaerobic digestion unit; SBA green materials composting plant.

8.3 Goodwill

	31.12.2011	31.12.2010
Goodwill		
Valorsul, S.A.	3,306,807	3,306,807
Algar, S.A.	130,604	130,604
Aquasis, S.A.	209,965	209,965
	3,647,376	3,647,376
Assignments		
Empresa Geral do Fomento, S.A.	138,501	138,501
	138,501	138,501
	3,785,877	3,785,877

Tests were performed for the impairment of goodwill, with reference to the recoverable amount of the cash-generating unit that generated the same. The recoverable amount is its value of use and this, in turn, corresponds to the guaranteed return (dividend) in each year over the concession period. These amounts are part of the EVEF (economic and financial feasibility studies) attached to concession agreements. The guaranteed return is calculated based on the risk-free interest rate that corresponds to the yield of 10-year treasury bonds (5.42% in 2010, 10.4% in 2011) plus a spread of 3% set by contract, or by TBA plus a spread of 3%. This return (paid in the form of dividends, generated cash flow) is considerably higher 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 companies concerned, the generated cash flow (earnings) have been higher than contractually defined, and additional remuneration by way of productivity gains has already been paid.

9. Tangible fixed assets

	31.12.2011	31.12.2010
Land and natural resources	121,578,380	114,177,109
Buildings and other constructions	124,784,225	137,773,448
Basic equipment	544,112,562	550,466,058
Transport equipment	847,614	1,010,437
Office equipment	3,173,492	4,545,546
Other	3,299,529	3,526,340
Investments in progress	10,770,785	19,768,260
	808,566,586	831,267,198

9.1 Movements in the period

Gross value	31.12.2010	Additions	Reduction/ disposals	Reclassif.	Transf.	Conversion differences	31.12.2011
Land and natural resources	114,194,020	-	-	(5)	7,384,365	-	121,578,380
Buildings and other constructions	228,003,859	85,231	(665)	(2,473,826)	(7,301,521)	-	218,313,079
Basic equipment	1,008,344,017	617,015	(126,600)	8,790,913	10,893,204	-	1,028,518,549
Transport equipment	4,641,869	211,623	(269,051)	-	(222,555)	-	4,361,886
Office equipment	33,723,282	407,959	(770,539)	-	(3,833,212)	(4,403)	29,523,088
Other	26,001,179	85,281	(9,671)	-	90,586	8,343	26,175,719
Investments in progress	19,768,260	14,884,494	(3,225,034)	(4,104,590)	(16,552,346)	-	10,770,785
	1,434,676,487	16,291,604	(4,401,560)	2,212,493	(9,541,479)	3,939	1,439,241,484
Accumulated amortisation	31.12.2010	Additions	Reduction/ disposals	Reclassif.	Transf.	Conversion differences	31.12.2011
Land and natural resources	(16,912)	(8,602)	-	-	25,514	-	-
Buildings and other constructions	(90,230,411)	(5,331,336)	665	1,642,494	389,734	-	(93,528,854)
Basic equipment	(457,877,959)	(18,692,580)	126,241	(7,985,300)	23,610	-	(484,405,987)
Transport equipment	(3,631,432)	(363,639)	267,832	-	212,968	-	(3,514,272)
Office equipment	(29,177,736)	(1,236,125)	768,865	-	3,292,814	2,586	(26,349,596)
Other	(22,474,839)	(769,197)	9,671	486	366,032	(8,343)	(22,876,190)
	(603,409,289)	(26,401,480)	1,173,274	(6,342,319)	4,310,672	(5,756)	(630,674,898)
Net value	831,267,198	(10,109,876)	(3,228,286)	(4,129,826)	(5,230,807)	(1,817)	808,566,586

Almost all the tangible assets of the AdP group stem from EPAL.

The "Basic equipment" heading essentially includes the distribution network, pipelines, reservoirs, water and electricity facilities, water systems and meters. At the end of the 2011 and 2010 financial years, the "Basic equipment" heading included fixed assets held by third parties, namely, water meters placed in the distribution network.

The additions in the 2011 financial year in "tangible fixed assets" amounted to some 16.3 million euros and relate primarily to the pipeline expansion projects of Castelo de Bode (2.3 million euros), rehabilitation of major distribution pipelines (1.5 million euros), recovery of the final section of the pipeline of Castelo de Bode (1.2 million euros) and replacement of pipes and extensions (1.1 million euros over about 84 km).

The reduction in the item "tangible assets in progress" in 2011, amounting to 16.5 million euros, essentially relates to the redevelopment of the former pumping station of Olivais (5.2 million euros), recovery of the final section of Castelo de Bode (1.3 million euros), rehabilitation of the reservoir of Vila Franca de Xira (1.3 million euros) and the completion of the duplication of the section of Mount V. Chaminés (1.1 million euros).

The net amounts recorded in the transfers column concern the transfer from tangible to intangible of rights to use infrastructure - (11,877,349 euros), as they are assets of the concession holders, which will be returned to the municipalities at the end of the concession. Part of the amount also relates to payments on account of investments in the amount of 6,646,542 euros.

	Transfers
Intangible fixed assets	11,877,349
Advances for investments	(6,646,542)
	5,230,807

9.2 Leasing

Net book values of tangible fixed assets acquired by leasing:

	31.12.2011
Land and natural resources	301,841
Buildings and other structures	20,627,914
Transport equipment	68,620
	20,998,375

10. Investment property

	31.12.2011	31.12.2010
Land	7,347	7,347
Buildings	2,490,218	1,280,222
Accumulated depreciation	(1,332,414)	(26,535)
	1,165,151	1,261,033

Assets that were classified as tangible fixed assets (gross and respective accumulated depreciation) were transferred to "Investment property" during the period.

The fair value of investment properties is equivalent to the book value. The fair value of each investment property was determined through evaluations conducted by an independent specialised entity, which has a recognised and relevant professional qualification, as at 31 December 2009. The Board of Directors does not consider that it showed significant changes at 31 December 2010 and 2011.

11. Financial investments

		31.12.2011	31.12.2010
Equipment renewal fund	i)	4,315,685	7,979,862
Share capital replenishment fund	ii)	105,635,394	96,909,657
Other financial investments		657,255	921,662
Impairment losses on financial investments	11.1	(193,668)	(142,551)
		110,414,665	105,668,629

i) At the time of establishment of the multi-municipal concession holding companies, it was their obligation to keep in good working order, maintenance and safety the property and means assigned to the concessions, making to this end the necessary repairs, renovations and adaptations. For this purpose, after the start of operations the Company should have set up a renovation fund. Decree-Law no. 195/2009 of 20 August changed the law relating to multi-municipal systems, and companies were no longer obliged to maintain the renewal funds from 1 January 2010, the date the decree-law came into force.

ii) The concession holding and regulated companies are required, in accordance with the concession agreements to set up a fund in an institution authorised by Banco de Portugal. The annual amount invested will correspond to the amortisation annuity of the capital for the creation of the capital replenishment fund, which will be managed by the concession holder and to which it will be entitled on termination of the contract. To safeguard the interests of users and since the margin of return on the capital invested is incorporated in the tariff, the income from the fund will be deducted each year from expenses and charges.

For Group companies whose concession period was extended, the capital replenishment fund was not made strengthened, as it was higher than that contractually established on that date. However, in these cases it was not used, i.e. it was not reduced, keeping the value already formed and duly securitised.

Note: These funds were transferred and are deposited, since 2010, with the Government Debt Agency (IGCP).
The chart below details the value of the funds per Group company:

	31.12.2011		31.12.2010	
	Capital replenishment fund	Equipment renewal fund	Capital replenishment fund	Equipment renewal fund
UNA-PD				
Águas do Algarve, S.A.	8,267,571	-	8,267,571	-
Águas do Centro Alentejo, S.A.	1,136,390	-	1,163,390	-
Águas do Centro, S.A.	6,550,949	-	6,113,767	-
Águas do Douro e Paiva, S.A.	9,585,482	-	8,884,288	-
Águas do Mondego, S.A.	3,652,549	-	3,130,756	-
Águas do Norte Alentejano, S.A.	2,177,301	-	2,177,301	-
Águas do Noroeste, S.A.	11,584,853	-	11,584,853	-
Águas do Oeste, S.A.	6,502,943	-	5,327,456	-
Águas de Santo André, S.A.	171,739	3,828,261	171,739	5,674,520
Águas de Trás-os-Montes e Alto Douro, S.A.	6,444,684	-	6,444,684	-
Águas do Zêzere e Côa, S.A.	4,714,624	-	4,153,661	-
Sanest, S.A.	7,092,656	-	6,641,809	-
Simarsul, S.A.	4,865,147	-	4,865,147	-
Simdouro, S.A.	224,510	-	108,021	-
Simlis, S.A.	1,834,404	-	1,751,099	-
Simria, S.A.	3,831,452	-	3,495,283	-
Simtejo, S.A.	5,875,479	-	4,880,797	-
	84,512,733	3,828,261	79,161,622	5,674,520
UNR				
Algar, S.A.	4,452,226	-	4,131,916	-
Amarsul, S.A.	3,987,340	-	3,611,040	-
Ersuc, S.A.	2,444,784	-	2,126,088	1,204,478
Resiestrela, S.A.	612,766	-	408,511	-
Resinorte, S.A.	655,738	-	449,485	-
Resulima, S.A.	1,391,882	-	1,279,194	-
Suldouro, S.A.	1,848,249	-	1,693,074	-
Valnor, S.A.	1,847,924	-	1,508,254	624,740
Valorlis, S.A.	1,142,817	487,424	1,055,471	476,124
Valorminho, S.A.	515,457	-	477,002	-
Valorsul, S.A.	2,016,000	-	1,008,000	-
	20,915,183	487,424	17,748,035	2,305,342
Corporate				
AdP SGPS, S.A. (1)	207,478	-	-	-
	207,478	-	-	-
	105,635,394	4,315,685	96,909,657	7,979,862

(1) The amount shown for AdP SGPS refers to the amounts received from the subsidiaries Simlis, Valorminho and Valorlis and which were deposited with IGCP). Since IGCP does not allow the deposit of amounts below 100,000 euros, all applications of the Group companies below that amount were concentrated in the holding company before their deposit with IGCP.

11.1 Accumulated impairment losses on financial investments

	31.12.2011
Opening balance	(142,551)
Increase	(51,117)
Closing balance	(193,668)

12. Investments in associates

		31.12.2011	31.12.2010
Trevo Oeste, S.A.	i)	-	549,779
Clube de Golf das Amoreiras, S.A.	ii)	-	250,000
Netdouro, S.A.	iii)	-	85,501
Miese, Lda.		186,783	186,783
Águas de Timor, Lda.		5,001	5,001
		191,784	1,077,064

Investments in associates are defined as the value resulting from applying the equity method. The consolidated financial statements include, according to this method, the Group's share of the total recognised gains and losses from the date on which significant influence begins until the date on which it effectively ends. Associates are entities in which the Group has between 20% and 50% of the voting rights or in which the Group has significant influence, but cannot exercise control.

- i) The impairment of the entire investment that AdP SGPS holds in Trevo Oeste occurred in 2011.
- ii) The investment that the subsidiary EPAL has in Clube de Golf Amoreiras, in the amount of 250,000 euros, has already been fully provisioned in a liability account. The Company reclassified this provision in 2011 to the investment account so that it may remain at zero on the balance sheet.
- iii) The investment of Águas do Douro e Paiva in NetDouro was liquidated in the 2011 financial year.

13. Deferred tax

	31.12.2011	31.12.2010
Deferred tax asset	251,961,551	239,211,070
	251,961,551	239,211,070
Deferred tax liability	308,535,750	248,662,999
	308,535,750	248,662,999

13.1 Movements in the period

	31.12.2010	Corrections	Allocation	Utilisation	31.12.2011
Corporate income tax rate					
Municipal surcharge					
Deferred tax assets					
Provisions	30,537,253	4,775,255	13,601,795	(3,672,268)	45,242,036
Losses carried forward	125,566,824	(9,872,037)	11,480,126	(28,428,870)	98,746,043
Other					
- Amortisation not accepted	683,918,952	(31,677,025)	89,662,106	(18,894,409)	723,009,624
- Tariff deviations	167,211,835	(44,047,224)	21,154,338	(2,339,864)	112,488,776
- Other	17,519,324	1,927,699	9,096,175	(4,125,663)	24,417,536
Assessment base	1,024,754,187	(78,893,332)	144,994,540	(57,461,073)	1,003,904,014
Corporate income tax	252,890,764	(3,277,024)	30,542,836	(12,898,445)	259,885,553
Municipal surcharge	16,735,649	(214,297)	2,640,826	(522,448)	18,197,376
Tax	269,626,413	(3,491,321)	33,183,663	(13,420,894)	278,082,929
Impairment	30,415,343	(2,263,604)	3,719,826	(5,750,188)	26,121,377
Recognised deferred tax asset	239,211,070	(1,227,717)	29,463,837	(7,670,706)	251,961,552
Corporate income tax rate					
Municipal surcharge					
Deferred tax liabilities					
Revaluations	28,257,338	-	-	(1,424,787)	26,832,551
Reinvestment of capital gains	179,404	-	-	(4,877)	174,527
Other					
- Amortisation not accepted	522,573,576	25,377,280	34,108,414	(38,808,607)	543,250,663
- Tariff deviations	233,734,888	23,077,426	92,208,956	(2,339,864)	430,171,546
- Other	148,991,403	682,660	(487,323)	(3,115,426)	146,071,315
Assessment base	933,736,609	49,137,366	125,830,048	(45,693,560)	1,146,500,602
Corporate income tax	231,487,907	10,720,285	35,525,002	(11,524,343)	287,081,387
Municipal surcharge	17,175,093	1,626,831	2,499,535	(1,099,450)	21,454,362
Recognised deferred tax liability	248,663,000	12,347,117	38,024,538	(12,623,793)	308,535,749

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 be noted that recorded in this heading are deferred tax assets and liabilities of tariff deviations (see note 15). "Deferred tax liabilities - Other" contains a significant amount (44,097,152 euros) from the subsidiary EPAL, which is the result of the revaluation made to tangible fixed assets in 2010 during the transition to international standards.

	31.12.2010	Corrections	Allocation	Utilisation	31.12.2011
Impairment					
Deferred tax assets					
Provisions	3,505,957	4,291,610	3,398,428	-	11,195,995
Losses carried forward	125,541,624	(27,561,479)	11,480,126	(23,000,751)	86,459,519
Assessment base	129,047,581	(23,269,869)	14,878,554	(23,000,751)	97,655,514
Corporate income tax	30,435,094	(2,327,978)	3,668,849	(5,750,188)	26,025,778
Municipal surcharge	(19,751)	64,374	50,976	-	95,600
Impairment of deferred tax assets	30,415,343	(2,263,604)	3,719,826	(5,750,188)	26,121,377

The impairment of deferred tax assets presented above reflects the fact that there is a set of Group companies whose results expected in the future will not permit the recovery of the deferred tax assets generated by the reported losses.

Tax losses not indicated as deferred taxes (by expiry date)	31.12.2011
2012	12,223,101
2013	10,536,265
2014	36,143,452
2015	21,342,342
2016	3,432,701
2017	2,781,659
	86,459,519

14. Derivatives

	31.12.2011	31.12.2010
Asset swaps	16,248,188	10,902,972
Exchange impact of JPY	(17,840,138)	(8,675,386)
Net impact	(1,591,950)	2,227,586
Liability swaps	(36,864,383)	(14,914,691)
	(38,456,333)	(12,687,105)

Swap	Risk hedged	Notional	Maturity	J.V. 31.12.2011	J.V. 31.12.2010
Exchange rate	Eur/Jpy exchange rate	100,000,000	2015	16,248,188	10,902,972
Interest rate	Interest rate	50,000,000	2022	(9,725,000)	(7,487,000)
Interest rate	Interest rate	75,000,000	2022	(18,470,438)	(6,031,461)
Interest rate	Interest rate	50,000,000	2023	(6,230,560)	(1,132,470)
Interest rate	Interest rate	20,000,000	2023	(2,438,386)	(263,760)
Total				(20,616,196)	(4,011,719)

The Group uses derivatives for the sole purpose of managing the financial risks to which it is subject. In accordance with its financial policies, the Group does not use derivatives for trading. 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. Whenever available, the fair value of derivatives is estimated based on listed instruments. In the absence of market prices, the fair values of derivatives are estimated by the discounted cash flow method, calculated by external bodies, based on valuing techniques accepted by the market. Derivatives are recognised on their trade date, at their fair values. 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

	31.12.2011	31.12.2010
Regulatory asset - gross tariff deviation	430,171,545	310,762,868
Regulatory liability - gross tariff deviation	(112,488,776)	(135,317,264)
Total	317,682,770	175,445,605

15.1 Reconciliation of gross tariff deviations

The calculation method used by the Company until 31 December 2010 to ascertain deferred tax assets and liabilities related to the tariff deviations took into consideration the income tax rate in force for each year. Since the deferred tax assets and liabilities should be measured in their entirety at the income tax rate in force on 31 December 2011, the Company classified the respective adjustment as a reclassification in the financial year, owing to the contractual clauses establishing the guaranteed return for the Group companies. This

adjustment only affects the financial position of the AdP Group, through the reclassification of deferred tax assets and liabilities against tariff deviation.

The year's reclassification movements were:

	Tariff deviation - asset	Tariff deviation - liability	Net total deviation	
Balance at 31 de December de 2010	310,762,868	(135,317,264)	175,445,605	
Reclassification tax rate	22,124,887	7,814,931	29,939,818	
Reclassification movements	22,124,887	7,814,931	29,939,818	
Deviations and surplus of 2011	35.1.2	95,545,299	(23,130,878)	72,414,421
Extraordinary productivity gains	35.1.3	5,406,576	38,255,905	43,662,480
Corrections for previous years	35.1.2	429,323	(4,208,877)	(3,779,554)
Reclassification of deviations of the year		(4,097,407)	4,097,407	-
Movements in 2011	97,283,791	15,013,557	112,297,346	
Balance at 31 December 2011	430,171,545	(112,488,776)	317,682,770	

	ASSETS Tariff deficit	ASSETS Deferred tax	LIABILITIES Tariff surplus	LIABILITIES Deferred tax	Impact net balance	Impact on sales
UNA-PD						
Águas do Algarve, S.A.	12,280,070	-	-	(3,254,218)	9,025,851	3,166,216
Águas do Centro Alentejo, S.A.	7,490,617	-	-	(1,985,013)	5,505,603	146,433
Águas do Centro, S.A.	48,089,114	-	-	(12,743,615)	35,345,499	11,498,782
Águas do Douro e Paiva, S.A.	263,993	-	-	(69,959)	194,035	3,706,675
Águas do Mondego, S.A.	7,828,869	-	-	(2,074,650)	5,754,219	2,577,108
Águas do Norte Alentejano, S.A.	26,630,018	-	-	(7,056,955)	19,573,063	3,665,918
Águas do Noroeste, S.A.	80,224,298	-	-	(21,259,439)	58,964,859	14,673,730
Águas do Oeste, S.A.	42,839,359	-	-	(11,352,430)	31,486,929	16,170,356
Águas de Trás-os-Montes e Alto Douro, S.A.	67,360,757	-	-	(17,850,600)	49,510,156	9,794,384
Águas do Zêzere e Côa, S.A.	41,832,996	-	-	(11,085,744)	30,747,252	5,091,472
AgdA - Águas Públicas Alentejo, S.A.	1,027,813	-	-	(289,919)	737,893	345,152
Sanest, S.A.	-	6,812,349	(25,706,978)	-	(18,894,629)	4,111,009
Simarsul, S.A.	26,548,731	-	-	(7,035,414)	19,513,317	8,284,625
Simdouro, S.A.	3,172,688	-	-	(840,762)	2,331,926	2,477,860
Simlis, S.A.	16,825,523	-	-	(4,458,764)	12,366,759	97,690
Simria, S.A.	28,102,341	-	-	(7,447,120)	20,655,221	4,275,445
Simtejo, S.A.	-	6,549,705	(24,715,868)	-	(18,166,163)	(4,148,825)
Total UNA-PD	410,517,185	13,362,054	(50,422,846)	(108,804,603)	264,651,790	85,934,029
UNR						
Algar, S.A.	-	1,633,894	(5,600,121)	-	(3,966,227)	(1,666,142)
Amarsul, S.A.	-	548,037	(1,511,171)	-	(963,134)	1,272,602
Ersuc, S.A.	-	2,691,673	(8,263,049)	-	(5,571,375)	(2,232,021)
Resiestrela, S.A.	-	368,498	(2,013,108)	-	(1,644,610)	(725,578)
Resinorte, S.A.	1,718,797	-	-	(656,103)	1,062,694	2,408,233
Resulima, S.A.	-	433,959	(1,739,462)	-	(1,305,503)	(1,754,653)
Suldouro, S.A.	-	1,422,926	(5,266,832)	-	(3,843,906)	(1,799,413)
Valnor, S.A.	-	988,497	(4,169,337)	-	(3,180,840)	400,941
Valorlis, S.A.	-	796,441	(3,001,161)	-	(2,204,720)	(1,103,765)
Valorminho, S.A.	-	233,286	(1,077,675)	-	(844,389)	(610,714)
Valorsul, S.A.	-	12,788,081	(29,424,014)	-	(16,635,933)	22,576,575
Total UNR	1,718,797	21,905,292	(62,065,929)	(656,103)	(39,097,943)	16,766,063
UNA-DR						
AdRA - Águas da Região de Aveiro, S.A.	17,935,563	-	-	(5,130,093)	12,805,469	9,597,254
Total UNA-DR	17,935,563	-	-	(5,130,093)	12,805,469	9,597,254
Total	430,171,545	35,267,346	(112,488,776)	(114,590,800)	238,359,316	112,297,346

16. Customers and other non-current assets

		31.12.2011	31.12.2010
Customers	i)	50,435,802	35,180,065
Investment grants - Cohesion Fund and others	31	50,852,766	55,875,679
Concession charges - investment increases	ii)	17,744,251	18,001,507
Other	iii)	23,628,781	15,553,484
		142,661,600	124,610,736

i) The increase of the heading "Non-Current Clients" results from the increased number of payment arrangements made by the Group with its customers (municipalities). The increase was mitigated by the fact that there were some agreements that have not been met by customers; these balances have been reclassified to current customers. Note 18.1 shows the age of customer balances.

ii) Recorded here are grant costs which are deferred for the concession period of Valorsul.

iii) As a result of amendments to the volume of investment existing in the initial concession contracts, there sometimes arise so-called investments for expansion or modernisation that may have residual value at the end of the concession period. On this date the amount will be reimbursed by the Concession Grantor or other entity acquiring the property. The amounts recognised relate to Águas do Algarve in the amount of 8,303,697 euros (7,876,775 euros in 2010) and Águas do Douro e Paiva in the amount of 9,155,202 euros (7,676,709 euros in 2010). This item also includes in 2011 the amount of 2,729,037 euros of excess coverage of the pension plan (EPAL), as shown in note 27.

