



AdP - Águas de Portugal, SGPS, S.A.
Annual Report 2010

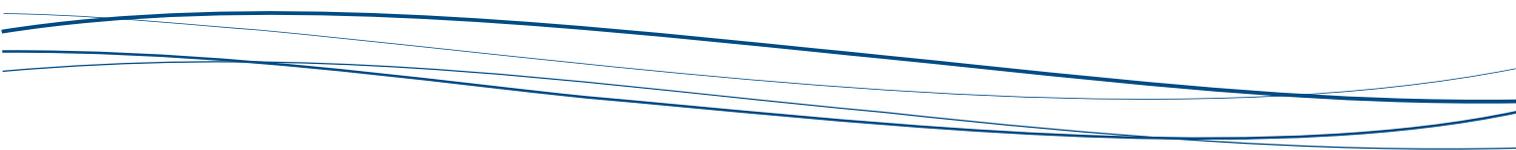






Table of Contents

| | |
|--|------------|
| Chairman's Message | 06 |
| The AdP Group | 08 |
| Main Events | 15 |
| A - Corporate Governance | |
| 1. Mission, Objectives and Policies | 21 |
| 2. Internal and External Regulations | 26 |
| 3. Information on Relevant Transactions | 27 |
| 4. Corporate Governance Structure | 28 |
| 4.1. Governing Bodies | 28 |
| 4.2. Organisational Structure | 40 |
| 5. Remuneration and Other Costs | 42 |
| 6. Analysis of Sustainability | 44 |
| 7. Compliance with the Principles of Good Governance | 54 |
| 8. Code of Ethical Conduct | 57 |
| 9. Risk Control | 58 |
| 10. Preventing Conflicts of Interests | 59 |
| 11. Reporting | 60 |
| 12. Compliance with Instructions, Orders and Diverse Legislation | 61 |
| 13. Trends in Average Payment Periods | 63 |
| 14. Non-executive Director's Report | 64 |
| B - AdP Group Operations | |
| 1. Introduction | 69 |
| 2. Economic Environment | 69 |
| 3. Sectorial Environment | 71 |
| 4. Economic and Financial Analysis | 74 |
| 5. Shareholdings Portfolio | 79 |
| 6. Value Chain | 80 |
| 7. Regulation | 81 |
| 8. Business Units | 83 |
| 8.1. Water and Wastewater | 83 |
| 8.2. Waste | 98 |
| 8.3. Energy and Other Businesses | 102 |
| 8.4. International | 104 |
| 8.5. Shared Services | 107 |
| 9. Changes to Accountancy Norms | 111 |
| 10. Future Perspectives | 112 |
| 11. Final Considerations | 113 |
| 12. Proposed Appropriation of Profit | 114 |
| 13. Notes to the Annual Report | 115 |
| C - Financial Statements for 2010 | |
| Separate Financial Statements | 146 |
| Report and Opinion of the Audit Committee | 161 |
| Legal Certification of Individual Accounts | 163 |
| Auditors' Report | 165 |
| Consolidated Financial Statements | 191 |
| Report and Opinion of the Audit Committee | 241 |
| Legal Certification of Consolidated Accounts | 243 |
| Auditors' Report | 245 |

Chairman's Message

As forecast in the 2009 Management Report and Accounts, 2010 did prove a difficult year for the Portuguese economy and society and also a demanding year for companies, which were forced to make efforts to contain costs and improve efficiency.

Such efforts, alongside opportunities which emerged in the meanwhile and which we were able to exploit, explain the exceptionally positive results attained by the AdP Group in the financial year which has just ended: a consolidated result of € 79.5 million after tax. This result includes the impact of around € 28 million stemming from non-operating results, in particular, the sale of the stake held in Águas de Moçambique, fixed assets and the respective working life changes at EPAL, in turn deriving from the application of a new accountancy standards framework and the resolution of litigation over the sub-soil utilisation charge in the municipality of Lisbon.

This result is due to the efforts of everybody involved, managers, directors and group members of staff as well as the experience of good cooperation with the regulatory authorities and our partners, especially municipalities.

This year, for the first time, the group fully adopted across all its companies the new international financial reporting standards, in accordance with the opportunity provided under Decree Law no. 158/2009, of 13 July, which approved the Accountancy Standardisation System (SNC), coming into effect as of 1 January 2010. The AdP SGPS results, ascertained in accordance with these standards, were € 27.3 million, a sum that we also consider to be very positive.

These positive results demonstrate the good performance of the AdP Group but do not represent the extent of the successes notched up in the year covered by this report.

In 2010, the two public-public partnership management companies for water and sanitation fully embarked on their activities following the signing of contracts in 2009 for AdRA - Águas da Região de Aveiro and AgdA - Águas Públicas do Alentejo. Since this was a new model for water and sanitation service management and a new business model for the AdP Group, providing scope for the integration of municipal assets and members of staff into the new companies, there was a great deal of expectation as to what might happen. At this moment, we may state that these operations have all been successful, courtesy not only of the effort put in by the management and all members of staff but also the good understanding existing with the local governments at the heart of the partnerships and the prevailing good spirit of cooperation.

In 2010, the process of merging the multi-municipal systems of Minho e Lima, Cávado and Ave was completed with the

subsequent creation of Águas do Noroeste and the signing of the respective concession contract. The merger of Resioeste and Valorsul, EGF group companies, was also finished with the signing of a new concession contract, in addition to the founding of Simdouro, concessionaire for the Grande Porto multi-municipal sanitation system, with its concession contract signed last November. Although they were undertaken prior to the public release of Government guidelines within the framework of the Stability and Growth Plan, these projects, which seek to implement the strategic guidelines already approved by the government, adopt the measures recommended in the Plan as regards the simplification of state-owned companies.

Right at the end of the year, we sold off the stake held by the group in the equity capital of the company Águas de Moçambique, concession holder of the drinking water supply for the cities of Maputo and Matola, at the request of the Government of Mozambique. This company, with its contract due to expire at the end of 2014, turned in a positive operating result for the very first time and its sale enabled a meaningful financial return, resulting from the sale itself, the reversion of the provisions established, and also the lapsing of bank guarantees. Of further relevance in the international market was the success of the technical assistance proposals presented in partnership with other national companies, especially in Angola.

Throughout 2010, progress was also made on other projects announced in our 2009 message: the merger of Águas do Mondego and Simlis, the partnership with the municipalities of that region and the partnership with the Noroeste municipalities. The difficult circumstances in 2010 did not allow for their conclusion, which depends additionally on the necessary conditions for their financing being met.

The Board of Directors that I presid over ended its mandate on the 31 December and hence a brief overview of this period is required, taking into consideration the guidelines provided by the Secretary of State for the Treasury and Finance, on behalf of the Minister; and the Minister of the Environment, Territorial Planning and Regional Development in their Recommendations annexed to Order no. 6008/2009, of 23 January.

Therefore, it should be highlighted that the AdP Group advanced with its investments in multi-municipal systems and now also in State-Local Government partnerships in line with the conclusions and orientations set by PEAASAR II and PERSU II, despite the different financial market conditions and the delays in the approval of applications under the POVT. Also in alignment with these strategic plans and regulatory recommendations, various operations were undertaken in order to expand existing multi-municipal systems as well as the recommended mergers. Major progress was also recorded in

the implementation of concession contracts and supply and collection contracts, and all environmental authorisation and licensing was obtained from the respective authorities.

Among the measures it did not prove possible to advance or close within this mandate, I would mention the resolution of the pig farming slurry problem, for which it proved necessary to propose another institutional solution and another business model, given the poor take up by industrial livestock units of the solution adopted in 2008, the Refuse-Derived Fuels and wastewater treatment plant sludge combined treatment project that also experienced a significant delay in its approval process and has only just been started, in addition to the integration of the downtown sanitation of the city of Lisbon into EPAL, that has proven more difficult to carry out than first thought.

However, among all the recommendations received, that which we most regret not putting into practice relates to the recovery of accumulated tariff deficits generated at some UNAPD concessions, with the terms of the Economic and Financial Feasibility Studies (EVEF) review only clarified by the authorities in January of this year. This is one outstanding issue for the new Board of Directors.

The triennial now beginning will present the new Board of Directors with increasing demands regarding compliance with the objectives and with the Stability and Growth Pact programme, the financing of group projects, guaranteeing the sustainability of various group stakes and the pacification of relationships with the municipalities using multi-municipal system concession services. We are certain that, with the cooperation of the authorities, the shareholders, partners and all of AdP Group employees, this will be achieved.



Pedro Cunha Serra
Chairman of the Board of Directors

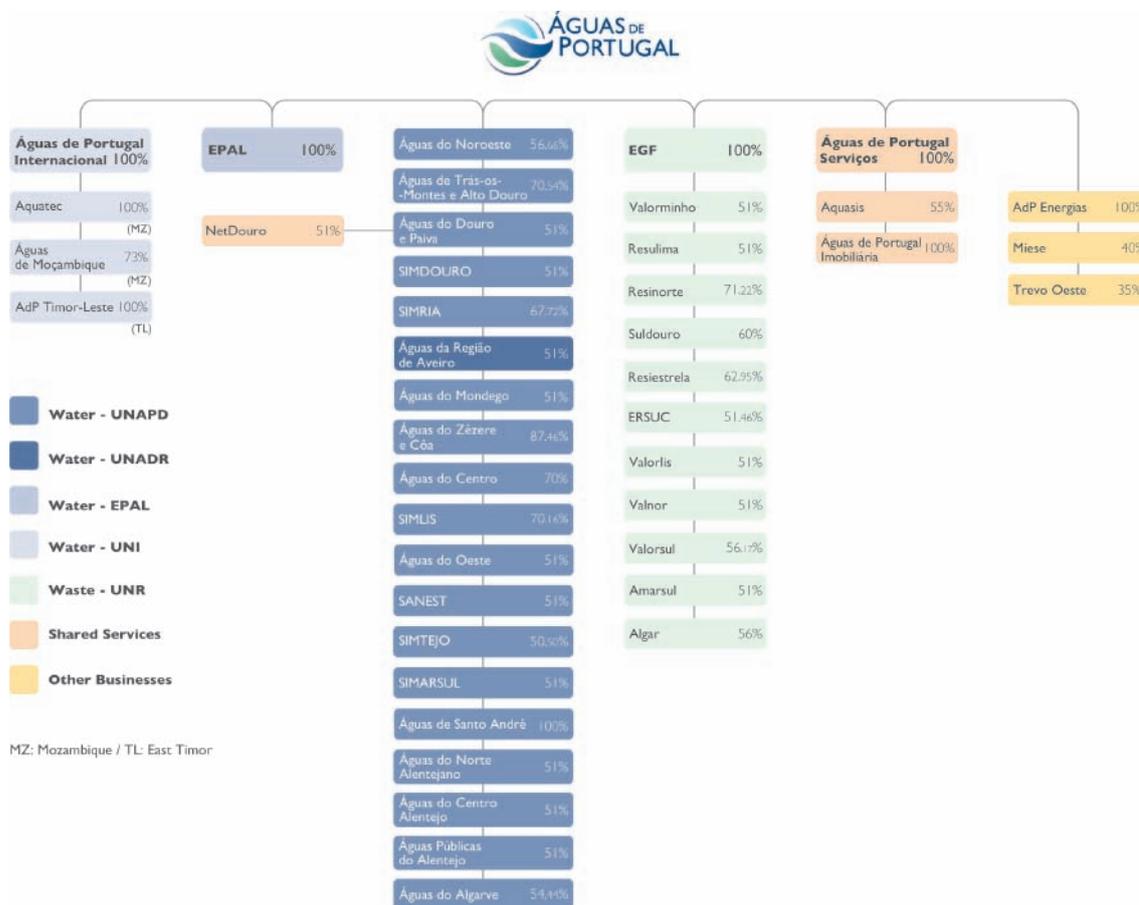
“The triennial now beginning will present the new Board of Directors with increasing demands regarding compliance with the objectives and with the Stability and Growth Pact programme, the financing of group projects, guaranteeing the sustainability of various group stakes...”



The AdP Group

Group Organisation Chart

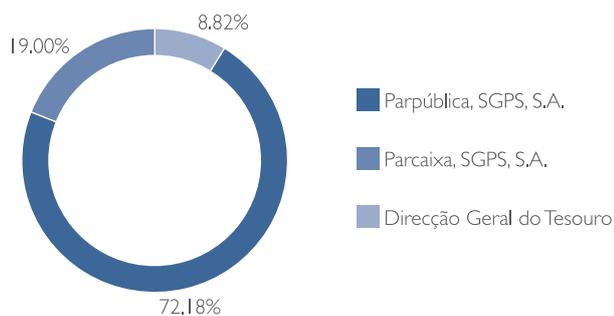
On 31 December, 2009, the shareholding structure of AdP - Águas de Portugal, SGPS, S.A. comprised 43 companies, 41 of which were majority owned.



Note: On 28 December 2010 a promissory contract was signed for the sale and purchase of the Águas de Moçambique shares. The purchaser took over control of the company on 2 January. The process was concluded on 31 March 2011 when the shares were transferred.

Shareholders

On 31 December 2010, the share capital of AdP - Águas de Portugal, SGPS, S.A. was owned by the following shareholders:



This shareholder structure experienced no changes over the financial year.



Main Indicators

Economic and financial data

Unit: € million

| | 2005 | 2006 | 2007 | 2008 | 2009 POC | 2009 IFRS | 2010 IFRS |
|-----------------------------------|--------|--------|--------|--------|----------|-----------|-----------|
| Turnover | 462.7 | 532.7 | 553.2 | 614.8 | 659.3 | 657.9 | 724.5 |
| Tariff Deficit | 3.8 | 28.0 | 37.6 | 41.6 | 33.7 | 32.5 | 37.3 |
| Operational Income ⁽¹⁾ | 56.7 | 46.0 | 117.7 | 139.6 | 141.7 | 122.7 | 176.6 |
| EBITDA ^{(2) (3)} | 197.3 | 218.7 | 218.7 | 304.0 | 280.6 | 251.5 | 277.1 |
| Financial Results | (32.1) | (76.0) | (70.2) | (90.5) | (61.3) | (18.9) | (50.5) |
| Net Income of the year | 13.4 | (32.9) | 7.9 | 63.0 | 45.9 | 65.3 | 79.5 |

(1) Results before interest and taxation

(2) Includes extraordinary results and excludes investment grants and tariff deficit