16.1 Customers

	31.12.2011	31.12.2010
General	-	74,300
Municipalities	55,564,049	35,105,765
Amortised cost (actual interest rate)	(5,128,248)	-
	50,435,802	35,180,065

Several agreements were made in 2011 for payment plans over the medium and long term. In some cases amortised cost was made at the Group's funding rate, approximately 8.4%.

17. Inventories

		31.12.2011	31.12.2010
Goods		368,002	358,709
Raw materials and consumables		6,742,519	7,087,731
Finished and intermediate goods		982,450	1,077,309
Reclassification and settlement of stocks		(7,691)	(2,706)
Accumulated impairment losses of inventories	17.1	(370,746)	(420,477)
		7,714,534	8,100,566

17.1 Accumulated impairment losses of inventories

	31.12.2011
Opening balance	(420,477)
Increase	(3,879)
Reversals	53,611
Closing balance	(370,746)

18. Customers

		31.12.2011	31.12.2010
Customers - trade account		367,763,312	267,489,032
Customers - interest on arrears	18.2	17,863,251	11,827,486
Doubtful debts		15,029,017	10,293,318
Estimate of services to be billed		21,127,756	15,963,176
Impairment losses on customers	18.4	(12,969,464)	(9,139,322)
	18.1	408,813,873	296,433,690

Given the increase in customer debt in the year 2011, there was an increase in debt agreements with customers. As some agreements were concluded without interest, those debts had to be discounted, which totalled 5,128,248 euros at 31 December 2011.

18.1 Customers

Customers trade account		31.12.2011	31.12.2010
General	i)	54,873,214	66,033,174
Municipalities	18.3	345,782,366	237,345,305
Estimate of services to be billed		21,127,756	15,963,176
		421,783,336	319,341,655
Impairment losses on customers	18.4	(12,969,464)	(9,139,322)
		408,813,873	310,202,333

In 2011, as was the case in 2010, there was a significant increase in customer debt, with a consequent decline in the average collection period. This increase is mainly due to increased difficulties of customers - the municipalities - in the payment of their debts. In note 18.2 the most significant debts by municipality at the date of 31 December 2011, are presented. The subsidiary companies where there was the most significant increase in collection periods were Águas do Algarve, Simtejo, Águas do Zêzere e Côa, Águas de Trás-os-Montes e Alto Douro, Simarsul, Águas do Centro Alentejo, Águas do Oeste, Amarsul, AgdA - Águas Públicas do Alentejo and Algar.

i) In terms of general customers, the main subsidiaries that contribute to this balance are:

General Customers		31.12. 2011	31.12.2010
EPAL, S.A.		16,763,307	23,414,804
Valorsul, S.A.		8,511,988	6,546,826
AdRA - Águas da Região de Aveiro, S.A.		6,756,415	6,011,024
Amarsul, S.A.		4,590,989	3,187,186
Águas de Santo André, S.A.		2,493,083	1,791,284
Sanest, S.A.		2,006,982	1,707,384
Other		13,750,450	23,374,666
		54,873,214	66,033,174

It should be noted that EPAL, AdRA - Águas da Região de Aveiro and Águas de Santo André have most or almost all of their activity with private customers. Part of the debt among the waste companies is also with private customers, for example, Sociedade Ponto Verde and/or the energy companies.

18.2 Interest on arrears

Customers - interest on arrears		31.12.2011	31.12.2010
General		1,175,963	1,648,467
Municipalities	18.3	16,687,288	10,179,019
		17,863,251	11,827,486

18.3 Customers - Municipalities

Reconciliation of current and non-current customer debts with the framework of debts by municipality:

	31.12.2011	31.12.2010
Non-current municipal customers		
Municipal customers - TRH	487,482	-
Municipal customers - Agreements	55,076,567	21,337,122
Municipal customers - Other	-	13,768,643
Total non-current municipal customers	55,564,049	35,105,765
Discount of customer debts	(5,128,248)	-
Total non-current municipalities at discounted value	50,435,802	35,105,765
Current municipal customers		
Municipal customers - TRH	6,368,434	2,987,946
Municipal customers - Agreements	36,816,750	22,559,956
Municipal customers - Injunctions	76,106,521	24,057,585
Municipal customers - Other	202,611,200	159,385,048
Municipal customers - interest on arrears	16,687,288	10,179,019
Municipal customers	21,102	20,261
	338,611,295	219,189,815
Total current and non-current municipal customers	389,047,097	254,295,580
Total municipal customers nominal value	394,175,344	254,295,580

Debts of over 2 million euros by municipality:

	Maturing by N-2	Maturing by N-1	Maturing by N	Total matured	Total still not matured	Total debt 31.12.2011
Lisboa Municipality	-	83,524	17,151,175	17,234,699	5,753,225	22,987,924
Albufeira Municipality	-	356,166	8,364,319	8,720,484	7,107,007	15,827,491
Évora Municipality	868,431	5,813,391	6,588,909	13,270,731	1,118,450	14,389,181
Chaves Municipality	1,849,095	3,634,253	4,301,056	9,784,403	3,672,118	13,456,521
Loures Municipality	1,525,995	943,497	7,655,197	10,124,689	4,249,557	14,374,247
Seixal Municipality	127,533	3,978,456	6,405,128	10,511,117	1,293,083	11,804,199
Fundão Municipality	5,496,751	1,389,162	706,496	7,592,409	2,207,196	9,799,605
Loulé Municipality	-	448,054	6,967,146	7,415,200	1,251,079	8,666,279
Olhão Municipality	170,627	329,057	863,933	1,363,617	6,948,279	8,311,896
Guarda Municipality	706,794	1,256,539	755,742	2,719,075	5,362,924	8,081,999
Aveiro Municipality	-	64,274	325,467	389,741	7,016,632	7,406,373
Setúbal Municipality	1,957,668	2,394,033	2,487,715	6,839,417	402,602	7,242,019
Lagoa Municipality	-	248,504	650,957	899,461	6,309,784	7,209,245
Barreiro Municipality	-	2,962,858	3,403,779	6,366,637	651,031	7,017,668
Lagos Municipality	-	62,435	5,863,367	5,925,802	872,722	6,798,524
Alenquer Municipality	2,239,567	8,992	3,434,861	5,683,420	844,650	6,528,070
V. R. S. António Municipality	61,085	244,641	224,607	530,333	5,288,144	5,818,476
Vila Real Municipality	343,350	210,208	3,740,159	4,293,718	1,424,969	5,718,687
Alcobaça Municipality	197,439	1,870,755	1,280,075	3,348,269	1,886,240	5,234,510
Taviraverde, EM	47,447	39,137	1,130,227	1,216,811	3,547,421	4,764,232
Palmela Municipality	-	336,000	2,598,896	2,934,896	1,564,444	4,499,339
Caminha Municipality	998,235	1,413,067	1,818,200	4,229,502	245,180	4,474,682
FAGAR, EM	-	918,994	1,273,279	2,192,273	2,090,030	4,282,303
Covilhã Municipality	2,369,622	473,584	1,239,340	4,082,547	166,465	4,249,011
Santa Maria da Feira Municipality	2,668	13,012	121,719	137,399	4,040,248	4,177,647
Nazaré Municipality	755,485	1,296,134	1,287,515	3,339,134	670,577	4,009,711
Sesimbra Municipality	1,396	1,566,080	2,018,708	3,583,393	419,163	4,002,556
Sintra Municipality	2,185,656	2,519	-	2,188,175	2,813,580	5,001,755
Azambuja Municipality	1,845,737	183,900	1,007,520	3,037,157	546,214	3,583,371
Odivelas Municipality	117,300	-	2,622,573	2,739,873	746,024	3,485,897
Portalegre Municipality	-	73,613	527,014	600,627	2,857,471	3,458,098
Macedo de Cavaleiros Municipality	-	976,645	1,851,391	2,828,036	346,440	3,174,475
VRSA SGU EM, S.A.	-	235,752	1,007,491	1,243,242	1,868,004	3,111,247
Trofa Municipality	2,677	474,174	987,584	1,464,435	1,513,420	2,977,854
Mirandela Municipality	-	-	2,050,603	2,050,603	925,064	2,975,667
Silves Municipality	-	56,102	2,269,736	2,325,838	617,594	2,943,433
Coimbra Municipality	206,466	28,742	7,635	242,843	2,643,511	2,886,354
Arruda dos Vinhos Municipality	296,050	631,079	1,544,184	2,471,313	307,306	2,778,619
Montijo Municipality	232	-	696,362	696,594	1,875,949	2,572,542
Óbidos Municipality	346,154	772,645	1,315,471	2,434,270	138,243	2,572,513
Valpaços Municipality	343,639	15,244	399,518	758,401	1,770,974	2,529,375
R. de Monsaraz Municipality	209,614	982,820	1,148,948	2,341,383	176,959	2,518,342
Ovar Municipality	-	-	5,848	5,848	2,391,562	2,397,410
Vila Nova de Gaia Municipality	-	-	555,020	555,020	1,734,707	2,289,727
Alcochete Municipality	267,977	911,002	921,970	2,100,949	184,382	2,285,331
Figueira de Castelo Rodrigo Municipality	749,880	611,881	337,217	1,698,978	564,981	2,263,959
Estarreja Municipality	-	34,465	90,770	125,234	2,124,763	2,249,997
Gouveia Municipality	1,072,599	469,098	222,503	1,764,200	393,180	2,157,380
Penamacor Municipality	832,772	515,255	378,160	1,726,187	416,296	2,142,483
Seia Municipality	31,548	250,428	672,860	954,836	1,089,495	2,044,331
Ílhavo Municipality	-	64,891	491,249	556,140	1,465,364	2,021,505
Balance less than 2 million euros	7,661,636	9,949,858	42,636,817	60,248,312	46,372,972	106,621,284
	35,889,125	49,594,920	156,406,416	241,887,671	152,287,675	394,175,344

Where applicable, the balances also include the balances of municipal companies.

As regards recoverability from customers (municipalities) in debt, especially those already matured, refer to the information described in note 52.1.

18.4 Impairment losses on customers

	31.12.2011	31.12.2010
Impairment losses on customers		
Opening balance	(9,139,322)	(19,594,177)
Increase	(4,052,437)	(2,566,981)
Decrease	5,748	2,315,968
Transfer	-	-
Reclassification	-	(361,020)
Reversals	216,196	318,797
Conversion differences	351	(854)
Exclusions from perimeter	-	10,748,945
Closing balance	(12,969,464)	(9,139,322)

19. State and other public entities

	31.12.2011	31.12.2010
Corporate income tax - tax withheld by third parties	2,451,170	1,551,531
VAT receivable	11,462,049	10,616,707
Other	292,134	217,106
State and other public entities - assets	14,205,353	12,385,344
Tax withheld on behalf of third parties - corporate income tax	(1,453,010)	(1,527,562)
VAT payable	(2,401,796)	(1,538,588)
Social security contributions	(1,817,644)	(2,105,628)
Local government contribution	(45,469)	(49,639)
TRH / TGR	(21,951,149)	(22,009,458)
Other taxation and taxes	(1,531,248)	(1,814,424)
State and other public entities - liabilities	(29,200,317)	(29,045,299)
Net balance of State and other public entities	(14,994,964)	(16,659,956)

20. Other current assets

	31.12.2011	31.12.2010
Advance payments to suppliers	747,692	1,136,188
Personnel	314,387	369,913
Leasing	37,063	46,151
Loans to subsidiaries not consolidated	1,819,945	1,383,246
Other receivables	89,171,110	63,212,990
Investment grants - Cohesion Fund and others	138,446,050	150,579,913
Advance payments to investment suppliers	1,711,731	7,926,387
Deferrals	8,271,280	9,605,489
Accumulated impairment losses	(7,535,991)	(6,444,917)
	232,983,266	227,815,360
Debt discount	2,753,711	-
	235,736,978	227,815,360

i) The "Other receivables" heading includes the increase from the debit of the fine levied on the construction company Opway for the Guia WWTP, in the amount of 10,126,967 euros. During 2011, the amount of 6,188,122 euros was received from the sale of the Aquapor group, and also the amount of 1,225,000 euros from FIPAG for the sale of Águas de Moçambique.

ii) The subsidiaries with amounts receivable from the Cohesion Fund are as follows:

	31.12.2011	31.12.2010
Águas do Algarve, S.A.	10,779,621	13,293,506
Águas do Centro Alentejo, S.A.	10,641,126	4,174,228
Águas do Centro, S.A.	2,507,742	7,101,479
Águas do Norte Alentejano, S.A.	12,228,913	7,939,709
Águas do Noroeste, S.A.	31,495,550	26,452,812
Águas do Oeste, S.A.	20,201,463	23,928,175
Águas de Trás-os-Montes e Alto Douro, S.A.	4,648,285	21,033,652
Águas do Zêzere e Côa, S.A.	10,513,131	126,183
AgdA - Águas Públicas Alentejo, S.A.	5,000,201	-
Algar, S.A.	1,490,333	1,914,851
Amarsul, S.A.	820,936	277,243
Ersuc, S.A.	5,274,514	4,217,966
Resinorte, S.A.	3,037,261	4,508,324
Simarsul, S.A.	1,446,185	1,440,695
Simlis, S.A.	-	6,594,165
Simria, S.A.	2,759,380	7,333,420
Simtejo, S.A.	9,138,068	9,772,387
Suldouro, S.A.	2,141,118	7,152,701
Valnor, S.A.	-	1,300,180
Valorlis, S.A.	4,322,223	2,018,236
Total	138,446,050	150,579,913

iii) There was a decrease in advances to investment suppliers in 2011 due to the fact that some investments that were planned for 2012 were postponed to 2014 and 2015. Thus, the advances that existed in 2010 were "consumed" with the completion of these investments. The table below details the advances by subsidiary existing on 31 December 2011:

	31.12.2011	31.12.2010
Algar, S.A.	186,352	1,510,522
Amarsul, S.A.	569,961	2,289,983
Resulima, S.A.	101,027	1,689,807
Suldouro, S.A.	72,311	522,626
Águas do Algarve, S.A.	61,677	142,275
Águas do Douro e Paiva, S.A.	-	424,059
Águas do Noroeste, S.A.	206,230	219,535
Águas do Oeste, S.A.	514,174	4,711
EPAL, S.A.	-	693,927
Valorlis, S.A.	-	428,943
	1,711,731	7,926,387

20.1 Impairment losses on other current assets

	31.12.2011
Opening balance	(6,444,917)
Increases	(1,716,509)
Reversals	416,070
Reclassification	209,364
Closing balance	(7,535,991)

21. Cash and cash equivalents

	31.12.2011	31.12.2010
Cash	678,249	1,393,724
Current accounts	47,586,672	51,773,491
Term deposits	238,008,654	425,673,152
	286,273,575	478,840,367

22. Share capital

The capital amounting to 434.5 million euros consists of 86,900,000 shares of 5 euros each, and it is fully paid up.

22.1 Shareholders

31.12.2011	Value	%
Parpública, S.G.P.S., S.A.	313,613,590	72.18%
Parcaixa, S.G.P.S, S.A.	82,555,000	19.00%
Direção Geral do Tesouro (DGT)	38,331,410	8.82%
	434,500,000	100.00%

22.2 Earnings per share

	31.12.2011	31.12.2010
Net profit for financial year	89,602,511	79,459,018
Average number of shares	86,900,000	86,900,000
Earnings per share (basic and diluted)	1.03	0.91

23. Reserves and other adjustments

	31.12.2011	31.12.2010
Legal reserves	11,530,460	10,163,282
Free reserves	-	19,000,764
Currency conversion reserve	(33,308)	89,429
	11,497,153	29,253,474

	31.12.2010	Increases/ Reductions	Dividends	Appropriation of net profit	31.12.2011
Legal reserves	10,163,282	-	-	1,367,178	11,530,460
Free reserves	19,000,764	-	(19,000,764)	-	-
Currency conversion reserve	89,429	(122,737)	-	-	(33,308)
	29,253,475	(122,737)	(19,000,764)	1,367,178	11,497,153
Retained earnings	151,060,893	(450,910)	(7,999,236)	78,091,840	220,702,587
Net profit	79,459,018	89,602,511	-	(79,459,018)	89,602,511
	230,519,911	89,151,601	(7,999,236)	(1,367,178)	310,305,098
	259,773,386	89,028,864	(27,000,000)	-	321,802,251

	31.12.2011	31.12.2010
Currency conversion reserve		
Opening balance	89,429	3,749,355
Movements in year:		
- Águas do Brasil, S.A.	49,267	(70,145)
- Aquatec, Lda.	(172,004)	(10,947)
- Águas de Moçambique, S.A.R.L.	-	(3,578,834)
Closing balance	(33,308)	89,429

24. Retained earnings

	31.12.2011
Opening balance	151,060,893
Net profit	78,091,840
Dividends paid	(7,999,236)
Other variations	(450,910)
Closing balance	220,702,587

The amount recorded in "Other changes" in retained earnings concerns EPAL, amounting to 248,640 euros and regarding the effect of changing the tax rate on temporary differences previously recorded under reserves, namely legal and free revaluation reserves. The remaining amount of 202,270 euros is related to changes in contribution rates.

25. Non-controlling interests

	31.12.2011
Opening balance	234,196,760
Dividends distributed	(12,507,752)
Profit	50,393,094
Change in contribution rate	1,772,289
Share capital increase	4,282,441
Closing balance	278,136,832

26. Provisions

	31.12.2011	31.12.2010
Provisions - Tax	95,183	83,388
Provisions - Legal cases	557,673	546,696
Provisions - Occupational accidents	154,578	149,986
Provisions - Other	14,892,263	12,631,656
	15,699,696	13,411,726

26.1 Movements in the period

	31.12.2010	Increases	Decreases	Reversals	Exchange rate	31.12.2012
Tax	83,388	11,794	-	-	-	95,183
Legal cases	546,696	186,212	(10,100)	(165,135)	-	557,673
Occupational accidents	149,986	4,591	-	-	-	154,578
Other	12,631,656	4,458,146	(72,531)	(2,129,705)	4,698	14,892,263
	13,411,726	4,660,743	(82,631)	(2,294,840)	4,698	15,699,696

The companies that contributed to the movement of provisions were:

	31.12.2010	Increase	Decrease	Reversals	Exchange rate	31.12.2011
Águas do Algarve, S.A.	428,309	428,309	-	-	-	856,618
Águas do Norte Alentejano, S.A.	567,753	-	-	(520,835)	-	46,918
AdP SGPS, S.A.	6,218,798	528,774	-	(1,218,798)	-	5,528,774
AdP Internacional, S.A.	1,327,455	-	-	-	-	1,327,455
AdP Serviços, S.A.	552,130	290,471	(8,964)	-	-	833,637
Águas de Santo André, S.A.	1,165	2,172,245	-	-	-	2,173,410
Águas do Zêzere e Côa, S.A.	110,031	-	(63,567)	(46,464)	-	-
Aquatec, Lda.	18,899	-	-	-	4,698	23,597
EGF, S.A.	1,394,738	600,000	-	(243,608)	-	1,751,130
EPAL, S.A.	1,672,000	-	-	(100,000)	-	1,572,000
Ersuc, S.A.	-	155,112	-	-	-	155,112
Sanest, S.A.	340,378	-	-	-	-	340,378
Simlis, S.A.	-	283,234	-	-	-	283,234
Total	12,631,656	4,458,146	(72,531)	(2,129,705)	4,698	14,892,263

The increase of the provision in the amount of 428,309 euros by the subsidiary Águas do Algarve refers to studies conducted on downstream activity, where the probability of generating future economic benefits is quite low.