(3) Deducting the effect of the gain from the sale of Aquapor and Recigroup, 2008 EBITDA would rise to € 261,000,000

Unit: € million

| | 2005 | 2006 | 2007 | 2008 | 2009 POC | 2009 IFRS | 2010 IFRS |
|---|---------|---------|---------|---------|----------|-----------|-----------|
| Tangible and Intangible Assets (net) | 2,871.1 | 3,288.8 | 3,692.0 | 4,072.4 | 4,406.6 | 4,866.4 | 5,406.3 |
| Investment | 660.5 | 588.2 | 640.5 | 825.9 | 556.6 | 556.6 | 602.6 |
| Customer Debt (excluding deficits) ⁽¹⁾ | 270.8 | 315.8 | 256.2 | 231.7 | 264.3 | 264.3 | 315.7 |
| Total Assets | 3,924.1 | 4,575.2 | 5,027.1 | 5,592.9 | 6,006.8 | 6,446.6 | 7,213.4 |
| Bank Debt - Medium and Long Term | 549.8 | 792.4 | 1,175.6 | 1,574.7 | 2,003.5 | 2,030.1 | 2,416.1 |
| Bank Debt - Short term | 711.4 | 860.9 | 701.9 | 687.4 | 543.7 | 551.8 | 509.4 |
| Bank Debt - Total | 1,261.2 | 1,653.3 | 1,877.5 | 2,262.1 | 2,547.3 | 2,581.9 | 2,925.4 |
| Investment Grants | 1,071.4 | 1,215.1 | 1,627.4 | 1,706.1 | 1,761.6 | 1,761.6 | 1,842.5 |
| Total Liabilities | 3,320.4 | 3,950.1 | 4,388.4 | 4,881.4 | 5,254.4 | 5,586.6 | 6,284.9 |
| Total Equity ⁽²⁾ | 470.6 | 435.9 | 442.8 | 497.5 | 534.8 | 860.0 | 928.5 |
| Non Controlled Interests | 133.1 | 186.1 | 195.9 | 214.0 | 217.6 | 214.2 | 234.2 |

(1) Without specifying the earnings

(2) Shareholder equity under IFRS also includes non controlled interests

AdP Group operating data

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|-------|-------|-------|-------|-------|-------|
| Volume of Water Produced ^{(1) (3)} | 622.2 | 629.2 | 609.8 | 622.4 | 641.3 | 643.3 |
| Volume of Water Distributed ^{(1) (4)} | 162.8 | 158.1 | 133.8 | 130.7 | 112.5 | 119.8 |
| Volume of Wastewater Treated/Invoiced ⁽¹⁾ | 238.3 | 310.1 | 312.9 | 357 | 392.8 | 472.3 |
| Volume of Urban Solid Waste Treated/Received ⁽²⁾ | 3.2 | 3.4 | 3.5 | 3.7 | 3.6 | 3.7 |
| Number of employees | 5,115 | 5,334 | 5,200 | 5,500 | 5,251 | 5,847 |

(1) Unit: million m³

(2) Unit: million tons

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

(4) Includes waters distributed by EPAL and UNI

Economic and financial indicators

| | 2005 | 2006 | 2007 | 2008 | 2009 POC | 2009 IFRS | 2010 IFRS |
|------------------------------------|-------|-------|-------|-------|----------|-----------|-----------|
| Financial Structure ⁽¹⁾ | 2.7 | 3.8 | 4.2 | 4.5 | 4.8 | 3 | 3.2 |
| Solvency Ratio ⁽²⁾ | 0.5 | 0.4 | 0.5 | 0.5 | 0.4 | 0.5 | 0.4 |
| Financial Autonomy ⁽³⁾ | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Turnover Growth ⁽⁴⁾ | 13.4% | 9.9% | 2.2% | 11.2% | 9.1% | n.a. | 9.9% |
| EBITDA Margin ⁽⁵⁾ | 43.0% | 44.8% | 42.4% | 53.8% | 44.8% | 40.2% | 40.3% |
| ROCE before Tax ^{(6) (7)} | 4.4% | 2.4% | 3.5% | 5.7% | 3.6% | 2.6% | 3.3% |

(1) Bank debt / equity

(2) (Equity + Investment grants) / Liabilities

(3) (Equity + Investment grants) / Assets

(4) Net of tariff deficit

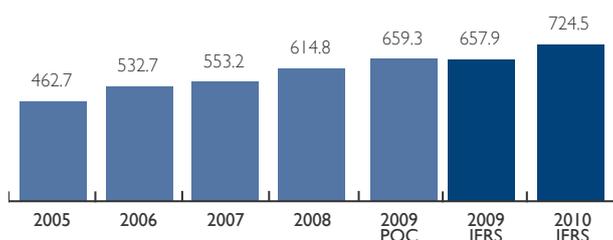
(5) EBITDA (Operational income + Amortizations + Depreciations + Provisions - Tariff deficit - Investment grants) / Turnover net of tariff deficit

(6) (EBIT / Capital employed; EBIT = Operational income - Tariff deficit)

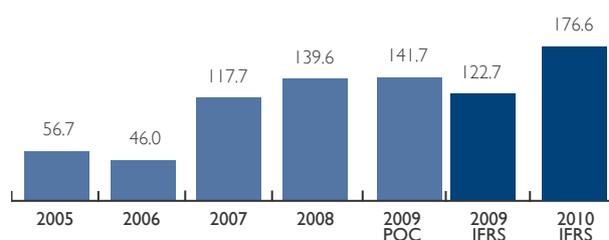
Capital employed = Total net assets - Short term debt - Investment grants - Tariff deficit - Deferred tax asset (Tariff deficit)

(7) ROCE 2008 influenced by the gain from the sale of Aquapor and Recigroup

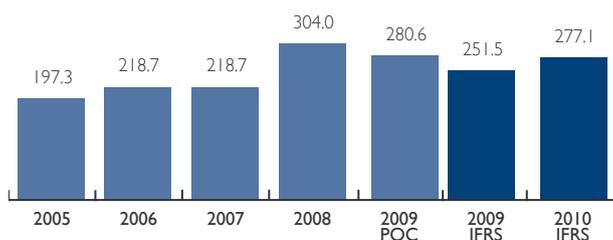
Turnover
(€ million)



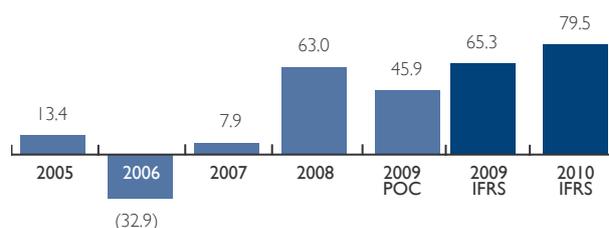
Operational Income
(€ million)



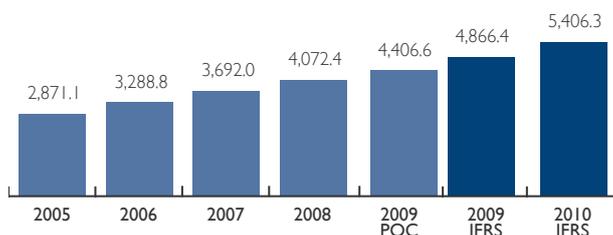
EBITDA
(€ million)