The subsidiary Águas do Norte Alentejano set up a provision in 2010 for some balances that had a significant age. This provision was reversed as a result of a court decision favourable to the Company.

In the holding company, a provision was set up in the amount of 528,774 euros to cover tax contingencies. The amount of 1,218,798 euros was also reversed, a provision made in previous years to meet the ongoing projects which was no longer to be continued in 2011.

In 2011, Águas de Santo André set up a provision amounting to 2,172,245 euros to cover the cost of treatment of sludge from its wastewater treatment plants.

EGF increased the provision it had established in 2010 (1,090,439 euros) to deal with the negative performance of the EGF office in Maputo, amounting to 600,000 euros. Moreover, the Company reversed the provision made in 2010 to cover losses on the disposal of shares in Resinorte to Amave, amounting to 243,608 euros.

27. Pension liabilities

	31.12.2011	31.12.2010
Provision for EPAL early retirements	12,119,946	12,640,738
EGF pension fund	-	-
	12,119,946	12,640,738

The overall liabilities (EPAL) are covered by the assets of the pension fund and a specific provision recorded as a liability, in the amount of 12,119,946 euros. In non-current assets (note 16), a surplus of coverage of the defined benefits plan is recorded, in the amount of 2,729,037 euros. The difference between these two amounts is the value shown in note 27.1.2. as a provision for liabilities.

27.1 Defined benefit

27.1.1 Actuarial assumptions

	EPAL 31.12.2011	EGF 31.12.2011	EPAL 31.12.2010	EGF 31.12.2010
Normal retirement age	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	4.50%	4.10%	4.50%	5.00%
Discount rate	4.75%	4.50%	4.50%	4.50%
Wage growth rate	0% in 2012 and 2013; 2.5% in subsequent years	-	2.50%	-
Social Security wage growth rate	0% in 2012 and 2013; 2.5% in subsequent years	-	2.50%	-
Pension growth rate	0% in 2012 and 2013; 1.25% in subsequent years	1.00%	1.25%	1.00%
Early retirement contributions growth rate	0% in 2012 and 2013; 2.5% in subsequent years	-	2.50%	-

27.1.2 Fund summary

	31.12.2011			31.12.2010		
	EPAL	EGF	Total	EPAL	EGF	Total
Liability at end of period	42,943,162	602,284	43,545,446	47,786,569	648,279	48,434,848
Value of assets at end of period	(35,360,261)	(602,308)	(35,962,569)	(36,267,749)	(651,211)	(36,918,960)
Actuarial gains/(losses) not recognised	1,808,008		1,808,008	1,121,918	-	1,121,918
Provision for liabilities (a)	9,390,909	(24)	9,390,885	12,640,738	(2,932)	12,637,806

(a) see explanation in note 27 above.

The EGF pension fund has a level of financing greater than its liabilities. The difference does not contribute to the provision of the balance sheet.

27.1.3 Change in liabilities

	31.12.2011			31.12.2010		
	EPAL	EGF	Total	EPAL	EGF	Total
Liabilities at beginning of period	47,786,569	648,279	48,434,848	48,900,000	650,207	49,550,207
Change to discount rate	-	-	-	-	27,646	27,646
Current services cost	233,000	-	233,000	249,000	-	249,000
Interest costs	2,030,000	26,507	2,056,507	2,419,000	32,545	2,451,545
Recognition of new early retirements	584,000	-	584,000	1,752,862	-	1,752,862
Actuarial (Gains)/Losses	(2,476,806)	45,972	(2,430,834)	24,707	54,822	79,529
Benefits paid	(5,213,601)	(118,474)	(5,332,075)	(5,559,000)	(116,941)	(5,675,941)
Liabilities at end of period	42,943,162	602,284	43,545,446	47,786,569	648,279	48,434,848

27.1.4 Change in fund assets

	31.12.2011			31.12.2010		
	EPAL	EGF	Total	EPAL	EGF	Total
Value at the beginning of the period	36,267,749	651,211	36,918,960	35,042,872	699,744	35,742,616
Fund's return	1,584,415	5,174	1,589,589	1,785,000	8,606	1,793,606
Contributions to the fund	1,312,643	63,000	1,375,643	2,069,659	60,978	2,130,637
Actuarial gains and losses	(1,616,131)	-	(1,616,131)	(566,782)	-	(566,782)
Benefits paid	(2,188,415)	(117,077)	(2,305,492)	(2,063,000)	(118,117)	(2,181,117)
Value at end of the period	35,360,261	602,308	35,962,569	36,267,749	651,211	36,918,960

The rate of return on the plan's assets is determined based on the expected return on assets, according to the established investment policy. Yields of long-term Treasury Bonds are used, as well as the 6-month Euribor rate (short-term yield), rates of return on equity instruments and investment properties that reflect long-term real rates, based on the experience and maturity of the respective markets.

27.1.5 Costs for the period

	31.12.2011			31.12.2010		
	EPAL	EGF	Total	EPAL	EGF	Total
Current services cost	233,000	-	233,000	249,000	-	249,000
Interest costs	2,030,000	26,507	2,056,507	2,419,000	32,545	2,451,545
Return on assets	(1,584,000)	(5,174)	(1,589,174)	(1,785,000)	(8,606)	(1,793,606)
Recognition of new early retirements	584,000	-	584,000	1,753,000	-	1,753,000
Actuarial gains and losses	(175,000)	-	(175,000)	(5,000)	-	(5,000)
Total	1,088,000	21,333	1,109,333	2,631,000	23,939	2,654,939

27.1.6 Composition of fund assets

	31.12.2011	31.12.2010
Equity instruments	11,528,244	11,421,234
Debt instruments	22,243,485	19,017,987
Other	2,190,840	6,479,739
	35,962,569	36,918,960

27.1.7 Development of liabilities over the last five financial years

	31.12.2011	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Liabilities at end of the period	42,943,162	48,434,848	49,550,207	51,360,779	89,158,229
Value of assets at end of period	35,360,261	36,918,960	35,742,744	33,931,212	49,255,217
Actuarial gains and losses not recognised	(1,808,008)	(1,121,918)	(1,745,126)	1,828,240	14,550,802
Excess hedging	(24)	(2,932)	(49,537)	(41,425)	(39,828)
Provision for Águas de Moçambique		-	110,351	-	-
Provision for liabilities	9,390,885	12,640,738	15,712,477	15,642,752	25,392,038

Post-employment benefits of EPAL - 2007/2008 change

Early retirement

During the first half of 2008 EPAL changed the criteria / assumptions related to the accounting of the Company's liabilities with those who retired early. It was assumed prior to that time that each year a number of employees representing 10% of the total wages of those eligible for early retirement would indeed take early retirement, and this assumption contributed to calculating the respective liabilities. As this was not aligned with reality, only the liabilities of those effectively taking early retirement were regarded as a provision. When an employee takes early retirement the full associated liability is recognised in the year.

EPAL pension fund

Also during the first half of 2008, the Pension Plan was amended from a Defined Benefit (DB) Plan to a Joint Defined Benefit and Defined Contribution (DC) plan. Thereafter, the portion of liabilities corresponding to the Company's DB plan relating to employees currently in DC was reduced, as well as the corresponding value of the Fund, as it was transferred to individual accounts of the employees assigned to the DC Plan, as per agreement between the Company and the organisations representing the employees of EPAL.

27.2 Defined contribution

The contributions of the Company during the financial year amounted to 536,298 euros (502,742 euros in EPAL and 33,556 euros in EGF). Moreover, the employees made individual contributions in the amount of 32,583 euros (26,390 euros in EPAL and 6,193 euros in EGF).

28. Loans

Non-current		31.12.2011	31.12.2010
Bank loans - EIB	28.1/28.2	1,646,960,108	1,606,082,801
Bank loans - Commercial banks		-	-
Bond issues	28.1/28.2	500,000,000	500,000,000
Other bank loans and private placement of debt	28.1/28.2	196,548,746	285,644,937
Other loans		526,467	680,245
Bank loans		2,344,035,320	2,392,407,984
Amounts owed to leasing companies	28.3	21,028,348	23,649,853
Total non-current loans		2,365,063,667	2,416,057,836
Current		31.12.2011	31.12.2010
Bank overdrafts		227,106,412	177,814,198
Bank loans	28.1/28.2	382,794,272	327,884,637
Other loans		175,911	175,911
Bank loans		610,076,595	505,874,746
Amounts owed to leasing companies	28.3	2,761,006	3,500,372
Total current loans		612,837,601	509,375,118
Total bank loans		2,954,111,915	2,898,282,730
Total loans		2,977,901,268	2,925,432,955

Foreign currency loans and bond issues are subject to ownership clauses which state that any changes in the shareholder structure of the Company can lead to immediate debt maturity.

For financing contracts concluded with the EIB, the AdP Group undertakes, in addition to the usual constraints (payment default, compliance with general and environmental law, cross default, pari passu, negative pledge, making false statements, bankruptcy, insolvency, liquidation, material changes), to implement:

- Changes in the shareholder structure of the companies of the AdP Group;
- Changes due to spin-off, merger or sale of companies;
- Changes in the assets of companies;
- Change/termination of businesses;
- Changes in the shareholder structure of AdP/EGF;
- Operations performed with a surety/guarantee of AdP/EGF;
- Compliance with obligations defined in the Concession/Management agreements;
- Changes in turnover of the companies.

Moreover, and in connection with such financing agreements, the Portuguese Republic is the guarantor of the AdP group to the Bank for the timely and full implementation of all financial obligations and payments.

28.1 Bank loans by maturity

	31.12.2011	31.12.2010
Non-current		
Bank loans - EIB	1,646,960,108	1,606,082,801
Bank loans - Commercial banks	-	-
Bond issues	500,000,000	500,000,000
Other bank loans and private placement of debt	196,548,746	285,644,937
Current		
Bank loans	382,794,272	327,884,637
	2,726,303,125	2,719,612,375
By maturity	31.12.2011	31.12.2010
Up to 1 year	382,794,272	327,884,636
From 1 to 2 years	68,785,083	58,346,922
From 2 to 3 years	85,408,349	60,907,258
From 3 to 4 years	68,348,816	82,180,803
From 4 to 5 years	78,754,453	63,376,424
More than 5 years	2,042,212,153	2,126,916,332
	2,726,303,125	2,719,612,375

28.2 Bank loans by type of interest rate

	31.12.2011	31.12.2010
Floating interest rate		
Up to 1 year	344,223,222	291,476,742
From 1 to 2 years	27,197,712	20,774,900
From 2 to 3 years	41,409,090	18,987,689
More than 3 years	1,221,810,884	1,177,484,194
	1,634,640,907	1,508,723,525
Fixed interest rate	31.12.2011	31.12.2010
Up to 1 year	38,571,050	36,407,894
From 1 to 2 years	41,587,371	37,572,022
From 2 to 3 years	43,999,259	41,919,569
More than 3 years	967,504,538	1,094,989,365
	1,091,662,218	1,210,888,849
	2,726,303,125	2,719,612,375

28.3 Leasing

	31.12.2011	31.12.2010
Leasing		
Current	2,761,006	3,500,372
Non-current	21,028,348	23,649,853
	23,789,354	27,150,225

Amount outstanding by type of asset purchased	31.12.2011	31.12.2010
Buildings and other constructions	21,531,158	23,023,061
Basic equipment	1,066,145	2,195,887
Transport equipment	1,162,511	1,870,522
Office equipment	29,540	60,755
	23,789,354	27,150,225
Future minimum payments	31.12.2011	31.12.2010
Up to 1 year	3,207,273	3,821,721
From 1 to 5 years	8,664,052	9,424,943
More than 5 years	14,729,801	15,954,892
	26,601,126	29,201,556
Interest	31.12.2011	31.12.2010
Up to 1 year	446,265	321,350
From 1 to 5 years	1,337,304	918,410
More than 5 years	1,028,199	811,572
	2,811,768	2,051,332
Present value of minimum payments	31.12.2011	31.12.2010
Up to 1 year	2,761,009	3,500,372
From 1 to 5 years	7,326,743	8,506,533
More than 5 years	13,701,602	15,143,320
	23,789,354	27,150,225

29. Suppliers and other non-current liabilities

	31.12.2011	31.12.2010
Investment suppliers	30,684,173	32,252,524
Other payables	152,934,098	138,559,463
	183,618,271	170,811,987

The main subsidiaries owing amounts to other creditors are:

	31.12.2011	31.12.2010
Águas do Centro Alentejo, S.A.	2,209,278	2,323,878
Águas do Centro, S.A.	26,493,415	40,481,114
Águas do Mondego, S.A.	6,367,862	7,340,700
AdRA - Águas Região de Aveiro, S.A.	50,106,061	56,267,688
Águas de Santo André, S.A.	6,895,319	7,152,722
Simtejo, S.A.	-	5,814,311
Valnor, S.A.	34,221	34,221
Águas do Algarve, S.A.	3,472,118	3,464,125
Águas do Norte Alentejano, S.A.	1,075,324	1,128,786
AgdA - Águas Públicas Alentejo, S.A.	6,908,761	6,048,007
Simarsul, S.A.	6,617,208	7,440,378
Simdouro, S.A.	41,796,210	642,733
Valorminho, S.A.	385,124	416,551
Other	573,195	4,249
	152,934,098	138,559,463

The payables relate to amounts owed to municipalities for the integration of assets into the multi-municipal systems. The largest increase occurred with respect to the subsidiary Simdouro, which integrated assets in the 2011 financial year.

30. Accrued contractual investment costs

As stated in note 2.5.3, based on the concession agreements and management of partnerships and in accordance with regulatory requirements, and whenever applicable, the companies recognise the annual share of estimated expenditure relating to contractual expenses on investments not yet realised or on expansion and modernisation investments approved or imposed by the Concession Grantor. Thus, the increased costs of contractual investment that are to be recognised are expressed in the following table:

	31.12.2011	31.12.2010
UNA-PD		
Águas do Algarve, S.A.	40,970,257	50,506,847
Águas do Centro Alentejo, S.A.	2,414,708	1,476,903
Águas do Centro, S.A.	6,488,702	-
Águas do Douro e Paiva, S.A.	22,420,069	21,375,666
Águas do Mondego, S.A.	11,168,706	17,852,668
Águas do Norte Alentejano, S.A.	7,518,636	10,262,273
Águas do Noroeste, S.A.	37,149,085	43,771,162
Águas do Oeste, S.A.	9,568,303	19,081,042
Águas de Santo André, S.A.	11,549,658	11,615,177
Águas de Trás-os-Montes e Alto Douro, S.A.	23,512,821	-
Águas do Zêzere e Côa, S.A.	21,990,469	30,292,610
AgdA - Águas Públicas Alentejo, S.A.	4,791,839	280,527
Sanest, S.A.	50,208,003	45,477,751
Simarsul, S.A.	7,363,739	15,012,172
Simdouro, S.A.	1,326,892	-
Simlis, S.A.	2,281,010	1,875,794
Simria, S.A.	4,388,433	16,901,694
Simtejo, S.A.	60,467,049	75,749,110
	325,578,377	361,531,398
UNA-DR		
AdRA - Águas Região de Aveiro, S.A.	10,767,431	4,097,901
	10,767,431	4,097,901
UNR		
Algar, S.A.	32,470,337	42,282,898
Amarsul, S.A.	26,218,518	27,293,936
Ersuc, S.A.	33,092,446	26,472,101
Resiestrela, S.A.	2,864,276	2,386,252
Resinorte, S.A.	10,844,996	10,225,175
Resulima, S.A.	10,915,939	10,139,326
Suldouro, S.A.	21,680,493	18,676,648
Valnor, S.A.	7,847,508	7,025,658
Valorlis, S.A.	6,890,233	8,409,773
Valorminho, S.A.	3,326,486	3,382,154
Valorsul, S.A.	53,512,406	49,131,342
	209,663,638	205,425,262
	546,009,446	571,054,561

31. Investment grants

		31.12.2011	31.12.2010
Investment grants - Cohesion Fund	31.1	1,659,095,185	1,577,458,422
Investment grants - Other	i)	27,984,514	16,611,824
Integration of assets	ii)	263,704,453	248,401,604
		1,950,784,151	1,842,471,849

i) The change in other grants is mainly due to the subsidiaries Resiestrela, which increased other grants in the amount of 3,698,318 euros and Valnor, in the amount of 4,496,386 euros.

ii) The increase in grants for the integration of assets is explained by the integration of the assets of Simdouro; the integration grant for this subsidiary was 42,258,261 euros.

31.1 Movements in the period

	Valor
Investment grants at 31 December 2010	1,577,458,422
Recognition of right to fund	148,315,601
Recognition of income	(62,245,900)
Corrections to recognitions	a) (4,432,937)
Investment grants at 31 December 2011	1,659,095,185
Income at 31 December 2011	150,406,646

a) The subsidiaries that made corrections of grants were as follows:

Corrections	Valor
Sanest, S.A.	(4,352,574)
Águas do Zêzere e Côa, S.A.	(4,262,099)
Águas do Centro, S.A.	(4,390,733)
Algar, S.A.	8,609,017
Águas do Oeste, S.A.	(643,913)
Other	607,364
	(4,432,937)

The above-indicated corrections in the amount of 4,432,937 euros mainly relate to:

i) In the subsidiary Sanest, the amount of 4,352,574 euros was found to be classified as a Cohesion Fund grant when it should really be classified as other investment grants;

ii) In the subsidiaries Águas do Zêzere e Côa (4,262,099 euros), Águas do Centro (4,390,733 euros) and Águas do Oeste (643,913 euros) the grants that would no longer be received were settled;

iii) The amount of the positive correction of 8,609,017 euros of Algar refers to a grant that was not estimated to be received.

31.2 Amounts imputed to profit for the period

		31.12.2011	31.12.2010
Investment grants - Cohesion Fund	31.1	62,245,900	56,474,043
Investment grants - Other		3,882,613	7,219,234
Integration of assets		14,694,736	3,444,609
		80,823,249	67,137,886

32. Suppliers

	31.12.2011	31.12.2010
Suppliers trade accounts - general	41,887,767	60,195,853
Investment suppliers	79,029,050	92,538,649
Suppliers - Invoices in received and being checked	1,853,283	4,591,067
Other supplier balances	2,418,865	1,459,093
	125,188,965	158,784,662

The greatest reduction in the heading "Suppliers trade accounts - general", in the amount of 15,111,119 euros, is directly related to the completion of the construction of the EPAL laboratory.