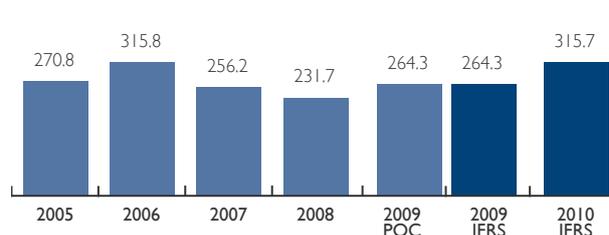
Net Income
(€ million)



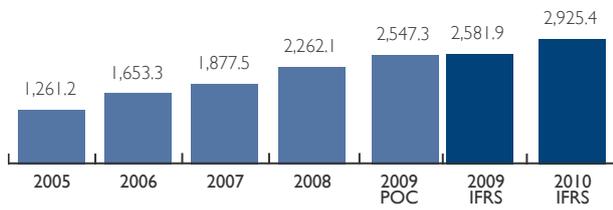
Tangible and Intangible Assets (net)
(€ million)



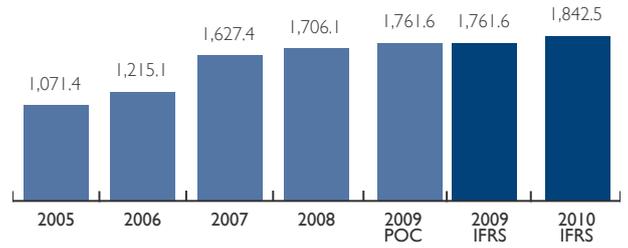
Customer Debts
(€ million)



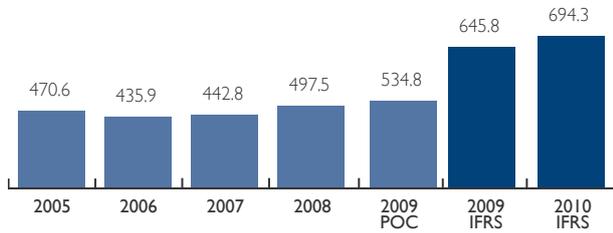
Bank Debt
(€ million)



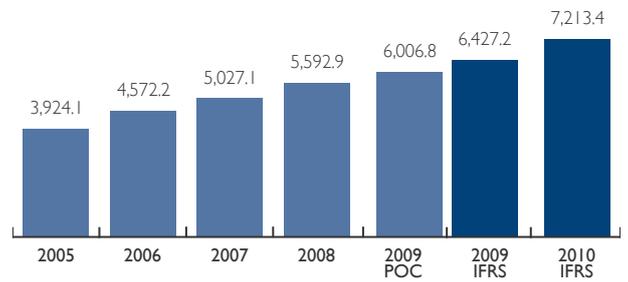
Investment Grants
(€ million)



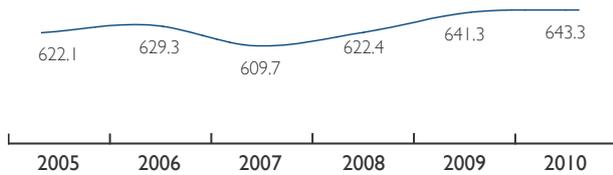
Equity
(€ million)



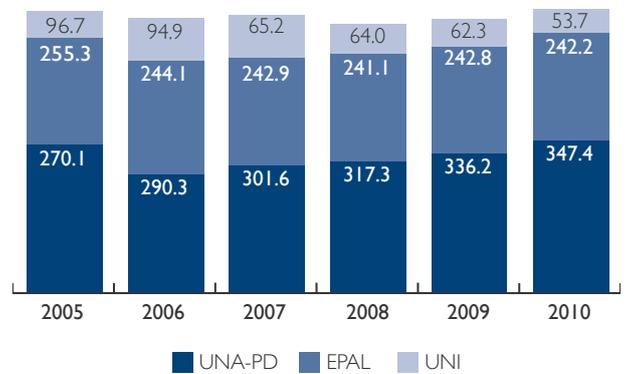
Total Assets
(€ million)



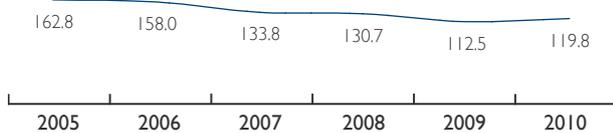
Volume of Water produced
(million m³)



Volume of Water produced
(million m³)



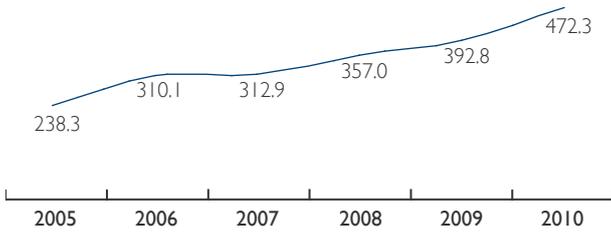
Volume of Water distributed
(million m³)



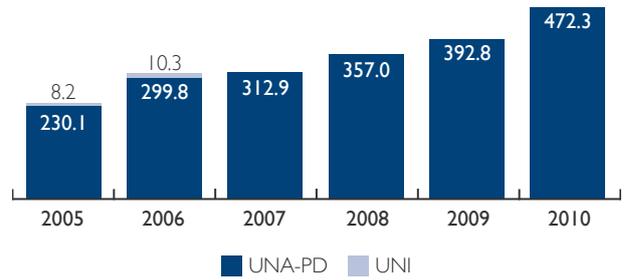
Volume of Water distributed
(million m³)



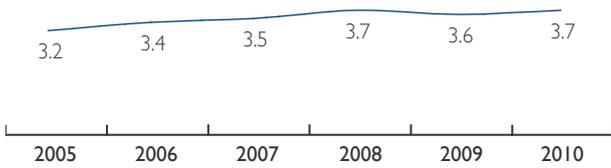
Volume of Wastewater treated
(million m³)



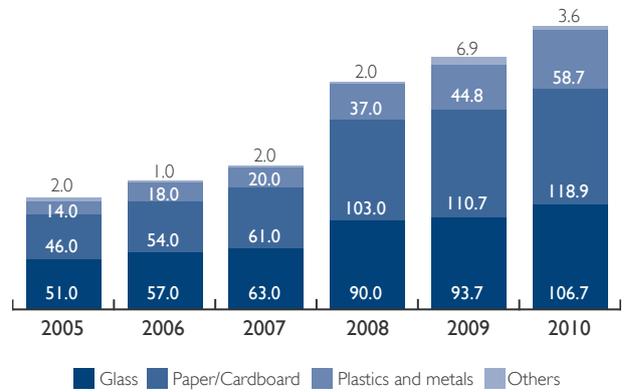
Volume of Wastewater treated
(million m³)



Volume of Waste treated
(million tons)



Selective Collection - by material
(thousands of tons)





Main Events

- AdRA - Águas da Região de Aveiro, S.A. launched its activities as the management company of the public partnership between the Portuguese State and the set of municipalities made up of Águeda, Albergaria-a-Velha, Aveiro, Estarreja, Ílhavo, Murtosa, Oliveira do Bairro, Sever do Vouga and Vagos, following its founding in July 2009. In December 2010, the municipality of Ovar joined up to the partnership.
- AgdA - Águas Públicas do Alentejo, S.A. launched its activities as the management company of the public partnership between the Portuguese State and the set of municipalities made up of Alcácer do Sal, Aljustrel, Almodôvar, Alvito, Arraiolos, Barrancos, Beja, Castro Verde, Cuba, Ferreira do Alentejo, Grândola, Mértola, Montemor-o-Novo, Moura, Odemira, Ourique, Santiago do Cacém, Serpa, Vendas Novas, Viana do Alentejo and Vidigueira, following its founding in August 2009.
- The concession contract was signed between Simdouro, S.A. and the Ministry of Environment and Territorial Planning, attributing the former company the management and operation of the Grande Porto Multi-municipal Sanitation System. Simdouro, a company in which AdP SGPS holds a 51% stake, was established under Decree Law no. 312/2009, of 27 October.
- The Noroeste Multi-municipal Water Supply and Sanitation System was established through the merger of the three previous multi-municipal water supply and sanitation systems existing in the region, with the establishment of the management company Águas do Noroeste, S.A., in which AdP SGPS holds a 51% stake, pursuant to Decree Law no. 41/2010, of 29 April.
- Studies were undertaken with the objective of founding two partnerships between the Portuguese State and municipalities for the management of water services, one with the Noroeste municipalities and another with the Mondego and Lis municipalities.
- Studies were also carried out on the potential for merging the multi-municipal water supply and sanitation systems run by the Águas do Mondego and Simlis companies.
- In the field of waste, following the merger of the companies Valorsul and Resioeste, Valorsul - Valorização e Tratamento de Resíduos Sólidos das Regiões de Lisboa e do Oeste, S.A. was founded for the respective multi-municipal system, through Decree Law no. 68/2010, of 15 June.
- The expansion of Valnor to municipalities in the geographic zone of Beira Interior and Raia Pinhal was completed by Order no. 16510/2010, of 29 October.
- Authorisation was granted by the Ministry of Environment and Territorial Planning and by the Ministry of State and Finance to extend the Ersuc concession period through to 2030.
- Studies on the setting up of a municipal solid waste (MSW) treatment system in partnership with the S. Miguel island municipalities in the Azores were submitted for the approval of the authorities in May.
- Studies designed to prepare the way for redefining the legal and statutory regime of EPAL proceeded with the objective of opening up the feasibility of managing the various activities making up the urban water cycle in Greater Lisbon and adjoining geographic areas.
- The Strategic Plan for Multi-municipal Water Supply and Wastewater Sanitation System Operational and Maintenance Services was implemented - PESOMAS 2006-2015.
- The project "PAsT21 - National Water and Wastewater Treatment Plant Performance Evaluation Initiative", first launched in 2009, was subject to development and with conclusion due in mid-2011, which seeks to test, at the national level, the recently developed National Laboratory of Civil Engineering systems installed for evaluating the performance of water treatment and urban wastewater treatment plants.
- AdP joined up to the AWARE - Advanced Water Asset Rehabilitation project, financed by the European Economic Area (EEA) Financial Mechanism, by ERSAR (Portuguese Water and Waste Regulatory Entity) and by four end-users, including AdP.
- In the waste sector, a set of incentive actions were set out to prevent the production of waste, within the framework of contributing towards achieving the national target of reducing the amount of urban waste by 10% by 2016.
- New automatic material recovery centres went operational in Algar, Suldouro, Valorsul (formerly Resioeste) and Amarsul.
- In 2010, applications to POVT (Operational Program for Territorial Improvement) were submitted and approved for completion of the second phase / removal, transport and deposit of contaminated soils in landfills. With the conclusion of detailed studies and risk evaluation, 2011 should see the presentation of applications relating to the implementation of the planned remedial measures.
- Taking into account the development of various means of capturing endogenous energy resources by the AdP Group, in accordance with authorisation granted by a joint order from

the sector regulator and the Ministry of Finance, the company name of Reciclamas - Multigestão Ambiental, S.A. was altered to AdP Energias - Energias Renováveis e Serviços Ambientais, S.A. (AdP Energias), and with the consequent alteration in the company's defining objective and now specifically incorporating the production, capture and delivery to external consumers of diverse forms of renewable energies.

- The EGF stake in the MIESE group, responsible for running the biomass plants, was sold onto AdP Energias.
- In the energy sector, the year closed with a total of 208 micro-photovoltaic installations operational.
- Feasibility studies also looked at the implementation of mini-generation plants at the AdP Group multi-municipal systems with the launch of a tender for the construction of around ten installations with a total capacity of 1 MW due in 2011.
- The consortium of which AdP Energias is a member was awarded the international public tender for the construction of five photovoltaic solar concentration demonstration units.
- The public international tender was launched for the construction of the first two demonstration units for low temperature heat recovery with unit potential of 150 kW.
- Preparatory work moved ahead towards the construction of small hydraulic plants in partnership with Águas do Algarve, in Alcantarilha; Águas de Santo André, in Montes Chãos; and Águas do Noroeste, in Beiriz.
- Work also continued leading up to the installation of the group's first solar sludge drying unit, to be located in the Algarve.
- Studies were also held on the construction of waste to energy plants, contributing towards resolving the wastewater treatment plant sludge problem and capitalising on refuse-derived fuels deriving from mechanical and biological recovery.
- Water Security Plans were approved at EPAL: an important tool for an integrated and systemic vision of risks to the quality and quantity of water available for supply.
- EPAL undertook asset management projects designed within the framework of the integration of systems and surveying and establishing of inventories of assets, which can then be generally and technically characterised.
- EPAL participated in the PREPARED Project, co-financed by the 7th European Union Framework Programme, with the core objective of establishing a common European platform for solutions for adapting to climate change for water supply

and sanitation sector entities. The company launched its pluri-annual research project on adapting the urban water cycle within the framework of climate change in conjunction with the Research Group into Climate Change at the Faculty of Sciences, University of Lisbon.

- Portugal was present at the International Water Association (IWA) World Congress themed on "Water - the lifeblood of the world - 2010", in its capacity as the host country of the 2014 World Congress, with a pavilion designed and organised by EPAL.
- In the international arena, AdP, SGPS disposed of its entire stake in the capital of Águas de Moçambique, S.A.R.L. to FIPAG - Fundo de Investimento e Património do Abastecimento de Água in December of this year.
- The contract for the collection of municipal solid waste in the municipality of Maputo was maintained through the consortium EGF/Neoquímica.
- A branch of AdP Internacional was opened in Angola, with the objective of proceeding with specific projects in terms of the provision of services to local sanitation companies, especially across the commercial, production and IT fields.
- In partnership with the company Ogimatech Portugal and the NGO for development TESE, AdP, SGPS was adjudicated a technical assistance contract by the Angolan National Directorate for Water and Sanitation, with a value in the region of € 5 million. The contract forms part of a support programme for the institutional development of the sector in this country and is financed by the European Development Fund under the auspices of the European Union/Republic of Angola development agreement.
- The National Policy for Environmental Sanitation was drafted for the Ministry of Environment of Angola in conjunction with the Directive Plan for the Water Supply to the municipality of Kilamba Kixi - Angola - for the Provincial Directorate.
- In the shared services sector, a new relational model between AdP Serviços and AdP Group companies was put into practice. Work also advanced leading up to the launch, in 2011, of a consultation period on the centralised acquisition of energy for the group.
- The group furthermore signed up to Global Compact, a United Nations initiative seeking to align business and civil society strategies and policies with ten universal principles covering human and labour rights, protection of the environment and an anti-corruption mechanism, which today has a membership of over eight thousand organisations from around 135 countries.