The amounts recorded under "Investment suppliers" relate to debts to municipalities owing to the integration of assets in the multi-municipal systems (non-current debts are shown in note 29). The table below shows the most significant changes in the Group:

	31.12.2011	31.12.2010
Águas do Algarve, S.A.	4,808,127	11,961,652
Ersuc, S.A.	1,110,879	7,408,867
Águas do Noroeste, S.A.	5,691,129	11,486,629
Amarsul, S.A.	462,859	3,036,095
Simtejo, S.A.	6,357,765	8,019,618
Águas do Douro e Paiva, S.A.	608,672	2,348,759
Suldouro, S.A.	582,612	1,888,954
Águas do Mondego, S.A.	12,149,532	4,627,873
Águas de Trás-os-Montes e Alto Douro, S.A.	8,638,617	8,449,971
Águas do Zêzere e Coa, S.A.	8,643,841	8,780,576
Simarsul, S.A.	7,879,632	2,962,906
Valnor, S.A.	4,015,874	2,425,835
Valorsul, S.A.	4,612,884	3,615,634
Other subsidiaries	13,466,627	15,525,280
	79,029,050	92,538,649

33. Other current liabilities

		31.12.2011	31.12.2010
Advance payments from customers		878,384	63,263
Increase of personnel costs	i)	8,829,670	16,278,881
Shareholders	ii)	2,213,481	244,457
Other payables	iii)	103,735,259	93,963,568
Deferrals	iv)	22,003,263	8,608,074
		137,660,057	119,158,242

i) The reduction in "increase of personnel costs" is explained mostly by the fact that the Group has complied with the 2012 State Budget law, which established the non-payment of holiday allowances in 2012. This is estimated in the preceding year;

ii) The change in "shareholders" is primarily due to dividends available and not yet paid. It is broken down among the following Group companies:

	31.12.2011	31.12.2010
AgdA - Águas Públicas Alentejo, S.A.	7,218	-
Ersuc, S.A.	8,681	-
Resinorte, S.A.	258	258
Aquasis, S.A.	1,118	1,118
Sanest, S.A.	1,419,540	-
Simtejo, S.A.	388,416	-
Valnor, S.A.	280,263	-
Valorsul, S.A.	107,987	243,081
	2,213,481	244,457

iii) The main items of "Other payables" are:

		31.12.2011	31.12.2010
Other payables - Other creditors - Others	a)	54,419,934	39,439,606
Other payables - Advance payments on sales		-	3,545
Other payables - Creditors on expense increases	b)	41,445,509	52,556,038
Other payables - ODC - Suppliers deposits	c)	5,243,297	-
Other payables - ODC - Other deposits		2,626,519	1,964,377
Total		103,735,259	93,963,568

a) The main subsidiaries with "Other creditors" balances are:

	31.12.2011	31.12.2010
EPAL, S.A.	13,545,710	13,868,549
Simtejo, S.A.	9,744,120	1,818,865
AdRA - Águas da Região de Aveiro, S.A.	8,265,794	4,508,750
Águas do Centro, S.A.	6,866,375	433,701
Águas de Trás-os-Montes e Alto Douro, S.A.	3,787,808	4,740,277
Simdouro, S.A.	3,107,468	321,366
Other subsidiaries	9,102,660	13,748,098
Total	54,419,934	39,439,606

- The amounts recorded under EPAL are directly related to the amounts charged in the water invoice for Lisbon municipality, with regard to sewerage, in the amount of 13,166,262 euros;
- The net increase in the Simtejo balance refers to the amount to be paid to municipalities for the integration of assets; this decision was only taken in 2011;
- The amount recorded for AdRA - Águas da Região de Aveiro is directly related to updating the liability recorded against intangible assets, calculated based on the EVEF for the update of the consideration over the 50 years of partnership and calculation of interest on the advance payment to municipalities;
- The balance of 6,866,375 euros recorded by the subsidiary Águas do Centro concerns the provision to pay the municipality of Castelo Branco next year;
- 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;
- In Simdouro the amount refers to the rent payable for the reimbursement of upstream sewerage activities;

b) Expense increases include the increases of interest rates, electricity, insurance, etc.; it should be noted that the largest amount refers to Águas do Noroeste, relative to the tariff update with Tratave. The significant decrease was registered in the subsidiary Águas do Centro which reclassified 9,818,000 euros that was under this heading and which concerned the contractual investment not yet performed;

c) In supplier deposits, the large increase is due to the deposit made to Águas do Noroeste in the amount of 4,418,520 euros;

The significant increase of the "Deferrals" item is mainly a result of the deferral of revenue of lower values of Águas do Oeste in the amount of 8,912,581 euros, and the deferral of the amount of the update of amounts paid by Águas do Centro to the municipality of Castelo Branco, in the amount of 7,317,557 euros.

34. Income tax

	31.12.2011	31.12.2010
Income tax - Liabilities	20,849,772	43,219,244
	20,849,772	43,219,244

Corporate income tax for the period There are no outstanding sums owed to the tax authorities.

35. Sales and services rendered by business area

The increase of sales and services rendered is the result of the entry into operation of various infrastructures, thereby increasing the installed capacity and the consequent increase in turnover:

	31.12.2011	31.12.2010
Sales		
Water - Production and Purification	170,862,462	162,110,566
Solid Waste	79,942,617	71,795,326
Water - Distribution and Collection	21,504,576	11,693,290
EPAL	133,640,562	137,716,370
International	-	12,898,173
	406,176,565	396,213,724
Services rendered		
Water - Production and Purification	205,404,754	183,920,491
Solid Waste	89,559,242	92,923,573
Water - Distribution and Collection	16,097,092	8,626,926
EPAL	1,383,969	2,006,852
International	1,656,195	2,728,122
Corporate	1,899,773	723,638
	315,774,677	290,929,601
Tariff deviations		
Water - Production and Purification	85,934,029	35,311,598
Solid Waste	16,766,063	(5,876,745)
Water - Distribution and Collection	9,597,254	7,901,421
	35.1	37,336,274
	834,248,588	724,479,599

35.1 Tariff deviations

35.1.1 By nature

Tariff deviations		31.12.2011	31.12.2010
Tariff deviations	35.1.2	68,634,866	37,336,274
Tariff deviations - attributed	35.1.3	43,662,480	-
Gross tariff deviations		112,297,346	37,336,274

35.1.2 Tariff deviations

Gross tariff deviations		31.12.2011	31.12.2010
Water - Production and Purification			
Águas do Algarve, S.A.		3,166,216	(2,155,410)
Águas do Centro Alentejo, S.A.		146,433	1,777,912
Águas do Centro, S.A.		11,498,782	7,589,627
Águas do Douro e Paiva, S.A.		(1,699,901)	(1,741,797)
Águas do Mondego, S.A.		2,577,108	865,954
Águas do Norte Alentejano, S.A.		3,665,918	3,064,032
Águas do Noroeste, S.A.		14,673,730	7,384,268
Águas do Oeste, S.A.		16,170,356	5,211,939
Águas de Trás-os-Montes e Alto Douro, S.A.		9,794,384	5,283,686
Águas do Zêzere e Côa, S.A.		5,091,472	3,144,142
AgdA - Águas Públicas Alentejo, S.A.		345,152	621,433
Sanest, S.A.		(3,772,038)	(754,851)
Simarsul, S.A.		8,284,625	4,975,761
Simdouro, S.A.		2,477,860	646,034
Simlis, S.A.		97,690	2,968,383
Simria, S.A.		4,275,445	(954,982)
Simtejo, S.A.		(4,148,825)	(2,614,533)
Total Water - Production and Purification		72,644,406	35,311,598
Solid Waste			
Algar, S.A.		(1,666,142)	518,903
Amarsul, S.A.		1,272,602	368,999
Ersuc, S.A.		(2,232,021)	(794,549)
Resiestrela, S.A.		(725,578)	(622,776)
Resinorte, S.A.		2,408,233	1,857,441
Resulima, S.A.		(1,754,653)	(546,964)
Suldouro, S.A.		(1,799,413)	(29,616)
Valnor, S.A.		400,941	(1,207,836)
Valorlis, S.A.		(1,103,765)	(618,190)
Valorminho, S.A.		(610,714)	(179,633)
Valorsul, S.A.		(7,796,282)	(4,622,524)
Total Solid Waste		(13,606,794)	(5,876,745)
Water - Distribution and Collection			
AdRA - Águas da Região de Aveiro, S.A.		9,597,254	7,901,421
Total Water - Distribution and Collection		9,597,254	7,901,421
Total		68,634,866	37,336,274

The increase in the value of tariff deviations is directly related to the change in the value of one of the indexing components used in the calculation of the guaranteed income. In 2011, the yield of 10-year treasury bonds was 10.24%, while in 2010 it was 5.42%.

35.1.3 Tariff deviations - attributed

Tariff deviations - attributed	Gross value	Deferred tax	Net value	Majority shareholders	Non-controlling interests
Águas do Douro e Paiva, S.A.	5,406,576	(1,432,743)	3,973,833	(2,026,655)	(1,947,178)
Sanest, S.A.	7,883,048	(2,089,008)	5,794,040	(2,954,960)	(2,839,080)
Valorsul, S.A.	30,372,857	(8,048,807)	22,324,050	(4,742,439)	(17,581,611)
	43,662,480	(11,570,557)	32,091,923	(9,724,054)	(22,367,869)

Águas do Douro e Paiva, S.A.

On 19 April 2011, a further addendum was made to the concession agreement of Águas do Douro e Paiva to also include the municipalities of Amarante and Baião. These municipalities have not yet been made shareholders because the Joint Order of the Ministry of Finance and the Ministry of Agriculture, Sea, Environment and Spatial Planning has not yet been issued to permit the increase of the share capital of the Company. This is expected to be resolved in 2012. This addendum specifically provides for the recognition of the tariff deviations generated in the individual accounts of the Company, notwithstanding productivity gains generated in the meantime under the concession agreement. This recognition resulted in the allocation of 3,973,833 euros of productivity gains, the gross value of which including associated deferred tax is 5,406,576 euros.

Sanest, S.A.

Following the authorisation of the Concession Grantor and in compliance with the provisions of clause 17 of the concession agreement, the Company distributed part of its retained earnings, by way of productivity gains. This recognition resulted in the allocation of 5,794,040 euros of productivity gains, the gross value of which including associated deferred tax is 7,883,048.

Valorsul, S.A.

As a result of the merger of Valorsul with Resioeste, authorised by the Concession Grantor, pursuant to clause 15 of the initial concession agreement of Valorsul and clause 16 of the initial concession agreement of Resioeste, the retained earnings are distributed by way of productivity gains. This recognition resulted in the allocation of 22,324,050 euros of productivity gains, the gross value of which including associated deferred tax is 30,372,857 euros. It is to be noted that the distribution approved at the General Meeting did not take into consideration the percentage holding of each shareholder in the Company.

35.1.4 Net effect on profit

The net effect of tariff deviations (plus the associated "Deferred tax" and "Non-controlling interests"), are broken down as follows in the net profit for the financial year:

	31.12.2011	31.12.2010
(Gross) tariff deviation	112,297,346	37,336,274
Deferred tax	(29,725,731)	(7,763,359)
Non-controlling interests	(41,196,722)	(10,253,606)
Net effect on profit	41,374,893	19,319,309

36. Sales and services rendered by market

	National market	International market	Internal transactions	31.12.2011	31.12.2010
Sales					
Water - Production and Purification	172,818,329	-	(1,955,867)	170,862,462	162,110,566
Solid Waste	79,919,205	23,412	-	79,942,617	71,795,326
Water - Distribution and Collection	21,550,030	-	(45,454)	21,504,576	11,693,290
EPAL	145,650,069	-	(12,009,507)	133,640,562	137,716,370
International	-	-	-	-	12,898,173
	419,937,633	23,412	(14,010,828)	405,950,217	396,213,724
Services rendered					
Water - Production and Purification	216,402,544	930	(10,998,720)	205,404,754	183,920,490
Solid Waste	90,035,304	216,795	(692,857)	89,559,242	92,923,573
Water - Distribution and Collection	16,237,692	-	(140,600)	16,097,092	8,626,926
EPAL	1,388,076	-	(4,107)	1,383,969	2,006,852
International	-	1,656,195	-	1,656,195	2,728,122
Corporate	22,247,123	198,836	(20,546,186)	1,899,773	723,638
	346,310,739	2,072,757	(32,382,470)	316,001,025	290,929,601
Tariff deviations	112,297,346	-	-	112,297,346	37,336,274
Tariff deviations	112,297,346	-	-	112,297,346	37,336,274
	878,545,718	2,096,169	(46,393,300)	834,248,588	724,479,599

37. Sales costs

	31.12.2011	31.12.2010
Cost of goods sold and services rendered - Goods	6,779,915	6,201,553
Cost of goods sold and services rendered – Raw materials	11,769,654	9,317,050
Cost of goods sold and services rendered – Consumables	6,145,761	8,585,313
Cost of goods sold and services rendered – Sundry material	8,254,807	7,252,707
Corrections for previous years	(13,161)	4,889
	32,936,977	31,361,512
Capitalisation of Cost of goods sold and services rendered	(129,602)	(997,141)
	32,807,375	30,364,371
Production variation	92,886	(83,122)
	32,900,261	30,281,249

38. External supplies and services

	31.12.2011	31.12.2010
Subcontracts	33,825,473	34,823,620
Specialised services	66,142,277	83,400,588
Materials	6,581,932	6,997,351
Energy and fluid	72,136,495	61,968,170
Travel and accommodation	3,110,062	3,574,561
Rents	10,796,494	11,599,788
Communication	6,120,949	5,888,824
Insurance	8,329,089	9,845,098
Other	14,088,746	13,351,145
Corrections to previous years	554,130	424,765
	221,685,647	231,873,909
External supplies and services capitalised	(5,421,003)	(7,157,265)
	216,264,644	224,716,644

The "External supplies and services (ESS)" item is about 3% down on the previous year. This reduction was not greater given the significant increase in energy costs in 2011 (over 16%). Without the impact of rising energy costs, the total reduction of ESS would have been approximately 8%. These reductions in nearly all items of ESS took into account the guidelines of the Government for the State-owned enterprises sector in November 2010, to reduce external services and supplies costs by 15% with reference to the year 2009.

39. Personnel expenses

		31.12.2011	31.12.2010
Wages	i)	106,263,103	120,630,878
Wages overheads		21,911,985	24,301,273
Other personnel costs		12,067,642	13,405,939
Prior year corrections	ii)	(167,613)	(1,924,897)
		140,075,118	156,413,193
Personnel expenses capitalised		(8,329,691)	(9,826,634)
		131,745,428	146,586,559

i) The decrease in spending on wages results from the application of Law No. 12-A/201 of 30 June, which aims to reduce the salaries of the governing bodies by 5% and by Law No. 55-A/2010 of 31 December, which aims to reduce the salaries of managers and employees by between 3.5% and 10%, from January 2011. In addition, following the 2012 State Budget Law, the companies did not pay holiday pay in 2012;

ii) The significant amount recorded in 2010 in prior year corrections relates almost entirely to the cancellation/reversal of estimates of 2009 management bonuses, which for legal reasons could not be paid in 2010.

39.1 Remuneration of the governing bodies of AdP SGPS

	31.12.2011	31.12.2010
Board of Directors	594,336	754,566
Audit Committee	57,398	60,323
Statutory Auditor (a)	72,000	80,000
Others (a)	19,340	4,704
	743,074	899,583

(a) The fees of the auditor in 2011 were 72,000 euros (80,000 euros in 2010). The "Others" item shows the amount of VAT of invoices from the statutory auditor in the amount of 8,004 euros. The remainder results from an over-estimation done during the year. The statutory auditor did not receive any fees other than those mentioned above.

The decrease in spending on wages results from the application of Law No. 12-A/2011 of 30 June, which aims to reduce the salaries of the governing bodies by 5% and by Law No. 55-A/2010 of 31 December, which aims to reduce the salaries of managers by 10%, from January 2011. In addition, three directors resigned in 2011, with effective date from 30 November 2011.

39.2 Average number of employees

	31.12.2011	31.12.2010
Governing bodies	148	152
Permanent workers and others	5,352	5,552
	5,500	5,704

The decrease in the average number of employees is explained by the sale of the subsidiary Águas de Moçambique, which contributed in 2010 with 539 employees. Removing this impact, the main increases were due essentially to the following subsidiaries:

	31.12.2010	Increase	31.12.2011
AdRA - Águas da Região de Aveiro, S.A.	165	107	272
AgdA - Águas Públicas do Alentejo, S.A.	46	85	131
Resinorte, S.A.	301	39	340
	512	231	743

In relation to AdRA and AgdA, companies incorporated in 2009, their activity underwent, after an embryonic phase, a significant increase in operational terms. As regards Resinorte, the increase of 39 employees is the result of the integration of AMAVE in the system.

40. Amortisation, depreciation and reversals for the financial year

	31.12.2011	31.12.2010
Amortisation - Investment property	95,882	1,103
Amortisation - tangible assets	26,401,480	26,345,621
Amortisation - intangible assets	2,534,729	3,757,868
Amortisation - DUI	157,384,569	114,316,596
Depreciation of contractual investment	56,974,715	80,626,924
	243,391,375	225,048,112
Reversals, depreciation and amortisation	(174,839)	-
	243,216,536	225,048,112

41. Provisions and reversals in the financial year

		31.12.2011	31.12.2010
Provisions in financial year - tax		11,794	83,388
Provisions in financial year - legal proceedings in progress		186,212	151,974
Provisions in financial year - others	26	4,458,146	3,010,622
		4,656,152	3,245,984
Reversal of provisions - legal proceedings in progress		(165,135)	(10,951,367)
Reversal of provisions - pensions		-	(25,448)
Reversal of provisions - others	26	(2,129,705)	(17,440,935)
		(2,294,840)	(28,417,750)
		2,361,311	(25,171,766)

42. Impairment losses and reversals for the financial year

		31.12.2011	31.12.2010
Impairment losses - Receivables - customers	18.4	4,052,437	5,050,672
Impairment losses - Receivables - other debtors	20.1	1,716,509	436,586
Impairment losses - Inventories - raw materials and consumables	17.1	3,879	-
Impairment losses - Inventories - finished intermediate goods		-	44,438
Impairment losses - Financial investments - MEP	i)	600,896	92,006
Impairment losses - Intangible fixed assets		-	-
Impairment losses - Corrections for previous years		748	-
		6,374,469	5,623,702
Reversal of impairment losses - customers	18.1 and 18.4	(216,196)	(318,797)
Reversal of impairment losses - other debtors	20.1	(416,070)	(96,766)
Reversal of impairment losses - Inventories - goods	17.1	(53,611)	(20,609)
Reversal of impairment losses - Inventories - raw materials and consumables		-	(53,177)
Reversal of impairment losses - Financial investments - Other investments		-	(2,504)
		(685,877)	(491,853)
		5,688,592	5,131,849

i) The impairment loss from financial investments, amounting to 600,896 euros, refers to the increase in the impairment of investments in note 11.1, in the amount of 51,117 euros, and the impairment in the year for the associate Trevo Oeste in the amount of 549,779 euros (see note 12).

43. Other operating expenses and losses

		31.12.2011	31.12.2010
Direct and indirect taxes (i)		9,316,068	9,446,140
Losses on inventories		36,316	57,431
Losses on non-financial investments		729,524	319,880
Donations		450,128	1,167,927
Exchange differences on non-financial transactions		106,823	1,176,450
Other expenses and losses (ii)		1,859,935	13,789,166
Corrections for previous years		521,158	478,791
		13,019,952	26,435,785
Expenses capitalised		(156,050)	(31,200)
		12,863,902	26,404,585

(i) The most significant amounts of direct and indirect taxes are:

	31.12.2011	31.12.2010
Stamp duty	2,236,679	2,096,395
ERSAR duty	4,637,787	4,563,504
Water resources duty	570,723	517,790
Duties	1,083,644	1,016,958
Other	787,235	1,251,493
	9,316,068	9,446,140

(ii) Recorded under "Other expenses and losses" in 2011 was 11,771,514 euros of bad debts related to Águas de Moçambique and its sales process.

44. Other operating income and gains

		31.12.2011	31.12.2010
Additional income	i)	5,497,996	6,956,324
Operating grants		248,939	622,192
Other income and gains		9,548,443	10,342,645
Corrections for previous years		2,326,432	164,769
		17,621,809	18,085,930
Income and gains capitalised		(26,629)	(147,377)
		17,595,181	17,938,553

i) Additional income comprises the following:

		31.12.2011	31.12.2010
Equipment hiring		185,199	233,047
Sale of energy		490,203	626,595
Studies, projects and technological assistance		11,888	119,765
Performance of social duties		3,007	1,924
Social services		12,294	13,276
Other	ii)	4,795,405	5,961,717
		5,497,996	6,956,324

ii) Recorded under "Additional income - other" are works carried out by Group companies on behalf of third parties, as well as some fees charged to those third parties.

45. Financial expenses

		31.12.2011	31.12.2010
Interest paid	i)	103,598,068	74,983,215
Unfavourable exchange rate differences	ii)	46	7,478,991
Other financial expenses	iii)	38,842,051	6,150,819
Corrections for previous years	iv)	1,580,892	64,481
		144,021,057	88,677,507
Financial expenses capitalised		(16,512,745)	(16,541,485)
		127,508,312	72,136,023

- i) The increase in interest expense is due to the significant increase in spreads paid by the companies, as well as the increase in short-term loans to offset the decline of available cash as a result of the growth of the average payment periods from customers, as well as increases in funding with the EIB. The interest paid to the EIB in 2011 amounted to 50,595,469 euros (37,602,230 euros in 2010);
- ii) The exchange rate expenses incurred are directly related to the funding from Japan. Since these exchange differences have an associated hedging operation they were reclassified to the "Financial instruments" heading, as presented in 2011.
- iii) Recorded In "Other financial expenses" are:

		31.12.2011	31.12.2010
Funding obtained - commissions		1,290,943	382,495
Guarantees		2,887,602	711,209
Losses on financial instruments at fair value	46.1	25,769,228	7,478,991
Other		8,894,279	5,057,115
		38,842,051	13,629,810

- iv) The most significant amount recorded in "Corrections to previous years" refers to the correction of interest payable to the municipalities for the integration of assets (Águas de Trás-os-Montes e Alto Douro) in the amount of 1,320,592 euros. During 2011 the integrated infrastructure was revalued, which led to a correction of the amounts payable to the municipalities.