- AdP, SGPS was an award winner for its sustainability initiative, picking up the "Citizenship Prize for Companies and Organisations". This prize is awarded annually by AESE (School of Business and Management) and by PwC with the objective of distinguishing companies and non-governmental organisations for their contribution in implementing measures designed to improve sustainability and their respective host communities.
- Within the scope of sustainability and group corporate responsibility initiatives, one leading initiative involved participation in "Forestry the Mountains of Madeira", promoted by Funchal Municipal Council following the flooding of 2010, alongside the signing of a protocol providing support to the Portuguese Sports Federation for Disabled Persons, specifically towards backing the swimming team in its preparations for the 2012 Paralympics Games.
- AdP participated in the GreenFestival, sponsoring the conference on "Sustainable Cities" and a workshop focusing on the theme of sustainability and corporate social responsibility, with a particular concern on biodiversity related issues and combating social exclusion.
- The Business Management System successfully gained certification and involving the group holding company (AdP SGPS), the sub-holdings for the waste sector and international markets (EGF and AdP Internacional), the company attributed responsibility for the renewable energies area (AdP Energias), as well as the shared services companies (AdP Serviços and Aquasis). AdP was also distinguished by APCER (Portuguese Certification Association) as an "entity of reference in the field of certification in Portugal".
- In terms of research and development (R&D), and as regards new projects, particular attention should be paid to the 2010 approval of financing from TRUST (Transitions to the Urban Water Services of Tomorrow). The work carried out by the AdP Group on its Water and Sanitation Technological Platform made a great contribution to the participation of national entities in this project, which is of great strategic relevance to the future of urban water and sanitation systems.
- In terms of R&D projects ongoing or approaching completion, the acquisition of Portuguese R&D products supported by the AdP Group took place within a perspective of innovation for competitiveness and sustainability. Thus, NAVIA-AdP, a product developed through the active cooperation of AdP Group companies, became an operational management tool deployed by many water and sanitation companies. As a complement to this, promotional efforts were put into practice, reaching out to relevant players in international markets, always through the direct involvement of AdP Group companies. Of particular importance within this scope are the contacts held with entities in Brazil, Morocco as well as with international consultants.
- Over the course of the 2010 financial year, there was a gross increase in long term debt, provided by European Investment Bank financing. The rise in long term indebtedness, to a total of € 393 million, was divided up with UNA-PD companies accounting for € 264 million, EGF for € 79 million and EPAL for € 50 million.
- In the same financial year, around € 45 million in long term financing was paid off with the weighting of support to EPAL (€ 21 million) being significant given the longstanding nature of its respective financing.
- As regards the private placing of debt carried out by AdP SGPS in 2005 with The Bank of Tokyo-Mitsubishi UFJ, Ltd., this was renewed as planned for another five years with a spread of 70 bps.
- Within the scope of projects approved by the Cohesion Fund II (2000-2006), the multi-municipal water supply system management companies submitted requests to the Territorial Enhancement Thematic Operational Programme (POVT/QREN) for payment totalling around € 186 million in documented expenditure. In 2010, receipts from the Cohesion Fund reached € 89 million.
- Relative to the National Strategic Reference Framework (QREN 2007-2013), in 2010, the five operations approved under the auspices of the 1st Notice of POVT Axis II moved ahead. Of the total approved investment, rising to around € 255 million in total, through to the end of 2010, requests for payment were submitted in the amount of around € 123 million. Receipts paid out by the Cohesion Fund/QREN reached € 64 million, corresponding to around 42% of the total of approved Cohesion Fund financing (€ 153 million).
- The first phase in the business risk management project was concluded with the core results of an integrated evaluation of the risks faced by the AdP Group and the systematisation of risk management processes. Risks are organised according to a structure of classes and categories as defined by the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology.

A - Corporate Governance









A - Corporate Governance

I. Mission, Objectives and Policies

I.1 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 competent Portuguese industrial group, capable of responding effectively to the important challenges that currently exist in the environmental sector.

I.2 Strategic Objectives

The strategic positioning of the AdP Group is determined by 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 solid waste treatment and recovery sectors through the ownership and management of a portfolio of shareholdings. Most of these are concessionary companies operating multi-municipal systems that are owned in partnership with the municipalities concerned in accordance with the legal framework, specifically 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 down in the Water Supply and Wastewater Sanitation Strategic Plan for the period 2007-2013 (PEAASAR II) and the Strategic Plan for Municipal Solid Waste for the period 2007-2016 (PERSU II).

Within 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, that establishes a partnership regime between the state and local government for the management and operation of public water supply, urban wastewater sanitation and urban 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.

Within the field of water supply, the stake held in EPAL - Empresa Portuguesa das Águas Livres, S.A. is of particular relevance given the contribution made in terms of 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 and 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 EU strategies and achieving the respective objectives for the sector, particularly with regard to increasing the selective collection of multi-material packaging and diverting biodegradable urban waste away from disposal in sanitary landfills, as envisaged in the 2007-2016 Strategic Plan for Municipal Solid Waste (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 gases, the AdP Group is developing a diverse range of renewable energy projects.

The group's international operations in Mozambique and Angola are a means of capitalising on skills and capacities developed in Portugal, contributing to the development of the water and waste sectors in these countries.

Through its shared services unit, the group aims to foster concerted access to the markets, integrate resources and propagate accumulated experiences throughout the group.

By contributing to the management of the country'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 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 and 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, experience and accumulated know-how.

1.3 Level of Compliance with Objectives

In January 2009, Joint Ministerial Order no. 6008/2009, of 23 January, established the following guidelines for the 2008-2010 management mandate:

- 1) AdP should implement public policies and contribute towards attaining the national objectives for the sector through the implementation of the measures defined under PEAASAR, PERSU and ENEAPAI so as to attain the results therein contained.
- 2) AdP should work to ensure contractual compliance in terms of service provision in the best possible conditions of quality and price in order to promote improvements to economic, environmental and energy efficiencies across group companies.
- 3) AdP should ensure the economic and financial sustainability of the operations in which it participates and bringing about the correction of contractual imbalances.

In accordance with these recommendations, AdP proceeded with the business restructuring of its portfolio of holdings, consolidating and concentrating its core business activity: the management of water, sanitation and waste multi-municipal systems in Portugal.

Throughout the mandate now at an end, continuity was given to investment plans designed to attain the service standards set down in the different strategic plans (raising water quality levels, service coverage levels and reliability), while simultaneously developing procedures for expanding the existing multi-municipal systems to municipalities expressing such interest and endowing greater scale to companies while reducing operational costs.

These orientations were put into practice by extending systems to new local authorities, carrying out investments in more advanced treatment practices, merging systems in order to generate economies of scale and entering into partnerships with municipalities for downstream services.

As regards the Water Business Unit - Production and Purification companies, the strategic lines of orientation are based upon achieving the objectives defined under the auspices of PEAASAR I and demonstrated in the construction of the infrastructures necessary to improve the scope of national coverage and implementing the public services able to reliably meet, in terms of both quantity and quality, the water supply needs of 95% of the population and 90% in terms of drainage and wastewater treatment. This thus represents an active contribution towards economic and social development furthermore based upon promoting the quality of life of populations and significantly improving the prevailing quality of the environment.