46. Financial income

		31.12.2011	31.12.2010
Interest earned	i)	37,057,691	17,196,531
Fair value of financial instruments	46.1	-	2,845,794
Other financial income and gains		84,128	481,973
Corrections for previous years		(3,519)	(59,533)
		37,138,302	20,464,765

- i) Registered in "Interest earned" is the following interest:

		31.12.2011	31.12.2010
Deposits	a)	12,783,621	4,858,297
Financial investments	b)	8,711,104	2,221,746
Interest on arrears	c)	14,009,715	8,550,346
Other interest		1,553,250	1,566,141
		37,057,691	17,196,531

- a) The higher interest on term deposits was due to the fact that investment levels were high in 2011, in AdP SGPS, Sanest and Simtejo, as well as due to the increased interest rates applied to these deposits. This interest is essentially excess cash and other investments that the Group uses, usually as consideration of credit ceilings;
- b) The increase in interest of financial investments results from the growth of applications in the IGCP, made by various companies of the AdP group;
- c) Interest on arrears increased by about 63%. This increase reflects the growth of the average maturity of receivables of the Group companies. The table below presents the values of interest on arrears by subsidiary:

	31.12.2011	31.12.2010
Águas do Algarve, S.A.	2,822,270	1,397,307
Águas do Zêzere e Côa, S.A.	1,854,743	845,882
Águas de Trás-os-Montes e Alto Douro, S.A.	1,463,268	358,407
Águas do Oeste, S.A.	1,374,012	780,837
Simarsul, S.A.	1,008,284	-
Amarsul, S.A.	983,941	467,591
Águas do Noroeste, S.A.	587,829	320,894
Valorsul, S.A.	534,652	619,759
Other companies	3,380,716	3,759,669
	14,009,715	8,550,346

46. I Fair value of financial instruments

The change in fair value of financial instruments for the year breaks down as follows:

	31.12.2011	31.12.2010
Exchange rate swap	(3,819,535)	8,425,662
(Positive) interest rate swap	-	4,467,527
(Negative) interest rate swap	(21,949,693)	(10,047,395)
	(25,769,228)	2,845,794

47. Gains/(losses) on investments

	31.12.2011	31.12.2010
Expenses and losses - others	(247,505)	-
Income and gains resulting from MEP	8,346	8,329
Income and gains - others	3,652	1,116,857
	(235,507)	1,125,186

48. Tax for financial year – current and deferred

	31.12.2011	31.12.2010
Income tax for the year	(55,939,595)	(62,718,568)
Tax estimate surplus	16,313,920	649,433
Tax estimate shortfall	(446,592)	(43,230)
	(40,072,267)	(62,112,366)
Deferred tax	(16,953,147)	32,829,732
	(16,953,147)	32,829,732
	(57,025,414)	(29,282,634)

Heading	Value
Consolidated profit before tax	197,021,019
Permanent differences	-
Losses	11,480,126
Depreciation and amortisation	51,197,329
Equity changes	27,470,252
Provisions	13,334,701
Recovery of impairment losses	(23,368,324)
Other (IFRC 12 and tariff deviations)	(150,238,192)
Assessment base	126,896,911
Municipal surcharge assessment base	132,575,793
Remaining base	(5,678,882)
Tax	33,721,976
State surcharge	4,182,655
Independent taxation and others	1,081,818
Tax overheads	38,986,448
Current tax	55,939,595
Deferred tax	(16,953,147)

Tax deferral of transitional accounting effects for the remaining term of the concession

In a Binding Request for Information (PIV) submitted by the AdP group, it was the understanding of the tax authorities that the increased costs of contractual investment would no longer be accepted for tax purposes with the extinction of the POC Portuguese accounting system and, consequently, Accounting Guideline no. 4, which would be replaced by international accounting standards (IFRS/IAS). It should be noted that accounting practice remains 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 retrospectively, as recommended in the standards. The companies applied the transitional arrangements as provided for under Article 5 of Decree-Law no. 159/2009 of 13 July. The transitional scheme provides that the effects in equity arising from the adoption of the new standards (IFRS), which are considered relevant for tax purposes under the Income Tax Code and relevant complementary technical legislation, are equally responsible for the formation of the taxable profit in 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 time period 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 in respect of previous periods of taxation, 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 the Environment having been informed, requesting that the retroactive corrections arising from the change of accounting policies should in equal parts be responsible for the formation of the taxable income over the remaining period of the concession, since this is the relevant time period 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, as well as in Model 22 (corporate income tax).

The AdP Group is currently awaiting the answer of the tax authorities to the request for deferral of the tax effects of transition to IFRS, not over five years (as defined in the Decree-Law that governs this matter) but for the remainder of the concession period. If the answer of the tax authorities is negative, the Company may incur a maximum fine of 240,000 euros plus compensatory interest calculated from 31 December 2011 amounting to 288,774 euros.

49. Transactions with related entities

31.12.2011	Parent company	Other shareholders	Executive Board	Other related parties
Asset				
Municipalities				409,806,788
Liability				
Municipalities				128,949,463
Income				
Sales and services rendered to municipalities				537,844,047
Expenses				
Expenses on non-executive directors	27,086	19,346		
Expenses on executive directors			523,540	
Dividends	19,488,600	7,511,400		

The amounts recorded in asset and income relate to regulated activity - "upstream" services - water supply, sewerage, waste treatment and recovery and to "downstream" services (Partnerships). The amounts recorded in liabilities relate to the integration of infrastructure in the concessions, which are paid to the municipalities, as defined in the concession contracts.

31.12.2010	Parent company	Other shareholders	Executive Board	Other related parties
Asset				
Municipalities				254,295,580
Liability				
Municipalities				138,559,463
Income				
Sales and services rendered to municipalities				510,275,838
Expenses				
Expenses on non-executive directors	28,607	28,607		
Expenses on executive directors			623,020	
Dividends	17,767,132	6,847,902		

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 period of concession, is as follows:

	Contractual Investment	Investment already made	Investment in progress	Contractual investment (2012)	Contractual investment (2013.. 2016)	Contractual investment (>2016)
UNA-PD	6,511,154,794	4,005,861,946	647,194,609	340,147,595	455,473,486	1,064,699,758
UNA-DR	467,498,879	2,587,211	6,497,271	18,357,513	102,647,630	337,409,255
UNR	1,437,433,840	943,782,749	97,581,828	93,729,095	112,128,118	225,155,257
	8,416,087,513	4,952,231,906	751,273,708	452,234,203	670,249,234	1,627,264,270

Company	Water - Production and Purification	Waste	Water - Distribution and Collection	31.12.2011	31.12.2010
Contractual investment	6,511,154,794	1,437,433,840	467,498,879	8,416,087,513	8,394,120,360
Investment already made	4,005,861,946	943,782,749	2,587,211	4,952,231,906	4,487,136,296
Investments in progress	647,194,609	97,581,828	6,497,271	751,273,708	757,443,262
Contractual investment					
Contractual investment - N	-	-	-	-	-
Contractual investment (N+1)	340,147,595	93,729,095	18,357,513	452,234,203	701,262,348
Contractual investment (N+2 to N+5)	455,473,486	112,128,118	102,647,630	670,249,234	998,020,034
Contractual investment (>N+5)	1,064,699,758	225,155,257	337,409,255	1,627,264,270	1,487,581,739

The following chart shows the Group's future commitments relating to rents payable to municipalities for the integration of infrastructure, as defined in the concession agreements.

	Rent already recognised	Rent recognised as debt	Future rents (N+1)	Future rents - Remaining amounts	31.12.2011	31.12.2010
Águas do Algarve, S.A.	456,586	-	96,180	3,224,844	3,777,610	3,777,610
Águas do Centro Alentejo, S.A.	1,100,331	-	172,687	4,517,105	5,790,123	5,790,123
Águas do Mondego, S.A.	28,610,603	-	1,389,393	6,267,278	36,267,274	36,267,274
Águas do Norte Alentejano, S.A.	261,985	-	53,330	1,075,325	1,390,640	1,390,640
Águas do Noroeste, S.A.	3,418,701	208,958	214,681	3,917,689	7,760,029	7,487,816
Águas do Oeste, S.A.	30,601	-	4,727	122,230	157,557	157,557
Águas de Santo André, S.A.	4,788,460	-	478,846	9,098,073	14,365,379	14,365,379
Águas de Trás-os-Montes e Alto Douro, S.A.	2,805,768	874,005	651,057	14,103,089	18,433,920	18,984,583
Águas do Zêzere e Côa, S.A.	6,207,040	1,018,861	786,327	21,847,014	29,859,241	27,173,904
AgdA - Águas Públicas Alentejo, S.A.	81,773	381,046	319,581	15,023,705	15,806,105	6,235,059
Simarsul, S.A.	1,823,761	255,127	288,739	6,617,208	8,984,836	12,132,248
Simdouro, S.A.	22,976,796	-	6,769,666	41,796,210	71,542,672	1,285,466
Simlis, S.A.	1,062,280	-	101,414	1,715,383	2,879,077	2,879,077
Simtejo, S.A.	38,886,571	5,519,291	2,865,963	-	47,271,824	46,897,564
	112,511,255	8,257,288	14,192,588	129,325,154	264,286,286	184,824,300

51. Contingent assets and liabilities

51.1 Contingent assets and liabilities

Águas do Algarve, S.A.

Águas do Algarve has three cases in progress in court, already duly contested. The first refers to the Sotavento System, which is being heard at the Administrative Court of the Circle of Lisbon, in the amount of 2,662,385.97 euros.

The second action relates to the Barlavento system and is being heard at the Administrative Court of the circuit of Lisbon, in the amount of 1,909,823.20 euros.

The third action (Case 516/09.3 Belle-Somague, Engigás, Neopol, Construtores ACE in the amount of 9,191,597.54 euros) is based on the alleged technical unenforceability of the crossings of the Ria Formosa. Águas do Algarve, besides challenging this legal action, has taken legal action in the amount of 1,894,762.79 euros for breach of contract attributable to the contractor.

In all cases, Águas do Algarve considers that no sums are due or payable in respect of any of these cases, so it has not made any provision to that effect.

Águas do Centro, S.A.

Águas do Centro has the following cases pending: 420/09.5BECTB in TAFCB; 633/09.0BECTB in TAFCB; 687/09.9BECTB in TAFCB; 640/09.2BECTB in TAFCB; 241/10.2BECTB in TAFCB; 314/09.4BECTB in TAFCB; 98/10.3BECTB in TAFCB; 920/09.7TBTMR in 3 JTCT; 472/11.8TBTMR in 2 JTCT; 458/11.2BECTB in TAFCB; 688/10.4BECTB in TAFCB; 238/11.5BECTB in TAFCB; 688/10.4BECTB in TAFCB; 68/11.4BECTB in TAFCB; 1288/10.4TYLSB in 1º JTCL; 198/07.7TBTMR in 1º JTJT; 897/08.6TBCTB in 1º JTJCB and administrative offence: No. 200003630900 - IMTT; No. 071000281 - ACT; No. 071000282 - ACT; No. 071000283 - ACT.

Águas do Douro e Paiva, S.A.

Case no. (1960) - Injunction no.345189/10.7YIPRT

Respondent: Dstelecom, SGPS, S.A. - National Injunctions Board.

Claim: The company applied for an injunction against Dstelecom, SGPS, SA on 27 October 2010, requesting payment of the amount of 245,241.50 euros.

The Respondent filed opposition and submitted a counterclaim in the amount of 642,655.00 euros. The Company responded to the counterclaim and its lack of grounds.

The preliminary hearing was held on 12 May 2011, in which the parties presented the following agreement:

- The Company reduced the claim to 121,319.76 euros;

- The Respondent committed itself to paying to the Company that amount in 12 monthly instalments, of equal and consecutive terms, each in the amount of 10,109.98 euros.

The agreement was approved by the Judge and the case has closed.

On 23 August 2011, Instituto de Gestão Financeira e de Infraestruturas da Justiça, I.P. reimbursed the Company for the court costs it had incurred.

Case No. 1301201001421859 (1990)

Plaintiff: Instituto de Gestão Financeira da Segurança Social, IP - Administrative and Tax Court of Porto and Section of Cases of SP Porto I - 1301.

Claim: The Plaintiff filed the above-identified tax enforcement proceedings to pay the sum of 197,524.12 euros plus the value of 51,710.80 euros, bringing the total value to 249,234.82 euros.

The Company has requested, at the competent Chamber of Procedure, cancellation of the debt for it being undue, and it has simultaneously challenged the enforcement in court.

The decision is expected in both cases.

Case no. 1395/11.6BEPRT (2007)

Respondent: Espinho Municipality - Administrative and Fiscal Court of Porto.

Claim: The Company filed on 3 March 2011 a request for injunction against Espinho municipality, requesting payment of the sum of 341,253.11 euros.

The Respondent filed opposition.

However the parties reached an agreement, in which the municipality committed to pay the claimed amount of 504,309.57 euros in 36 successive and equal monthly instalments.

By judgment of 21 June 2011 notified under date of 1 September 2011, judgment was rendered ratifying the discontinuance of proceedings, with costs attributable to the respondent municipality.

Case closed.

Case 2019

Claimants: Conduril - Engenharia SA and - Camilo Sousa Mota & Filhos, S.A - Court of Arbitration.

Claim: Under the contract "Interconnections of the origins of the Douro and Paiva - Ramalde/Galegos section and Ramalde Pumping Station," the contractors' petition that the Company be ordered to pay the sum of 1,151,176.36 euros and the right to the required funds is recognised.

The Company filed its defence and the Claimant has responded.

On 14 November 2011, the Company was notified of the selection of proven facts and the grounds for preliminary inquiries. The Company, not agreeing with its content, filed opposition to such.

The claimants responded to that claim.

The hearing was scheduled for the gathering of witness evidence, for 11 January 2012.

Case no. 5453/11.9TBVFR (2022)

Claimant: Manuel Maria Mourão Correia de Sá - Judicial Court of Santa Maria da Feira

Claim: The Claimant has asked to court to set up and operate arbitration concerning the "Process of Expropriation for Public Utility of the Plot of Land for the construction of Vila Nova Reservoir in Santa Maria da Feira."

On receiving this claim the Judge notified the Company to respond. This has been done.

Awaiting the development of the case.

Águas do Mondego, S.A.

Case no. 1747/10.9YYPR - Enforcement procedures for payment of a certain amount, being heard in the Enforcement Courts of Porto – No. 2 Circuit/2nd Section, filed by BNP Paribas Factor, Instituição Financeira de Crédito, S.A. against Águas do Mondego. Through this case, BNP requires the payment by Águas do Mondego of specific amounts, such payments resulting from invoice no. No. E010411, sent by João Salvador, S.A. to Águas do Mondego and several invoices sent by Leirislina - Engenharia e Construções, S.A. to Águas do Mondego. The case was suspended owing to opposition to enforcement filed by Águas do Mondego and the provision of a bond by Águas do Mondego;

Case no. 1747/10.9YYPR-A - Case opposing the enforcement for payment of a certain amount filed by Águas do Mondego, with the Enforcement Courts of Porto - No. 2 Circuit/2nd Section, following the filing by BNP of Case no. 1747/10.9YYPR (enforcement case for payment of a certain amount), mentioned in (a) above. Águas do Mondego filed opposition to the proposed enforcement by BNP, stating it had requested the addition of the court records to the action for payment case it had filed in the Administrative Court of Coimbra (Case no. 330/10.3BECBR °) and therefore required a stay of proceedings. BNP had contested. By order of 13 July 2010, the proceedings were stayed until judgment had been passed on the action for payment case. After (i) the referral of the records of Case no. 330/10.3BECBR (special action for payment case), referred to in paragraph e) below, to case no. 1747/10.9YYPR of the Enforcement Courts of Porto - No. 2 Circuit/2nd Section and (ii) the determination that the issues relating to the payments would be appraised in Case no. 1747/10.9YYPR-A °, and by judgment of 12 January 2012, the request made in the attached action for payment was rejected and opposition to enforcement judged to be partially unfounded. The deadline for an appeal of this sentence is in progress;

Case no. 1747/10.9YYPR-B (Provision of bond) - Filed by Águas do Mondego with the Enforcement Court of Porto - No. 2 Circuit/2nd Section, with a view to ordering the suspension of case no. 1747/10.9YYPR (Enforcement procedure for payment of a certain amount), mentioned in a) above. Notified to oppose, BNP did not. By judgment of 22 August 2011, the claim was upheld and the bond indicated considered suitable. BNP appealed the judgment and Águas do Mondego counter-claimed. By judgment of the Court of Appeal of Porto - 5th Section, of 16 January 2012, the appeal filed by BNP was dismissed and the judgment of 22 August 2011 was confirmed. A possible appeal by BNP is pending;

Case no. 1747/10.9YYPR-C – arising from the referral of the records of case no. 330/10.3BECBR (special action for payment), referred to in (e) below, to case no. 1747/10.9YYPR Enforcement Court of Porto - No. 2 Circuit/2nd Section. By order of 9 September 2011, it was determined that the issues relating to payments would be judged in Case no. 1747/10.9YYPR-A (Opposition to enforcement for payment of a certain amount), referred to in b) above to which we may refer;

Case no. 330/10.3BECBR - Special action for payment, being judged at the 1st Organisation Unit of the Administrative and Tax Court of Coimbra, in which Águas do Mondego is the claimant and the cited entities are BNP Paribas Factor Financial Institution Credit, SA, Instituição Financeira de Crédito, S.A.; António José Matos Loureiro, in the capacity of Insolvency Administrator of Leirislina - Engenharia e Construções, S.A.; Andaluga - Aluguer de Andaimos e Máquinas para a Construção, Ld.ª; Aqualis Captações - Hidrogeologia e Sondagens, Ld.ª; Aplitinta - Proteção e Revestimentos de Betão, Lda.; Arcopintura - Construções, Pintura, Tacos e Lacagem Unipessoal, Lda.; Areia Centro - Construções, S.A.; Brastec - Construção, Ld.ª; Eliseu & Filhos, Lda.; Ernesto Alves Pinto e C.ª, Lda.; Gistec - Técnicas Cartográficas e Fotogramétricas, Ld.ª; Luís Monsanto, Unipessoal, Ld.ª; Mortelas - Construção Civil, Lda.; Nogueira Fernandes, Ld.ª; Noráqua - Consultores de Engenharia, Ld.ª; Rui Paulo - Muros - Construções, Ld.ª; Sodrenagens - Drenagens, Ld.ª; Soplacas - Sociedade de Placas de Betão, S.A. and Terraplanagens Oliveira e Sequeira, Lda.. Águas do Mondego filed this case due to the objective and legitimate lack of certainty in identifying the creditor (or creditors) for certain payments relating to three different public works contracts: (i) Boavista Contract (ii) Ronqueira Contract and (iii) Roxo Contract. Through this case, Águas do Mondego intends the financial obligations related to those contracts to be declared extinguished, through the deposit, yet to be made by Águas do Mondego, of the amount of 848,351.78 euros (eight hundred and forty-eight thousand three hundred and fifty-one euros and seventy-eight cents). Five challenges and the reply of Águas do Mondego were submitted. By order of 16 May 2011, the payments required by Águas do Mondego were admitted. Águas do

Mondego demonstrated the compliance with the deposits on 26 May 2011. By judgment of 31 May 2011, at the 1st Organisational Unit of the Administrative Court of Coimbra, it was decided to refer the records of the case to case no. 1747/10.9YYPRT of the Enforcement Court of Porto - No. 2 Circuit/2nd Section, mentioned in b) above, to which we allow ourselves to refer;

Case no. 154067/10.1YIPRT - case resulting from an injunction brought by BNP Paribas Factor; Instituição Financeira de Crédito, S.A against Águas do Mondego, and which, following opposition by Águas de Mondego, was referred to the First Section of the fifth Judicial Circuit Court of Porto. BNP aims, through this case, for Águas de Mondego to pay it the amount of 174,585.64 euros (one hundred and seventy-four thousand, five hundred and eighty-five euros and sixty-four cents), due under invoice no. 1.3.20090213 and credit note. No 4.1.20090029, both issued by Leirislina - Engenharia e Construções, S.A.. This payment is claimed by BNP and by various other entities that also claim it from Águas de Mondego. Águas do Mondego had opposed the application for injunction, by claiming the exception of *lis pendens* between this action and the action for payment mentioned in e) above. By order of 24 January 2011, the case was referred to the Mixed Courts of Coimbra, and the case was specifically distributed to the second chamber of the unspecialised court of Coimbra. For the purpose, *inter alia* the organisation of the case, a preliminary hearing was held on 3 June 2011. By order of 12 November 2011, the stay of proceedings was granted until the decision in Case no. 330/10.3BECBR (special action for payment), mentioned in e) above, was proffered. Regarding the outcome of the process, we cannot anticipate the effect of judicial decisions, but we can say that in the case of the same origin, Águas do Mondego will have to pay BNP the amount (or part of the amount) it claims as well as the court costs to be calculated at the end;

Case no. 2394/10.0TBGDM - Águas do Mondego was notified to appear in this case, in which the Claimant is Domingos Lopes - Serralharia Civil, Lda. and respondent Norlabor - Engenharia e Construção, S.A., in the seizure of credits, for allegedly owing the respondent the amount of 225,612.66 euros. The case is being heard in the 3rd Civil Chamber of the Court of Matosinhos. Águas do Mondego made statements regarding the seizure of credits, which were sent to the Enforcement Agent. The decision of the Court is expected at this time. Regarding the outcome of the case, we cannot anticipate the direction of the Court, but we can say that in the case of the same origin, Águas de Mondego will have to pay the amount (or a portion thereof) of the seized credit.

Águas do Norte Alentejano, S.A.

In 2011 there are various ongoing injunction cases relative to the claim of balances owed by some municipalities.

Águas do Noroeste, S.A.

Claimant	Case	Amount	Situation in 31.12.2011
Alberto Martins de Mesquita & Filhos, S.A.	113/10.0TYVNG	8,457,484.60	Awaiting case development
Alberto Martins de Mesquita & Filhos, S.A.	1636/08.7BEBRG	3,649,442.68	Awaiting further continuation of the preliminary hearing
Construtora do Tâmega, S.A. and Others	256/06.5BERG	3,326,979.76	Awaiting new scheduling of the preliminary hearing
Alexandre Barbosa Borges, S.A.	1380/11.8BEBRG	3,230,064.75	Awaiting case development
Construtora do Tâmega, S.A. and Others	515/05.4BERG	2,965,665.87	Awaiting new trial
Isolux Ingeniería, S.A.	476/10.8BEBRG	1,578,627.90	Awaiting case development
Caminha Municipality	144/09.3BEBRG	1,073,485.23	Awaiting case development
Maria José Maio Dias Veloso and Others (action against PV Municipality)	2166/08.2BEPRT	560,000.00	Awaiting case development
Banco BPI, S.A.	372/11.1TVPR	343,896.58	Awaiting case development
Caminha Municipality	947/10.9BEBRG	187,773.39	Awaiting case development
Caminha Municipality	1744/11.7BEBRG	186,928.28	Reply has been submitted
Caminha Municipality	1838/11.9BEBRG	185,246.12	Awaiting opposition
Caminha Municipality	914/11.2BEBRG	177,287.07	Reply has been submitted
Caminha Municipality	937/10.9BEBRG	160,714.78	Awaiting case development
Caminha Municipality	1217/11.8BEBRG	157,797.87	Reply has been submitted
Caminha Municipality	1473/11.1BEBRG	151,112.57	Reply has been submitted
Caminha Municipality	1192/11.9BEBRG	146,490.23	Reply has been submitted
Caminha Municipality	183/11.4BEBRG	143,585.97	Awaiting case development
Caminha Municipality	1936/10.6BEBRG	142,186.17	Awaiting case development
Banco BPI, S.A.	1185/10.3TBSTS	141,526.00	Awaiting judgement

Claimant	Case	Amount	Situation in 31.12.2011
Município de Caminha	1671/10.5BEBRG	136.337,24	Aguarda-se desenvolvimento no processo
Município de Caminha	1846/11.0BEBRG	127.364,50	Aguarda oposição
Município de Caminha	940/11.1BEBRG	125.673,94	Foi apresentada réplica
Município de Caminha	1246/10.9BEBRG	125.602,59	Aguarda-se desenvolvimento no processo
Município de Caminha	2018/10.6BEBRG	123.434,37	Aguarda-se desenvolvimento no processo
Município de Caminha	1082/11.5BEBRG	116.009,30	Aguarda oposição
Município de Caminha	2102/11.9BEBRG	115.893,63	Aguarda contestação
Município de Caminha	1672/10.3BEBRG	115.763,26	Aguarda-se desenvolvimento no processo

AdP Serviços, S.A.

At the time of preparation of these financial statements, there is ongoing litigation with Construtora Abrantina and the company and Sociedade Fernandes e Vasconcelos. No conclusion had been reached at the date of this report.

AdRA - Águas Região de Aveiro, S.A.

ARH Centro - Case no. JCT-2011-0005 ARH Environmental administrative offence Centre Notification.01.2011 15 business days (up to 31/01/2011) Infringement of article 81(3)a) of DL 226-A/2007, of 31 May "The use of water resources without the relevant permit" is a very serious administrative offence, punishable by a fine of 38,500.00 euros - 70,000.00 euros (negligence) and 200,000.00 euros to 2,500,000.00 euros (intentional); infringement of 81(1)a) (prior notice and infringement of 81(3)u), outflow of degraded waters without treatment. Sílvia M. Pires (31/01/2011) Pending (awaiting response of ARH).

ARH Centre - Case no. JCT-2011-0077 ARH Environmental administrative offence Centre Notification 25/02/2011 15 business days (to 18/03/2011) Infringement of article 81(3)u), outflow of degraded waters without treatment. Sílvia M. Pires (18/03/2011) Pending (awaiting response of ARH).

MAOT - IGAOT - CO/000825/11 (ref. S/7855/u/SE) MAOT - IGAOT); Environmental administrative offence provided for in article 5(3) and punishable by article 67(1)a) of Decree-Law 178/2006, of 05/09; Received on 11/04/2011 (notification on 14/04/2011) 15 business days (to 09/05/2011) article 5(3) and punishable by article 67(1)a) of Decree-Law 178/2006, of 05/09. Infringement of the duty to ensure the management of waste Sílvia M. Pires. 09/05/2011 via email and fax. 0.05.2011 via CTT CR/AR Pending (waiting for reply from IGAOT).

CMA - Aveiro Municipal Council - 90/CO/2011.

CMA Administrative offence: article 3(1) and article 28(1)a) and (3), all of Regulations of Works on Public Roads of the municipality of Aveiro received on 07/10/2011 20 business days (to 07/11/2011) On 08/02/2011, at Rua da Molareira, Sta. Joana, Aveiro, AdRA opened trenches to install water branch lines without a municipal permit Sílvia M. Pires 03/11/2011 via CTT CR/AR Pending (awaiting reply of CMA).

CMA - Aveiro Municipal Council - 103/CO/2011: CMA Administrative offence: article 3(1) and article 28(1)a) and (3).

Águas de Santo André, S.A.

- Case no. 102/09.8 BEBJA - Sines Municipality, relative to the Ordinary Administrative Proceedings in the amount of 128,450.69 euros.
- Case no. 231/09.8 BEBJA - Sines Municipality, relative to the Ordinary Administrative Proceedings in the amount of 359,200.72 euros.
- Case no. 232/09.6 BEBJA - Santiago do Cacem Municipality, relative to the Ordinary Administrative Proceedings in the amount of 101,426.95 euros.
- Case no. 429/09.9 BEBJA - Santiago do Cacem Municipality, relative to the Ordinary Administrative Proceedings in the amount of 109,719.44 euros.
- Case no. 428/09.0 BEBJA - Sines Municipality, relative to the Ordinary Administrative Proceedings in the amount of 247,082.83 euros.

- Case no. 171/10.8 BEBJA - Santiago do Cacém Municipality, relative to the Ordinary Administrative Proceedings in the amount of 127,518.02 euros.
- Case no. 172/10.6 BEBJA - Sines Municipality, relative to the Ordinary Administrative Proceedings in the amount of 206,619.09 euros.
- Case no. 396/10.6 BEBJA - Sines Municipality, relative to the Ordinary Administrative Proceedings in the amount of 301,566.34 euros.
- Case no. 397/10.4 BEBJA - Santiago do Cacém Municipality, relative to the Ordinary Administrative Proceedings in the amount of 142,910.18 euros.
- Case no. 3/11.0T2SNS - Ricardo Jorge Chester Correia Marcelino, relative to the Legal Action to Challenge the Rules and Legality for Employment Dismissal, no value.

In the latter case the Company believes that no monies are due or payable, so it has not set up any provision for that purpose.

- Case no. 133/10.8 BEBJA - Santiago do Cacém Municipality, relative to the Ordinary Administrative Proceedings in the amount of 119,666.74 euros.
- Case no. 134/11.6 BEBJA - Sines Municipality, relative to the Ordinary Administrative Proceedings in the amount of 228,237.26 euros.
- Case no. 294/11.6 BEBJA - Sines Municipality, relative to the Ordinary Administrative Proceedings in the amount of 122,884.33 euros.
- Case no. 293/10.8 BEBJA - Santiago do Cacém Municipality, relative to the Ordinary Administrative Proceedings in the amount of 227,371.92 euros.

Águas do Zêzere e Côa, S.A.

- Case No. 99/08.1 - BECTB - Administrative Court of Castelo Branco: Action brought against Águas do Zêzere e Côa, S.A. by the contractor Construtora Abrantina e Marsilop relative to tender procedure H, which petitions for payment of a total sum of 2,285,321.63 euros for the cost of stoppage, differential in the calculation of the price review, compensation for damages and lost profits and financial costs, plus the payment of interest accruing since 31 March 2008. The case is pending documentary evidence and scheduling of the judgment.
- Case No. 313/08.3 - BECTB - Administrative Court of Castelo Branco: Action brought against Águas do Zêzere e Côa, S.A. by the contractor Lambelho & Ramos, Constrobi e Ecotécnica, relative to tender procedure M, where, in addition to petitioning the extension of the term of the works contract, the repeal of the levying of contractual penalties in the amount 489,410.46 euros and payment of extra costs in the amount of 321,959.08 euros is requested. The case is pending documentary evidence and scheduling of the judgment.
- Case No. 38/09.2 - BECTB - Administrative Court of Castelo Branco: Action brought against Águas do Zêzere e Côa, S.A. by the contractor Abrantina/Marsilop relative to sewerage tender procedure H – Fundação subsystem, which petitions for payment of a total sum of 3,254,767.52 euros as compensation for increased site costs, structure charges, overheads and opportunity costs, compensation for design changes, update of costs and the reimbursement of financial costs incurred up to 31 December 2008, plus arrears until full payment. The case is pending documentary evidence and scheduling of the judgment.
- Case No. 55/09.2 - BECTB - Administrative Court of Castelo Branco: Action brought against Águas do Zêzere e Côa, S.A. by the contractor Marsilop, Constrope e Águas em Processo, relative to the contract for pipelines, reservoirs and pumping stations of the Sra. do Desterro Subsystem - Lot III - where these petition, besides the legal extension of the works term, payment of the total sum of 512,798.35 euros relating to compensation for costs and damages they incurred as a result of finding situations that compromised the economic and financial balance of the contract, plus interest on arrears of the amount that AdZC will be ordered to pay, calculated from the servicing (02/02/09) until full payment. The case is pending documentary evidence and scheduling of the judgment.

- Case No. 71/09.4 - BECTB - Administrative Court of Castelo Branco: Action brought against Águas do Zêzere e Côa, S.A. by the contractor Marsilop, Constrope e Águas em Processo, relative to the contract for pipelines, reservoirs and pumping stations of the Sra. do Desterro Subsystem - Lot II - where these petition, besides the legal extension of the works term, payment of the total sum of 539,454.26 euros relating to compensation for costs and damages they incurred as a result of finding situations that compromised the economic and financial balance of the contract, plus interest on arrears of the amount that AdZC will be ordered to pay, calculated from the servicing (13/02/09) until full payment. The case is pending documentary evidence and scheduling of the judgment.
- Case No. 225/09.3 - BECTB - Administrative Court of Castelo Branco: Action brought against Águas do Zêzere e Côa, S.A. by the contractor Abrantina/Marsilop relative to tender procedure I, which petitions for payment of a total sum of 6,077,796.43 euros as compensation for losses from direct means stopped on the works, site and structure costs, overhead costs, financial costs, bank guarantee costs, damages and interest until full payment. The case is pending documentary evidence and scheduling of the judgment.
- Case No. 475/08.0 - BECTB - Administrative Court of Castelo Branco: Action brought against Águas do Zêzere e Côa, S.A. by the contractor Abrantina/Marsilop relative to tender procedure L, which petitions for payment of a total sum of 551,542.90 euros for costs regarding the stoppage of labour and equipment, differential in the calculation of the price review, extra work, compensation for damages and lost profits due to delays, financial costs plus the payment of interest accruing since 30 November 2008, plus that falling due until full payment. The case is pending documentary evidence and scheduling of the judgment.
- Case No. 889/09.8 - BECBB - Administrative Court of Coimbra: Action brought against Águas do Zêzere e Côa, S.A. by Novabeira, S.A., relative to the payment of MSW services amounting to 3,068,508.18 euros, plus interest on arrears amounting to 493,185.54 euros. The case is pending documentary evidence and scheduling of the judgment. Notwithstanding the fact that this action is being brought against AdZC, since on the date of the contracts cited in the records this company was the concession holder of the multi-municipal solid waste treatment system, it is certain that under the assignment contract concluded in January 2009 between AdZC and Resiestrela, SA, the entity to which the concession has since been awarded, this case concerning the waste sector has been transferred to Resiestrela.
- Case No. 730/09.1 - BECTB – Administrative Court of Castelo Branco: Action brought against Águas do Zêzere e Côa, S.A. by the contractor Lambelho & Ramos relative to the sewerage contract no. 14, where it petitions payment of compensation for downtime costs worth 649,644.34 euros, plus accrued interest in arrears amounting to 158,788.54 euros and that falling due until full payment.
- Administrative offence no. JCT-2009-0051, for which a citation was issued that if found to have been infringed can lead to a fine of between 60,000.00 euros and 70,000.00 euros in the case of negligence and 500,000 euros to 2,500,000 euros in the case of an intentional act. Written defence was submitted to the administrative entity, and the decision to levy a fine or shelve the case is awaited.
- Administrative offence no. JCT-2009-129, for which a citation was issued that if found to have been infringed can lead to a fine of between 60,000.00 euros and 70,000.00 euros in the case of negligence and 500,000 euros to 2,500,000 euros in the case of an intentional act. Written defence was submitted to the administrative entity, and the decision to levy a fine or shelve the case is awaited.
- Administrative offence no. JCT-2009-642, for which a citation was issued that if found to have been infringed can lead to a fine of between EUR 38,500.00 euros and 70,000.00 euros in the case of negligence and 200,000.00 euros to 2,500,000.00 euros in the case of an intentional act. Written defence was submitted to the administrative entity, and the decision to levy a fine or shelve the case is awaited.
- Injunction no. 390003/08.9 YIPRT, filed by AdZC on 18/11/08 against the municipality of Mêda, petitioning the total amount of 357,952.48 euros [273,983.54 euros (amount due) + 83,512.94 euros (interest on arrears) + 456 euros (court fees)]. The case is being heard at the Administrative and Tax Court of Castelo Branco under No. 63/09.3 BECTB where judgement was passed acquitting the Municipality from the instance for suitability of the means used (injunction), and the appeal found in favour of AdZC. The municipality paid the amount due while the interest is still outstanding.

- Case no. 608/09.9 BECTB filed by AdZC on 30/09/09 against the municipality of Almeida, petitioning that said municipality pay the amount of 214,647.56 euros (amount due) + 2,768.07 euros (interest on arrears). The Court issued a judgment ordering the municipality to pay AdZC the amount of 209,319.73 euros in respect of the amount due, plus interest on arrears accrued and due at a rate of 0.5% per month or fraction thereof, from the due date until effective and full payment. It further ordered the municipality to pay the amount of 5,327.83 euros in respect of the debt of water resources fee, plus interest on arrears accrued and due, at the rate of 4% per year. Enforcement was ordered, which led to an agreement for payment in instalments.
- Enforcement no. 702/09.6 BECTB filed by AdZC on 17/11/09 against the municipality of Penamacor, petitioning that said municipality pay the total amount of 315,540.21 euros. The municipality has settled in the meantime the amount of 131,202.62 euros, meaning that the amount of 184,337.59 euros is still outstanding. The case is pending appeal by AdZC on the issue of interest (anatocism).
- Case no. 613/09.5 BECTB filed by AdZC on 30/09/09 against the municipality of Gouveia, petitioning that said municipality pay the amount of 128,356.28 euros + 1,605.18 euros (interest on arrears). The Court ordered the municipality to pay AdZC the amount of 124,387.79 euros in respect of the amount due, plus interest on arrears accrued and due at a rate of 0.5% per month or fraction thereof, from the due date until effective and full payment. It further ordered the municipality to pay the amount of 3,968.49 euros in respect of the debt of water resources fee, plus interest on arrears accrued and due, at the rate of 4% per year. The enforcement procedure was ordered.
- Case no. 611/09.9 BECTB filed by AdZC on 30/09/09 against the municipality of Figueira de Castelo Rodrigo, petitioning that said municipality pay the amount of 209,225.59 euros (amount due) + 2,734.17 euros (interest on arrears). The final decision has already been issued. Awaiting payment or the initiation of enforcement proceedings.
- Case no. 612/09.7 BECTB filed by AdZC on 30/09/09 against the municipality of Mêda, petitioning that said municipality pay the amount of 127,760.98 euros (amount due) + 1,533.67 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 762/09.0 BECTB filed by AdZC on 16/12/09 against the municipality of Mêda, petitioning that said municipality pay the amount of 167,936.64 euros (amount due) + 1,654.85 euros (interest on arrears). The Court ordered the municipality to pay AdZC the amount of 167,936.64 euros in respect of water supply debt, plus interest on arrears accrued and due at the rate provided for in article 3 of Decree-Law no. 73/99 of 16 March. An appeal has been lodged.
- Case no. 607/09.0 BECTB filed by AdZC on 30/09/09 against the municipality of Manteigas, petitioning that said municipality pay the amount of 171,533.56 euros (amount due) + 2,453.44 euros (interest on arrears). The case is pending documentary evidence and scheduling of the hearing.
- Case no. 764/09.6 BECTB filed by AdZC on 17/12/09 against the municipality of Manteigas, petitioning that said municipality pay the amount of 137,705.31 euros (amount due) + 1,531.21 euros (interest on arrears). The case is pending documentary evidence and scheduling of the hearing.
- Administrative offence proceedings no.01/2006 - PNSE, with citation issued by ICNB and any proven infringement levies a fine of between 2,493.99 euros and 2,493,989.49 euros. Written defence was submitted to the administrative entity, and the decision to levy a fine or shelve the case is awaited.
- Case No. 240/10.4 - BECTB - Administrative Court of Castelo Branco: Action brought against Águas do Zêzere e Côa, S.A. by the contractor Constrobi/Lambelho & Ramos, Lda., relative to the contract for the works on the water supply to the Souto Alto Composting Plant and the supply of water to Caria, which petitions the payment of 241,002.02 euros relative to the cost of additional work performed and 95,737.95 euros interest in arrears accrued and due until payment in full.
- Case No. 314/10.1 - BECTB - Administrative Court of Castelo Branco: Action brought against Águas do Zêzere e Côa, S.A. by the contractors Ramalho Rosa Cobertar and Conduril, relative to the sewerage works - tender procedure H - Lot I - Vale do Mondego e Alto Zêzere, petitioning the payment of the total amount of 332,857.39 euros, relative to interest on late payment of invoices.

- Case no. 194/10.7 BECTB filed by AdZC on 31/03/10 against the municipality of Mêda, petitioning that said municipality pay the amount of 189,133.39 euros (amount due) + 3,631.39 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 195/09.9 BECTB filed by AdZC on 31/03/10 against the municipality of Figueira de Castelo Rodrigo, petitioning that said municipality pay the amount of 209,516.51 euros (amount due) + 3,584.18 euros (interest on arrears). The enforcement procedure was initiated, given the sentence issued, to pay the amount due in respect of the amount owed and 3,569.02 euros in interest, as the interest calculated by AdZC was not deemed to be correct. An agreement to pay by instalments was reached.
- Case no. 198/10.0 BECTB filed by AdZC on 31/03/10 against the municipality of Gouveia, petitioning that said municipality pay the amount of 242,438.17 euros (amount due) + 5,785.13 euros (interest on arrears). The judgment ordered the municipality to pay AdZC the amount of 188,828.44 euros in respect of water supply debt, plus interest on arrears accrued and due at a rate of 0.5% per month or fraction thereof, from the due date until effective and full payment. It further ordered the municipality to pay the amount of 4,870.57 euros in respect of debt of water resources fee, plus interest on arrears accrued and due, at the rate of 4% per year. The enforcement procedure was ordered.
- Case no. 381/10.8 BECTB filed by AdZC on 24/06/10 against the municipality of Gouveia, petitioning that said municipality pay the amount of 226,449.86 euros (amount due) + 2,887.91 euros (interest on arrears). The judgment ordered the municipality to pay AdZC the amount of 221,416.40 euros in respect of water supply debt, plus interest on arrears accrued and due at a rate of 0.5% per month or fraction thereof, from the due date until effective and full payment. It further ordered the municipality to pay the amount of 5,033.46 euros in respect of the debt of water resources fee, plus interest on arrears accrued and due, at the rate of 4% per year. The enforcement procedure was ordered.
- Case no. 382/10.6 BECTB filed by AdZC on 24/06/10 against the municipality of Figueira de Castelo Rodrigo, petitioning that said municipality pay the amount of 353,031.06 euros (amount due) + 4,589.04 euros (interest on arrears). Awaiting scheduling of the hearing.
- Case no. 383/10.4 BECTB filed by AdZC on 24/06/10 against the municipality of Mêda, petitioning that said municipality pay the amount of 225,629.21 euros (amount due) + 2,989.99 euros (interest on arrears). The Court ordered the municipality to pay AdZC the amount of 225,629.21 euros in respect of water supply debt, plus interest on arrears accrued and due at the rate provided for in article 3 of Decree-Law no. 73/99 of 16 March. An appeal has been lodged.
- Case no. 384/10.2 BECTB filed by AdZC on 24/06/10 against the municipality of Celorico da Beira, petitioning that said municipality pay the amount of 103,941.51 euros (amount due) + 1,313.54 euros (interest on arrears). The enforcement procedure was ordered as a result of the final decision by the court.
- Case no. 385/10.0 BECTB filed by AdZC on 24/06/10 against the municipality of Penamacor, petitioning that said municipality pay the amount of 240,888.95 euros (amount due) + 2,692.93 euros (interest on arrears). The Court ordered the municipality to pay AdZC the amount of 170,160.52 euros in respect of water supply debt, plus interest on arrears accrued and due at the rate provided for in article 3 of Decree-Law no. 73/99 of 16 March. An appeal has been lodged.
- Case no. 557/10.8 BECTB filed by AdZC on 30/09/10 against the municipality of Penamacor, petitioning that said municipality pay the amount of 224,507.22 euros (amount due) + 2,598.32 euros (interest on arrears). Awaiting scheduling of the hearing.
- Case no. 558/10.6 BECTB filed by AdZC on 30/09/10 against the municipality of Mêda, petitioning that said municipality pay the amount of 164,947.04 euros (amount due) + 1,859.36 euros (interest on arrears). The court has issued its final decision. The municipality lodged an appeal against the sentence.
- Case no. 559/10.4 BECTB filed by AdZC on 30/09/10 against the municipality of Gouveia, petitioning that said municipality pay the amount of 207,031.64 euros (amount due) + 2,415.08 euros (interest on arrears). The enforcement procedure was ordered as a result of the final decision by the court.