With the approval of PEAASAR II in late 2006, new challenges were posed to supply and sanitation management companies, and responsibility was given to the AdP Group, as a business group with exclusively public capital, to serve as the instrument for the implementation and leveraging of public policies in the field of water supply and wastewater sanitation.

Establishing partnerships for the organisation of municipal systems was the objective underlying the protocols signed with a vast range of municipalities for the development of downstream systems for water supply and wastewater sanitation. They resulted in a set of studies, carried out in 2007 and 2008, specifically involving the initial drafting of Directive Plans and covering 193 mainland municipalities. This was an exhaustive task, involving three consortia and twenty planners and accounting for total investment of around € 10 million.

Even while taking into consideration the flexibility of the management model set out in Decree Law no. 90/2009, of 9 April, and the economies of scale generated by an integrated model of appropriate size, progress in talks with municipalities proved to be dependent,

in certain regions of the country, on the development of a model for financing services, insofar as, under current conditions, the service costs identified prove significantly greater than the levels of tariffs deemed socially acceptable.

Within this context, two State-Municipality partnerships were set up for water supply and sanitation services, specifically, AdRA - Águas da Região de Aveiro, involving ten municipalities from the Aveiro region and AgdA - Águas Públicas do Alentejo, a public partnership attracting 21 municipalities in this region. In addition, at the end of November 2010, two partnership projects were submitted for approval by the authorities, one made up of fourteen Noroeste municipalities and another thirteen Mondego and Lis municipalities.

As regards the water supply and sanitation sector, we would here highlight the following events as relevant within the context of implementing the strategic orientations:

- The conclusion of the process leading to the founding of the Noroeste Multi-municipal System (Águas do Noroeste) resulting from the integration of those existing in the region (Águas do Minho e Lima, Águas do Cavado and Águas do Ave) and the presentation of the proposal regarding the merger of Águas do Mondego and Simlis;
- The founding of Simdouro involving the participation of the municipalities of Arouca, Baião, Castelo de Paiva, Cinfães, Paredes, Penafiel and Vila Nova de Gaia and the signing of the concession contract with the Ministry of Environment and Territorial Planning, awarding the company the management and operation of the Grande Porto Multi-municipal Sanitation System;
- The expansion of the Ria de Aveiro sanitation multimunicipal system to the municipalities of Cantanhede and regions of Oliveira do Bairro and Santa Maria da Feira, with additional expansion of the system to the municipalities of Oliveira de Azeméis, Oliveira de Frades, São Pedro do Sul, Sever do Vouga and Vouzela currently under analysis.
- Integration of the municipalities of Entroncamento, Mação, Sardoal and Vila Nova da Barquinha into Águas do Centro, raising to seventeen the number of councils served by the Raia, Zêzere e Nabão Multi-municipal Water Supply and Wastewater Sanitation System.

The Water Business Unit also pressed on with analysis and renegotiation of system concession contracts in order to ensure the economic-financial sustainability of operations and the recovery of the tariff deficits relating to the original conditions, specifically as regards the concession timeframe, additional investments and the financing necessary and balanced tariffs, among other issues.

As regards EPAL, there was an expansion in the number of municipalities supplied, specifically some of the municipalities integrated into the Oeste multi-municipal system, as well as the investments made in the improvement of asset management, water quality protection, in minimising the impact of climate change, in infrastructure security and resilience within an overall framework of raising efficiency and improving services to clients.

Beyond carrying out investments in a diverse range of water treatment infrastructures and replacing the domestic supply network in Lisbon and the inauguration of the EPAL's Central Laboratory, another 2010 highlight featured the approval of the Water Security Plan that represents an important tool for an integrated and systemic vision of the risks to water quality and quantities for supply in conjunction with the excellent results in terms of minimising risks with the best ever result of 11.8% for non-invoiced water in the Lisbon distribution network.

Compliance with the strategic guidelines and objectives for the mandate underpinned AdP Group activities in the Waste Business Unit, specifically in terms of the completion of company mergers designed to obtain economies of scale and the economic and financial sustainability of the respective operations, as well as expanding multi-municipal systems to adjoining municipalities. Examples include the expansion of waste treatment and recovery in the Norte Central region with the founding of Resinorte - Valorização e Tratamento de Resíduos Sólidos, S.A. out of the merger of three group companies and two municipal associations and the launch of the new Valorsul - Valorização e Tratamento de Resíduos Sólidos das Regiões de Lisboa e do Oeste, S.A. and the respective multi-municipal system out of the merger of the Valorsul and Resioeste companies, in addition to the Valnor expansion to the municipalities of Raia Pinhal (Beira Interior).

As a consequence of this change to the technological paradigm imposed by this new legal framework for municipal solid waste (MSW) management, this business sector embarked on a new cycle of investments, specifically involving the construction of Mechanical and Biological Treatment (MBT) Units and anaerobic digestion Organic Recovery Plants (ORPs).

Within the scope of landfill biogas energy recovery, tenders are currently under way for the construction and installation of energy recovery units at concession systems, with the launch of these operations boosting installed landfill biogas potential to 21.8 MW.

Another one of the objectives of this mandate was to bring about, through EGF, the sub-holding responsible for the waste area, the resolution of some of the environmental legacies that the state holds responsibility for, specifically within the framework of the Arco Ribeirinho Sul. Correspondingly, in 2009, EGF integrated into two complementary business groupings, Quimiparque and SNESGES/Urbindústria, with the objective of promoting the decontamination of soils in the Barreiro Business Park and a former steel plant. Currently, studies on the characterisation of the level of soil and subterranean water contamination at both sites, as well as evaluation of the respective risks, are reaching completion phase.

Additionally within this field, in 2010, applications to POVT were submitted and approved for the implementation of the 2nd phase - Contaminated Soil Removal, Transport and Deposit in Landfills. With the conclusion of characterisation and risk evaluation studies, 2011 is expected to see the applications presented as regards the implementation of the planned remedial measures.

Furthermore, there is the AMISM project, a partnership with the municipalities on the island of São Miguel in the Azores for MSW treatment, submitted for the approval of the authorities in December.

The objectives of the AdP Group's renewable energy activities include maximising energy recovery from group assets and endogenous resources and contributing to the sustainable development of its companies, rationalising energy consumption and reducing or offsetting their greenhouse gas emissions.

In order to implement this mission, a group company, Reciclamas, which was already dedicated to sludge recovery, was reconverted with the founding of AdP Energias - Energias Renováveis e Serviços Ambientais, S.A. in 2010.

AdP Energias undertakes projects able to produce RDFs (refuse-derived fuels) and water and wastewater treatment plants (Selective Waste to Energy Plants), for the recovery of low temperature heat (Rankine organic cycle technology), to capitalise on hydro-electric means (peak hydric and micro-hydric) and the production of energy via biomass and photovoltaic solar energy (both traditional technologies and photovoltaic solar technologies).

In parallel, AdP Energias provides support services for group companies seeking energy efficient solutions, in the optimisation of energy production in already existing installations and equipment and in the development of regional and local solutions for the environmentally correct and energy efficient handling of water and wastewater treatment plants sludges.