- Administrative offence proceedings no. 91/PCO/10, with a citation by ARH which if found to have been infringed can lead to a fine of between 38,500.00 euros and 70,000.00 euros (in the case of negligence) and 200,000 euros to 2,500,000 euros (in the case of an intentional act). Written defence was submitted to the administrative entity, and the decision to levy a fine or shelve the case is awaited.
- Case no. 561/10.8 BECTB filed by AdZC on 30/09/10 against the municipality of Belmonte, petitioning that said municipality pay the amount of 252,382.90 euros (amount due) + 4,655.87 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Administrative offence proceedings no. 91/PCO/10, with citation by ARH which if found to have been infringed can lead to a fine of between 38,500.00 euros and 70,000.00 euros (in the case of negligence) and 200,000.00 to 2,500,000.00 euros (in the case of an intentional act). Written defence was submitted to the administrative entity, and the decision to levy a fine or shelve the case is awaited.
- Case no. 690/10.6 BECTB filed by AdZC on 20/12/10 against the contractor Abrantina/Marsilop relative to the tender procedure ES10, petitioning the payment of the total sum of 944,194.68 euros, corresponding to the cost of repair of Fundão WWTP amounting to 111,264.65 euros and loss of profits amounting to 832,930.03 euros, plus interest at the legal rate from the date of service of documents to effective and full payment.
- Case no. 69/11.2 BECTB filed by AdZC on 31/01/11 against the municipality of Belmonte, petitioning that said municipality pay the amount of 209,719.18 euros (amount due) + 3,949.72 euros (interest on arrears). The Court ordered the municipality to pay AdZC the amount of 209,719.18 euros in respect of water supply debt, plus interest on arrears accrued and due at the rate provided for in article 3 of Decree-Law no. 73/99 of 16 March. Awaiting payment or the initiation of enforcement proceedings.
- Case no. 70/11.6 BECTB filed by AdZC on 31/01/11 against the municipality of Figueira de Castelo Rodrigo, petitioning that said municipality pay the amount of 200,707.35 euros (amount due) + 3,228.47 euros (interest on arrears). Awaiting scheduling of the hearing.
- Case no. 71/11.4 BECTB filed by AdZC on 31/01/11 against the municipality of Penamacor, petitioning that said municipality pay the amount of 275,556.41 euros (amount due) + 5,048.32 euros (interest on arrears). The hearing has been scheduled.
- Case no. 72/11.2 BECTB filed by AdZC on 31/01/11 against the municipality of Manteigas, petitioning that said municipality pay the amount of 117,067.00 euros (amount due) + 1,833.62 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 330/11.6 BECTB filed by AdZC on 17/05/11 against the municipality of Almeida, petitioning that said municipality pay the amount of 439,113.67 euros (amount due) + 15,763.25 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 331/11.4 BECTB filed by AdZC on 17/05/11 against the municipality of Belmonte, petitioning that said municipality pay the amount of 111,250.20 euros (amount due) + 2,774.20 euros (interest on arrears). Waiting for the sentence to become res judicata.
- Case no. 332/11.2 BECTB filed by AdZC on 17/05/11 against the municipality of Figueira de Castelo Rodrigo, petitioning that said municipality pay the amount of 167,793.70 euros (amount due) + 4,183.83 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 333/11.0 BECTB filed by AdZC on 17/05/11 against the municipality of Manteigas, petitioning that said municipality pay the amount of 133,052.60 euros (amount due) + 3,284.25 euros (interest on arrears). Waiting for the sentence to become res judicata.
- Case no. 334/11.9 BECTB filed by AdZC on 17/05/11 against the municipality of Penamacor, petitioning that said municipality pay the amount of 123,235.35 euros (amount due) + 3,093.26 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 335/11.7 BECTB filed by AdZC on 17/05/11 against the municipality of Celorico da Beira, petitioning that said municipality pay the amount of 224,580.06 euros (amount due) + 8,115.45 euros (interest on arrears). Waiting for the sentence to become res judicata.

- Case no. 338/11.1 BECTB filed by AdZC on 17/05/11 against the municipality of Gouveia, petitioning that said municipality pay the amount of 339,202.21 euros (amount due) + 11,919.99 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 339/11.0 BECTB filed by AdZC on 17/05/11 against the municipality of Mêda, petitioning that said municipality pay the amount of 341,480.78 euros (amount due) + 12,222.67 euros (interest on arrears). Waiting for the sentence to become res judicata.
- Case no. 413/11.2 BECTB filed by AdZC on 30/06/11 against the municipality of Almeida, petitioning that said municipality pay the amount of 192,654.27 euros (amount due) + 2,490.13 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 414/11.0 BECTB filed by AdZC on 30/06/11 against the municipality of Belmonte, petitioning that said municipality pay the amount of 229,936.45 euros (amount due) + 2,981.74 euros (interest on arrears). Waiting for the sentence to become res judicata.
- Case no. 415/11.9 BECTB filed by AdZC on 30/06/11 against the municipality of Celorico da Beira, petitioning that said municipality pay the amount of 142,088.33 euros (amount due) + 1,788.00 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 416/11.7 BECTB filed by AdZC on 30/06/11 against the municipality of Figueira de Castelo Rodrigo, petitioning that said municipality pay the amount of 303,117.91 euros (amount due) + 3,914.71 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 417/11.5 BECTB filed by AdZC on 30/06/11 against the municipality of Gouveia, petitioning that said municipality pay the amount of 245,879.64 euros (amount due) + 3,179.47 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 418/11.3 BECTB filed by AdZC on 30/06/11 against the municipality of Manteigas, petitioning that said municipality pay the amount of 182,339.30 euros (amount due) + 2,346.20 euros (interest on arrears). Waiting for the sentence to become res judicata.
- Case no. 419/11.1 BECTB filed by AdZC on 30/06/11 against the municipality of Mêda, petitioning that said municipality pay the amount of 196,780.42 euros (amount due) + 2,540.37 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 420/11.5 BECTB filed by AdZC on 30/06/11 against the municipality of Penamacor, petitioning that said municipality pay the amount of 245,808.10 euros (amount due) + 3,155.33 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Administrative offence proceedings no. 150/PCO/2011, with citation by ARH which if found to have been infringed can lead to a fine of between 38,500.00 euros and 70,000.00 euros (in the case of negligence) and 200,000.00 euros to 2,500,000.00 euros (in the case of an intentional act). Written defence was submitted to the administrative entity, and the decision to levy a fine or shelve the case is awaited.
- Case no. 621/11.6 - BECBBR - Administrative and Tax Court of Coimbra - Action brought by Quercus against, among others, Águas de Zêzere e Coa, S.A. petitioning that the construction and/or operation of the Alvôco das Várzeas WWTP be ordered to stop, and that any erected buildings are demolished. Awaiting documentary evidence and scheduling of the hearing.
- Case no. 568/11.6 BECTB filed by AdZC on 30/09/11 against the municipality of Mêda, petitioning that said municipality pay the amount of 264,813.64 euros (amount due) + 4,076.65 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 569/11.4 BECTB filed by AdZC on 30/09/11 against the municipality of Belmonte, petitioning that said municipality pay the amount of 285,641.33 euros (amount due) + 4,324.01 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.

- Case no. 570/11.8 BECTB filed by AdZC on 30/09/11 against the municipality of Penamacor, petitioning that said municipality pay the amount of 333,860.03 euros (amount due) + 5,341.72 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 571/11.6 BECTB filed by AdZC on 30/09/11 against the municipality of Almeida, petitioning that said municipality pay the amount of 223,843.11 euros (amount due) + 3,679.64 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 572/11.4 BECTB filed by AdZC on 30/09/11 against the municipality of Figueira de Castelo Rodrigo, petitioning that said municipality pay the amount of 446,714.62 euros (amount due) + 7 001.23 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 573/11.2 BECTB filed by AdZC on 30/09/11 against the municipality of Manteigas, petitioning that said municipality pay the amount of 279,041.65 euros (amount due) + 4,253.44 euros (interest on arrears).
- Case no. 574/11.0 BECTB filed by AdZC on 30/09/11 against the municipality of Celorico da Beira, petitioning that said municipality pay the amount of 214,322.28 euros (amount due) + 3,187.35 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 575/11.9 BECTB filed by AdZC on 30/09/11 against the municipality of Pinhel, petitioning that said municipality pay the amount of 454,912.63 euros (amount due) + 11,256.48 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.
- Case no. 643/11.7 BECTB filed by AdZC on 17/10/11 against the municipality of Gouveia, petitioning that said municipality pay the amount of 296,910.91 euros (amount due) + 5,893.76 euros (interest on arrears). Awaiting documentary evidence and scheduling of the hearing.

Ersuc, S.A.

In connection with the expropriation of land for the purposes of public interest, there are cases being heard in court arising from the discrepancy between the land prices attributable to some plots of land.

Ersuc brought a case against Agência Portuguesa do Ambiente for the collection of the Waste Management Fee and Special Waste Management Fee.

Resiestrela, S.A.

Case No. 64/10.9 BECTB Administrative and Tax Court of Castelo Branco – Sued Party: Celorico da Beira Municipality – Date filed: 26/01/2010 – Value: 1,112,709.52 euros – Court fees paid: 408.00 euros Nature and status of case: Enforcement action relating to several invoices. The sentence passed on 23/04/10 found the action well-founded. Following the verdict the municipality paid some invoices, as indicated above. In addition to these invoices, the municipality settled debit note No. 2300000048 in the amount of 34,824.42 euros relative to interest on arrears. Whilst such debit note is not in any of the acknowledgments of debt that were the basis of the enforcement action, the reality is that the amount of interest on arrears included in this document corresponds to part of the amount of interest on arrears in respect of part of the above-mentioned invoices and included in the legal action.

In the meantime an account of the municipality was seized and Instituto de Gestão Financeira e de Infraestruturas da Justiça (IGFIJ) transferred to Resiestrela on 8/23/2011 392,065.84 euros. According to information from the Court, the IGFIJ will also transfer to Resiestrela 8,690.61 euros after the case has been finally concluded.

Case No. 66/09.8 BECTB Administrative and Tax Court of Castelo Branco – Respondent: ADC - Águas da Covilhã, E.M. – Date filed: 19/11/2008 – Value: 1,028,129.28 euros – Court fees paid: 1,152.00 euros + 1,152.00 euros + 1,152.00 euros.

Nature and status of case: Case results from the application for injunction brought by Águas do Zêzere e Côa, SA, and subsequently transferred to Resiestrela (accepted in judgment of 31/03/2009), relating to invoices issued between 31/07/2007 and 31/05/2008, in the total amount of 950,126.26 euros.

The Respondent was acquitted by verdict of 16/12/2010, for the reason that the Court considers that, since there is no contract for the delivery and reception of solid waste, there is also no contractual basis that legitimises the issue and collection of the invoices for which payment is petitioned in the case.

As Resiestrela, SA did not agree with such decision it filed an appeal with the South Portugal Central Administrative Court, which is following normal channels.

Case No. 539/11.2 BECTB Administrative and Tax Court of Castelo Branco – Respondent: ADC-Águas da Covilhã, E.M. – Value: 274,442.19 euros.

Nature and status of case: Application for injunction in relation to invoice nos. 5260380498, 5260380528, 5260380566, 5260380631, 5260380663 and 5260380686.

On 29/11/2011, Resiestrela filed its reply and extended the action to take into account invoice nos. 5260380969 and 5260380984.

Injunction no. 539854/9100498 - Respondent: ADC - Águas da Covilhã, E.M. - Value: 446,864.29 euros. Court fees paid: 153.00 euros.

Nature and status of the process: Application for injunction for the following invoice nos.: 5260380727, 5260380761, 5260380798, 5260380828, 5260380854, 5260380888 and 5260380920.

The process is progressing in the normal manner.

Case No. 533/08.0 BECTB Administrative and Tax Court of Castelo Branco – Claimant: Resiestrela, S.A. – Contesting Party: Fundão Municipality – Date filed: 15/12/2008 – Value: 105,931.92 euros.

Nature and status of case: Legal action challenging the Environmental Fee paid by the municipality of Fundão, filed by Águas do Zêzere e Côa, S.A., with Resiestrela, SA subsequently being assigned as claimant. The case is progressing in a normal manner.

Case no. 1290/07.3TBCVL-B of Covilhã Court

Third party objection action filed by Resiestrela, S.A. in respect of the enforcement proceedings brought by Novaflex, S.A. against Associação de Municípios da Cova da Beira, opposing the seizure of the Trancoso Transfer Station.

The case is progressing in a normal manner.

NUIPC 581/09.3TAGRD - Inquiry by the GNR Fundão police as a result of the complaint filed by Resiestrela regarding the destruction by unknown persons of recycling bins it owns. As the complaint was lodged against unknown persons, it is unlikely that Resiestrela, SA will be compensated for its losses

Case no.300.05.21, no.444-E/11 of GNR Soalheira police - Inquiry by the GNR Soalheira as a result of the complaint filed by Resiestrela regarding the destruction by unknown persons of recycling bins it owns. As the complaint was lodged against unknown persons, it is unlikely that Resiestrela, SA will be compensated for its losses.

Administrative offence proceedings no. CO/001811/11 of IGAOT – Proceedings in which it is claimed that Resiestrela carried wood waste arising from the demolition of Sousa Martins Hospital in Guarda without the appropriate transport permit established by Ordinance no. 417/2008 of 11/06, and it is alleged to have committed the offence provided for in Article 12(2) of Decree-Law no. 46/2008 of 12/03, punishable under 18(2)h) of that same decree-law. Written defence was presented, and no decision has been made so far.

Administrative offence proceedings no. 344/2011/DSAJAL of CCDRC – Proceedings in which it is claimed that Resiestrela carried waste arising from waste sorting, and intended for energy recovery operations, without the appropriate transport permit. It is alleged to have committed the offence provided for in Article 67(3)d) and article 21 of Decree-Law no. 178/2006 of 05/09, combined with the provisions of article 5(2) of Ordinance no. 335/97 of 16/05. Written defence was submitted on 08/11/2011, and no decision has been made so far.

Resiestrela, S.A. is also party to some cases, which are listed below, since the party is Águas de Zêzere e Côa, S.A. but the final decision could have repercussions on the accounts of Resiestrela, SA, given the provisions of the contract granting the assignment of the multi-municipal system of sorting, selective collection, recovery and treatment of municipal solid waste at Cova da Beira:

Case no. 889/09.9BECBR of the Administrative and Tax Court of Coimbra - Claimant: Nova Beira - Gestão de Resíduos, S.A. - Respondent: Águas do Zêzere e Côa, S.A. – Date filed: December 2009 - Value: 3,561,693.72 euros – Nature and status of case: Ordinary Administrative proceedings in which the Claimant files for the Respondent to pay the amount mentioned above, based on the provision of services which have not been paid. The assignment of Resiestrela, SA in this case was applied for; and so far the Court has not made any decision.

Case no. 439/08.3BECTB of the Administrative and Tax Court of Castelo Branco - Claimant: Águas do Zêzere e Côa, S.A. – Respondent: Fundão Municipality - Value: 105,931.92 euros – Nature and status of case: Legal action challenging the Environmental Fee paid by the municipality of Fundão, filed by Águas do Zêzere e Côa, S.A. The case is progressing in a normal manner.

List of potential claims:

On 27/12/2011 a letter was received from Nova Beira, S.A. in which, with reference to the contract for services and operation and management of the integrated system for the collection of municipal solid waste for waste treatment system of Cova da Beira, it requests the payment of 4,030,862.38 euros.

Pending in the Administrative and Tax Court of Coimbra is case no. 889/09.8BECBR, described above under no. 33, in which Nova Beira requests the payment of 3,561,693.72 euros by Águas do Zêzere e Côa, S.A. in respect of the performance of the same contract. It is not currently known if Resiestrela, SA will be sued in court.

It is understood that Nova Beira is not the creditor of the amount requested from Resiestrela SA, and Resiestrela S.A. is not in debt to the former. Moreover, Nova Beira has never billed any new service to Resiestrela, SA, and therefore it has no debt to Nova Beira and not in a situation of default.

Resulima, S.A.

Judicial review of the administrative act of APA for the final settlement of the TGR, in 2010, which is filed with the Administrative and Tax Court of Braga.

Sanest, S.A.

Following the entry into force of Law 12/2008 of 26 February, Sanest filed injunctions against the municipality of Sintra and municipality of Oeiras for the recovery of debts from the respective SMAS related to the provision of waste collection services in the areas of the respective municipality, as per the Concession Agreement and Wastewater Collection contract.

Following the conclusion of the injunction proceedings against the municipality of Oeiras, with the acquittal of the Respondent (municipality of Oeiras) at that instance, for alleged error in the form of case, Sanest filed a joint action in order to safeguard against expiry under the statute of limitations of the debt in question.

In the injunction proceedings against the municipality of Sintra, Sanest claims the payment of a debt amounting to 1,845,277.04 euros, plus interest accrued and due, relating to billing from January 2006 to May 2008, including the settling of invoices of 2006.

In the common proceedings against the municipality of Oeiras, Sanest claims the payment of a debt amounting to 495,533.65 euros, plus interest accrued and due, relating to the settling of invoices of 2006.

Simarsul, S.A.

Case no. 459/11.0BEALM - injunction proceedings in which the respondent is the municipality of Alcochete, claiming the payment of debt amounting to 112,566.50 euros: The municipality contested our claim, and the case was referred for distribution. It is being heard in the Administrative and Tax Court of Almada.

Case no. 799/11.9BEALM - injunction proceedings in which the respondent is the municipality of Alcochete, claiming the payment of debt amounting to 170,257.91 euros: The municipality contested our claim, and the case was referred for distribution. It is being heard in the Administrative and Tax Court of Almada.

Case no. 315245/11.0YIPRT - injunction proceedings in which the respondent is the municipality of Alcochete, claiming the payment of debt amounting to 255,754.67 euros:

Case no. CO/001132/09 – relating to Fonte da Prata WWTP. Simarsul is charged with an administrative offence with a fine between 60,000.00 euros and 70,000.00 euros, in the event of negligence, and 500,000.00 euros to 2,500,000.00 euros in the event of intentional act; and Case no. CO/001142/09 - relating to ZIA WWTP. Simarsul is charged with an administrative offence with a fine between 60,000.00 euros and 70,000.00 euros, in the event of negligence, and 500,000.00 euros to 2,500,000.00 euros in the event of intentional act. IGAOT combined the two proceedings and fined Simarsul a sole penalty of 180,000.00 euros. The decision is being challenged in court.

Case no. CO/15/2010 – relating to Lagoinha WWTP. Simarsul is charged with an administrative offence with a fine between 38,500.00 euros and 70,000.00 euros in the case of negligence and 200,000.00 euros to 2,500,000.00 euros in the case of an intentional act. IGAOT ordered Simarsul to pay a fine of 38,500.00 euros plus costs of 100 euros. The decision is being challenged in court.

Case no. CO/32/2010 – relating to Quinta do Conde WWTP. Simarsul is charged with an administrative offence with a fine between 38,500.00 euros and 70,000.00 euros in the case of negligence and 200,000.00 euros to 2,500,000.00 euros in the case of an intentional act. IGAOT ordered Simarsul to pay a fine of 38,500.00 euros plus costs of 100 euros. The decision is being challenged in court.

Simlis, S.A.

It is not expected that Simlis will incur costs in relation to any of these cases. The following cases were pending at 31 December 2011:

Case no. 441 / 06.0BELRA – Administrative and Tax Court of Leiria – Ordinary Administrative Proceedings filed by Construtora Abrantina, S.A. claiming from Simlis the payment of 319,967.44 euros relative to measurement differences in the contract “Construction of the Maceira Sewerage Network – 1st and 2nd stages”. The initial court fees of 1,068.00 euros were paid. In the Challenge submitted on 18/05/2006 it follows the expiry of the right to take legal action and we plead the dismissal of the application. - There has not yet been any decision.

Case no. 1554 /09.1BELRA – Administrative and Tax Court of Leiria – Ordinary Administrative Proceedings filed by Construtora Abrantina, S.A. on 29/09/2009 petitioning that Simlis pay 139,793.28 euros relative to site costs and interest in the contract “Construction of the Maceira Sewerage Network – 1st and 2nd stages”.

Case no. 1552/09.5BELRA – Administrative and Tax Court of Leiria – Ordinary Administrative Proceedings filed by Construtora Abrantina, S.A. on 29/09/2009 petitioning that Simlis pay 3,099,892.27 euros and interest relative to losses arising from loss of income, remaining on the work site, loss of earnings, financial charges and losses on assembly and disassembly of the site of the contract “Construction of the Maceira Sewerage Network – 3rd, 5th and 6th stages”.

Case no. 1553 /09.3BELRA – Administrative and Tax Court of Leiria – Ordinary Administrative Proceedings filed by Construtora Abrantina, on 29/09/2009 petitioning that Simlis pay 389,165.21 euros as compensation pursuant to article 234(2) of Decree-Law 59/99 due to termination of contract – on the “Construction of the Maceira Sewerage Network – 3rd, 5th and 6th stages”. There is no expectation that these lawsuits will result in costs for Simlis.

Simria, S.A.

a) Cases in which Simria, S.A. is the respondent:

- Ordinary administrative proceedings no. 760/05.2BEVIS, being heard in the Administrative and Tax Court of Viseu, brought by the companies CONSTRUTORA ABRANTINA, S.A. and JAIME RIBEIRO & FILHOS, S.A. which, in relation to the contract “Multi-municipal Sewerage System of Ria de Aveiro - Interceptors Sul and Vouga - Pipelines”, petitions that Simria, S.A. be ordered to recognise the right of the claimants to the legal extension of the performance deadline of that contract to April 2003 and pay the claimants compensation amounting to 8,896,803.00 euros, plus interest accrued and due at legal rates.

In this case Simria, S.A. filed a counterclaim against the claimants, claiming compensation amounting to 7,820,565.53 euros, plus interest, by way of fines levied on the contractor for delays in the performance of the work, lost profits, damages to its image and others.

The drawing up of the documentary evidence by the court and notification of the parties is pending in this case. After this, the case will follow its procedural course.

- Ordinary administrative proceedings no. 1075/08.0BEVIS, being heard in the Administrative and Tax Court of Viseu, brought by the companies Construtora A, S.A. and Jaime Ribeiro & Filhos, S.A. which, in relation to the contract “Multi-municipal Sewerage System of Ria de Aveiro - Interceptors Sul and Vouga - Pipelines”, petitions that Simria, S.A. be ordered to recognise the right of the claimants to the legal extension of the performance deadline of that contract to 24 September 2004 and pay the claimants compensation amounting to 4,407,430.48 euros, as compensation for losses allegedly suffered by the contractor on that contract, additional work, the revision of prices and interest on arrears for alleged discrepancy between the payments contractually expected and those actually made.

The order of the judge is pending so that the case may follow its procedural course.

- Ordinary proceedings no. 5688/10.ITBVFR, being heard in the 2nd Civil Chamber of Santa Maria da Feira Court, brought by Carlos Leandro Melo and spouse, which petitions that Simria, S.A. pay the claimants the total amount of 105,376.00 euros, plus interest at the legal rate, as compensation for damage allegedly suffered to their property in the course of the contract "Multi-Municipal Sewerage System of Ria de Aveiro - Barrinha de Esmoriz Subsystem - Silvalde and Beire Interceptors". The judge has issued the documentary evidence in relation to this case and the giving of evidence by the parties has begun. The submission in the case of expert evidence in relation to the property is awaiting approval.
- Ordinary Enforcement no. 6023/09.7T2OVR, being processed in the Baixo Vouga judicial district, in Ovar – Enforcement section, filed by Saul Coutinho de Almeida and spouse, for the enforcement of a sentence jointly and mutually ordering Simria, S.A., Construtora Abrantina, S.A., Jaime, Ribeiro & Filhos, S.A., CME - Construção e Manutenção Eletromecânica, S.A. and Companhia de Seguros Tranquilidade, S.A. to repair all damage suffered by the residence of the party bringing the enforcement action, and compensate them for all property and non-property damage, to be settled on enforcement. The enforcement amount is 159,540.00 euros. The enforcement was challenged, and it is currently at the stage of providing expert evidence.

b) Cases in which Simria, S.A. is the claimant:

- Ordinary administrative proceedings no. 994/09.0BEAVR, being heard in the Administrative and Tax Court of Aveiro, filed against Vagos municipality, petitioning that said municipality be ordered to pay the total amount of 179,037.36 euros plus interest referring to the services of collection, treatment and disposal of effluent provided by Simria S.A. and not paid by that municipality. The Hearing and Judgment is scheduled for 27 September 2011, after which it will follow the normal procedural course.
- Injunction no. 293757/11.8YIPRT, being heard at the National Injunction Board, filed against Vagos municipality, petitioning that said municipality be ordered to pay the total amount of 223,854.44 euros plus interest due at the commercial legal rate, relating to the services of collection, treatment and disposal of effluent provided by Simria S.A. and not paid by that municipality. In this case, the period for the respondent to contest is still running.

Valorminho, S.A.

Legal challenge of the administrative act of APA of final settlement of the Waste Management Fee for 2010, which is taking its procedural course in the Administrative Court of Braga.

52. Rights and Obligations

Águas do Algarve, S.A.

Águas do Algarve, S.A., according to paragraph 12 of Clause 17 of the protocol with INAG, has annual costs of 1 million euros, intended for co-funding of expenditure on works and maintenance of the Odeleite-Beliche system. This cost is reflected in the accounts under account 62 - ESS. Águas do Algarve has a protocol with the ICNB - Institute for Nature Conservation and Biodiversity, which requires an annual contribution of EUR 280 000, adjusted for inflation, for the operation and maintenance of the National Centre for Reproduction of the Iberian lynx.

Águas de Trás-os-Montes e Alto Douro, S.A.

The main rights and obligations of the Company can be summarised as follows: Approval by Brussels of applications submitted by the Portuguese State under the NSRF 2007-2013, with a view to setting in motion the initiatives required for the sector, as well as the approval of PEAASAR II. Finalise the downstream connection of some municipalities, then prepare with them the plan to implement such. Consolidate the organisational model recently implemented with the strategic options, as well as take action aimed at promoting the personal development of employees. Continue the investment plan ensuring the implementation of infrastructure within the contracted time. Foster the effective operation of the water supply and sewerage service systems, ensuring the quality of the processes. Proceed with the environmental awareness action plan, as well as the rational and efficient use of available resources. Proceed with the contracting of financial resources in the medium term, and obtain, on schedule, grants approved for eligible investment.

Simlis, S.A.

The most relevant facts of the first half of 2011 include: debit municipalities for the studies and projects of the domestic downstream sewerage systems; turnover: 7.9 million euros; volume of effluent treated: 11.6 million cubic metres, 19 000 cubic meters of which are pig effluent; transactional debt agreement signed with the municipality of Ourém in the amount of 220,047.84 euros.

52.1 Guarantees

The liabilities for bank guarantees provided by business units of the companies included in the consolidation perimeter are as follows:

Business unit	Courts	Financial institutions	Concession granting entities	Other	31.12.2011	31.12.2010
UNA-PD	10,117,743	258,770	278,145	20,634,094	31,288,752	45,156,272
EPAL	5,433,496	25,651,718	-	274,604	31,359,818	47,878,367
UNA-DR	-	-	-	78,000	78,000	-
UNR	153,233	41,668,159	1,911,909	4,670,931	48,404,232	43,876,157
UNI	-	-	-	2,767,592	2,767,592	1,428,571
Corporate	-	400,000	499,399	311,708	1,211,107	804,562
Total	15,704,472	67,978,647	2,689,453	28,736,929	115,109,501	139,143,930

The holding company of the AdP group (AdP SGPS) is the guarantor of compliance with the contracted obligations on loans obtained from the EIB.

53. Subsequent events

53.1 Local government debt to the water, sewerage and waste sector (Law no. 64-B/2011 of 30 December, 2012 State Budget)

Article 58(1) of the 2012 State Budget states that local authorities with outstanding debts to the management entities of multi-municipal systems of the water, sewerage and waste sector must submit to the responsible ministry by 15 February the plans for settlement of the respective debts.

To this end, the AdP Group, through its holding company, informed the Ministers of Agriculture, Sea, Environment and Spatial Planning and the Minister of State and Finance of the total outstanding debts of the municipalities to the Group companies as well as a proposal with the conditions now being applied by Group companies in cases where debts are due and for which payment agreements have been concluded and are being fully complied with, and which include, *inter alia*, the following assumptions:

- regular payment within the time limits of the contracted regular service;
- Payment of the debt existing at 31 December 2011, within a maximum period equivalent to double the months in arrears.
- Financial interest payments calculated based on the average bank interest rates for short-term operations charged by commercial banks with which the Company has existing loan agreements;
- The instalments defined in the payment plans will be paid by bank transfer;
- Delays exceeding 60 days in the payment of the instalments defined in the payment plan are deemed equivalent to total default of that agreement and entitle receipt of accrued and due instalments;
- Authorisation for the credits envisaged and recognised in the agreements to be assigned, in whole or in part, to third parties.

Currently, and to the best of our knowledge, this proposal for the recovery of debts is being discussed by the Ministry of Agriculture, Sea, Environment and Spatial Planning and ANMP, so that the final proposal may permit local authorities to commit decisively to these Debt Recovery Plans.

53.2 Appointment of members of the governing bodies

At the General Meeting of AdP - Águas de Portugal, SGPS, S.A. on 2 February 2012 the following members were elected to the governing bodies:

Board of the 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

Presidente Executivo: 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 José de Oliveira Reis, representing Parpública, SGPS, S.A. and Parcaixa, S.A.

Supervisory Board

Chairman: Paulo Alexandre dos Santos Ferreira

Member: Ana Luísa Videira Gomes

Member: Mário José Alveirinho Carrega

Substitute: Graça Maria Valente Nunes Montalvão Fernandes

Remuneration Committee

Chairwoman: Filomena Maria Amaro Vieira Martinho Bacelar

Member: Ana Maria Amália Freire de Almeida

Member: Isabel Maria Goulão da Câmara Pestana Ferreira

Lisbon, 6 March 2012

The Board of Directors



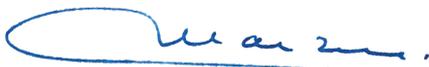
Afonso José Marçal Grilo Lobato de Faria
(Chairman)



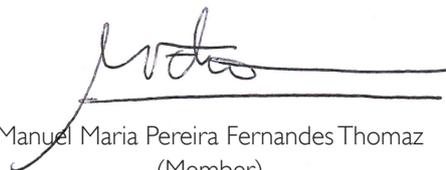
Álvaro António Magalhães Ferrão de Castello-Branco
(Member)



Gonçalo Ayala Martins Barata
(Member)



Manuel Joaquim Barata Frexes
(Member)

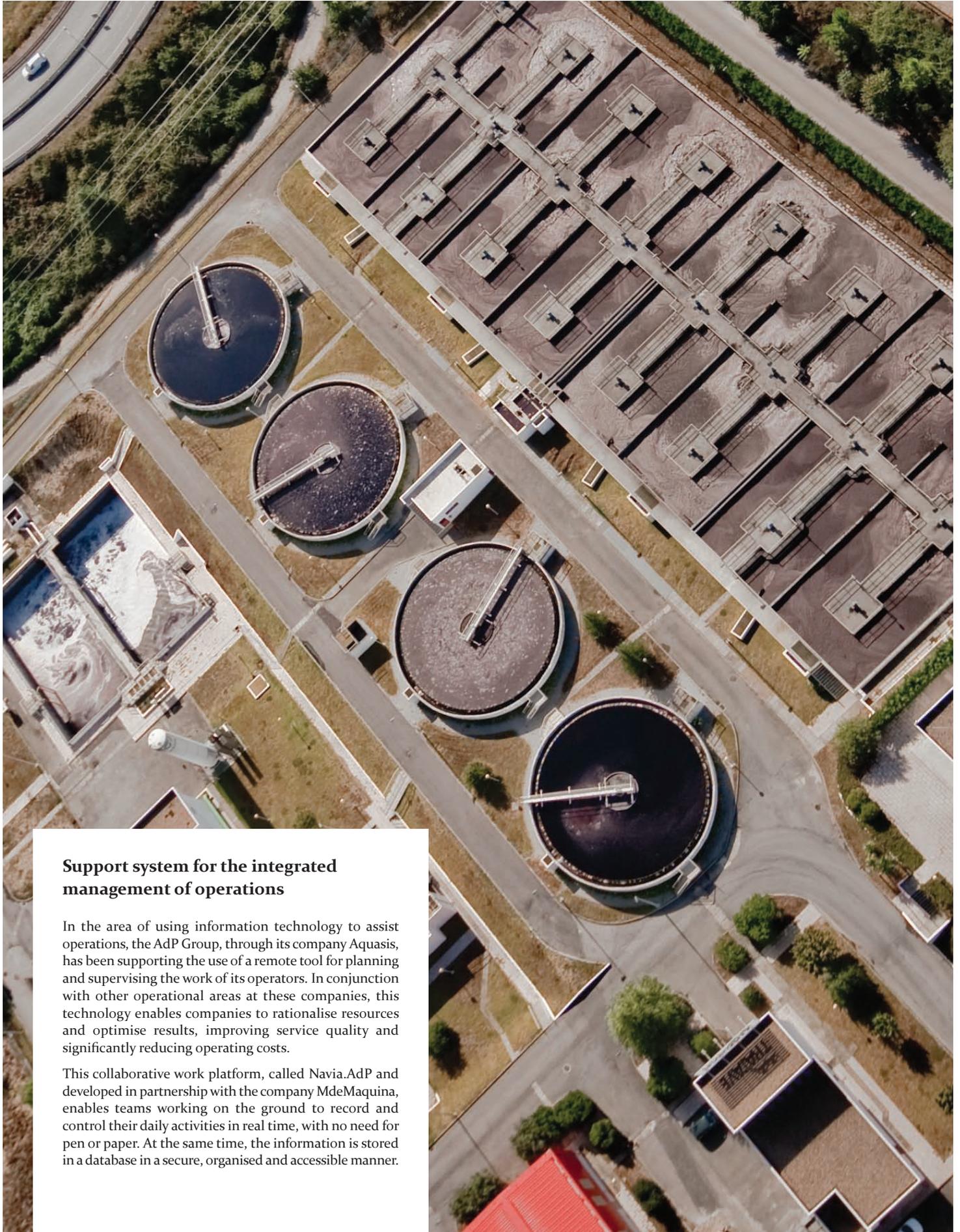


Manuel Maria Pereira Fernandes Thomaz
(Member)

The Chartered Accountant



Carla Isabel Costa Pinto Ribeiro



Support system for the integrated management of operations

In the area of using information technology to assist operations, the AdP Group, through its company Aquasis, has been supporting the use of a remote tool for planning and supervising the work of its operators. In conjunction with other operational areas at these companies, this technology enables companies to rationalise resources and optimise results, improving service quality and significantly reducing operating costs.

This collaborative work platform, called Navia.AdP and developed in partnership with the company MdeMaquina, enables teams working on the ground to record and control their daily activities in real time, with no need for pen or paper. At the same time, the information is stored in a database in a secure, organised and accessible manner.

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, SA for the 2011 financial year, presented by the Board of Directors.
2. The Audit Committee monitored the management of AdP - Águas de Portugal, SGPS, SA and the evolution of its business, through contacts with those primarily responsible, attending meetings of the Board of Directors, as well as through the reading of the minutes of other meetings of this governing body. It regularly held meetings, which were attended, as a rule, by the director responsible for financial matters and the statutory auditor. The Audit Committee obtained all the clarifications requested and was provided with all the documentation deemed necessary to carry out its supervisory role.
3. The Audit Committee also appraised compliance with applicable legal and statutory requirements, finding no situations of 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 2011 Management Report and Accounts provides information on compliance with the Principles of Good Governance aimed at State-owned companies, embodied in Council of Ministers Resolution no. 49/2007, despite the analysis of the Group's sustainability in the economic, social and environmental fields also benefiting from the presentation of the 2011 Sustainability Report, demonstrating material compliance with those principles.
6. The remuneration reductions defined in Law no. 55-A/2010 of 31 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 Statutory Audit Certificate 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 Certificate 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 consolidated financial statements (which comprise the Consolidated Statement of Financial Position at 31 December 2011, 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, SA on 31 December 2011, 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, the Statutory Auditor and the departments of AdP - Águas de Portugal, SGPS, SA.

Opinion

As a result of the above-stated, the Audit Committee issues a favourable opinion on the management report and consolidated accounts for the 2011 financial year of AdP - Águas de Portugal, SGPS, SA, as regards their approval by the General Meeting.

Lisbon, 4 April 2012

The Audit Committee

Paulo Alexandre dos Santos Ferreira (Chairman)

Mário José Alveirinho Carrega (Member)

Ana Luísa Videira Gomes (Member)

Legal Certification of Consolidated Accounts

Alves da Cunha, A. Dias & Associados
Statutory Audit Firm

Statutory Audit Certificate of Consolidated Accounts

Introduction

1. We have examined the consolidated financial statements of AdP - Águas de Portugal, SGPS, SA, comprising the Consolidated Statement of Financial Position at 31 December 2011 (which reports a total of 7,492,952,000 euros and total equity of 1,034,439,000 euros, including a net profit of 89,603,000 euros), 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 2011, 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 and 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 and liabilities of 112,489,000 euros (135,317,000 euros in 2010), 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 that it is considered by the concession grantor for the purposes of the financial equilibrium of the concession agreements, where such is justified.

9.2 As explained in section 18 of the Notes, the debts of customers (municipalities) have significantly increased, resulting in the worsening of the payment periods. Section 52 of the Notes states that following article 58(1) of Law no. 64-B/2011 of 30 December, the management of AdP - Águas de Portugal, SGPS, SA, presented a proposal to the Government for the recovery of the debts owed by the municipalities to the companies of the AdP Group.

Lisbon, 29 March 2012

Alves da Cunha, A. Dias & Associados
Statutory Audit Firm
Represented by José Duarte Assunção Dias

Auditors' Report (Consolidated Financial Statements)

Ernst & Young

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Auditors' Report (Consolidated Financial Statements)

Introduction

1. We have examined the attached consolidated financial statements of AdP - Águas de Portugal, SGPS, S.A., comprising the consolidated statement of financial position at 31 December 2011 (which reports a total of 7,492,951,831 euros and total equity of 1,034,439,083, euros including net profit attributable to shareholders of 89,602,511 euros), 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 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 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;
- 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. 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 2011, of the financial position of AdP - Águas de Portugal, SGPS, S.A., 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 explained in section 18 of the Notes to the consolidated financial statements, there are balances receivable from municipalities that have significantly worsened in terms of their age, a situation for which no adjustment has been recorded in the consolidated financial statements. In a climate of restricted access to credit, this situation may affect the financial equilibrium of the group. The Board of Directors believes that the solutions will be found in the ongoing processes of renegotiation, which may ensure the economic and financial equilibrium of the concessions and the compliance with contractual obligations.

Lisbon, 29 March 2012

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

Statutory Auditing Firm (no. 178)

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STATEMENT

The documents entitled “Report and Opinion of the Audit Committee”; Legal Certification of Consolidated Accounts” and “Auditors Report” shown on pages 161 to 166 and pages 265 to 270 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 2011”.

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Design by - AdP - Águas de Portugal Serviços Ambientais, S.A.

Water Safety Plans

The AdP Group belongs to a group of utilities that have established a position of international leadership in the area of water safety, having produced a handbook to help companies managing drinking water supply systems develop and implement Water Safety Plans (WSPs).

WSPs provide a methodical approach to managing risk, considering that a risk-causing event can occur at any point in the value chain involved in supplying water to the public, whether it be during collection, treatment or distribution. Introducing this integrated methodology results in more effective safety management of water supplies in both quantitative and qualitative terms.

The handbook is based on a World Health Organisation and International Water Association publication, but also includes the experience that AdP Group companies have accumulated from the WSPs they have already implemented, which currently cover about 5 million people in Portugal.