Within this field, particularly relevant support has been provided not only to facilitate access to energy efficient financial incentive programmes under the auspices of the Energy Efficient Promotion Plan but also in technical support for the optimisation of biogas management resulting from anaerobic digestion processes, for the licensing of installations and energy delivery points as well as developing sludge drying and treatment projects through recourse to solar energy.

In the international area, the group embarked on an adjustment process as regards its market participation, based upon the experience built up over years and favouring partnerships based upon business plans approved by the respective parties without ever losing sight of the public nature and the need to concentrate attentions on core activities and ensure the sustainability of group operations.

Group international activities are carried out by AdP Internacional where the main approaches involve the consolidation of existing projects within a logic of sustained business growth and the minimisation of investment risks and a fee-based perspective. The company opts in favour of expansion in new businesses in markets where the company already holds a significant presence or relevant experience with management focusing upon the creation of shareholder value and consequently on the development of new economically sustainable businesses.

Within this context, the group has divested non-sustainable projects, closed loss-making operations and reduced the risk of participation in international markets.

At the end of 2010, in keeping with the interest demonstrated by the Mozambican government, through its Water Supply Investment and Legacy Fund (FIPAG), AdP transferred its stake in the share capital of the company Águas de Moçambique, in an operation already concluded by March 2011, with the effective handing over of the shares, resulting in a positive financial result.

Within the international portfolio of operations, the group's profile in the Angolan market has been boosted following the awarding of three contracts in 2010 signed with the National Directorate of Water Supply and Sanitation of the Ministry of Energy and Water;

with the Ministry of Environment and with the Municipal Administration of Kilamba Kiaxi, respectively. They bring prospects for new business in the water sector; specifically resulting from the tenders launched under the auspices of the Programme for the Institutional Development of the Water Sector; with World Bank financing.

In addition to Angola, northern Africa, specifically Morocco, and Brazil are the other markets with growth potential, especially in the wastewater and municipal solid waste sectors.

In the research and development (R&D) field, which took on particular priority over this period, highlights include the cooperation with university institutions and leading research into water and sanitation related issues within the context of the 7th Research and Development Programme Framework and the promotion of activities of importance to the development of group business areas heading forwards.

From 2006 to 2010, actions undertaken by AdP proved decisive in attracting around € 1.4 million in grants for research and development products of interest to the group. These include involvement in 28 R&D consortia, of which thirteen have had requests for financing approved, fourteen projects that were never launched due to a lack of financing and one project directly co-financed by the AdP Group.

As regards the organisation of internal processes, there was major progress in improving the management of the risks inherent to AdP Group company activities, for example, the integrated and systematic evaluation of risk management processes that have now been organised in accordance with the structure of classes and categories stipulated by the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology.

The business management system was also strengthened through the certification of the majority of group companies in terms of Quality Management, Environmental Management and Workplace Hygiene, Health and Safety Management, and also regarding the Social Responsibility standard. Integrated certification is one of the commitments made by the group within the framework of the Corporate Social Responsibility Policy, which was published in 2009.

Group companies, as a rule, comply with the criteria for the Good Governance of State-owned Companies and, over the course of 2009, they approved the Corruption Prevention Codes, as stipulated by the regulatory authorities.

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, in Decree Law no. 300/07, of 23 August, and subsequently in Portugal's Commercial Companies Act.

As stipulated in the RJSEE, the Minister of Finance and the minister responsible for the sector; in this case the Minister for the Environment, in the role of shareholder; set out specific management guidelines in a joint ministerial order, which was Joint Ministerial Order no. 6008/2009 of 23 January for the 2008-2010 mandate.

Throughout 2010, AdP was the recipient of a series of orientations and guidelines handed down by the Environment and Finance Authorities including, and among others, orientations as to the Wage Policy in effect in the State Business Sector; instructions on the Contention of Human Resource Costs, within the scope of the Stability and Growth Plan. Such orientations and guidelines were duly implemented.

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 Handbook of Ethical Behaviour;
- ii) The Regulations of the Ethics Committee;
- iii) The Plan for Controlling Corruption and Related Risks;
- iv) The Sustainability Handbook;
- v) The Sustainability Indicators Handbook;
- vi) Regulations on Company Access;
- vii) The Welcome Handbook;
- viii) The Handbook of Human Resource Policies and Procedures;
- ix) The Handbook of Performance Evaluation;
- x) Career Regulations;
- xi) Professional Development Regulations;
- xii) Alcohol-use Regulations;
- xiii) Procedures for Outsourcing Services and Supplies;
- xiv) Procedures AdP Group Company Tenders valued over € 250,000;
- xv) The Corporate Governance Handbook for Subsidiary Companies;
- xvi) Vehicle Assignment and Use Regulations;
- xvii) Service Vehicle Taxation Policies;
- xviii) Communication Regulations;
- xix) Regulations for the Assignment and Usage of Computer Materials;
- xx) The Handbook of AdP Group Graphic Identity;
- xxi) Relational Model between the Shared Services Business Unit - AdP Serviços - and AdP Group companies;
- xxii) AdP Group Regulatory Model.

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 the relevant transactions with related entities in 2010 are presented in the following chart.

Unit: euros

| 2010 | Administration and Management Fees | Interest Income | EIB Set-up Fees | Participation in Governing Bodies | Re-debit of costs incurred | Total |
|--------------------------------------|------------------------------------|------------------|------------------|-----------------------------------|----------------------------|-------------------|
| AdRA - Águas da Região de Aveiro | 412,537 | 507,294 | 10,082 | 36,881 | 12,799 | 979,593 |
| AdP Internacional | - | - | 1,138 | 1,722 | 17,351 | 20,211 |
| AdP Serviços | 239,594 | 116,517 | - | 24,202 | 10,352 | 390,664 |
| Águas de Santo André | 289,712 | - | - | 43,872 | 328 | 333,912 |
| Águas de Trás-os-Montes e Alto Douro | 337,056 | 1,788,893 | 754,692 | 55,386 | 1,671 | 2,937,697 |
| Águas do Algarve | 796,432 | 1,416,465 | 1,279,530 | 130,721 | 1,778 | 3,624,925 |
| Águas do Centro | 200,712 | - | 398,085 | 49,812 | 2,001 | 650,611 |
| Águas do Centro Alentejo | 129,539 | - | 283,124 | 67,785 | 602 | 481,049 |
| Águas do Douro e Paiva | 533,768 | - | 466,291 | 104,156 | 15,425 | 1,119,640 |
| Águas do Mondego | 232,100 | - | 536,883 | 24,448 | 458 | 793,889 |
| Águas do Norte Alentejano | 101,318 | - | 318,000 | 29,482 | 712 | 449,512 |
| Águas do Oeste | 393,401 | 311,887 | 764,932 | 71,049 | 14,531 | 1,555,800 |
| Águas do Zêzere e Côa | 294,340 | 1,015,250 | 681,890 | 94,373 | 1,604 | 2,087,457 |
| Águas do Noroeste | 636,331 | 1,987,949 | 1,380,841 | 216,075 | 3,126 | 4,224,322 |
| AgdA - Águas Públicas do Alentejo | - | 75,365 | - | - | 339 | 75,704 |
| EGF | 814,234 | 190,217 | 127,527 | 3,547 | 12,894 | 1,148,419 |
| EPAL | 2,580,458 | - | - | 157,828 | 4,394 | 2,742,679 |
| Sanest | 245,164 | - | 269,363 | 47,310 | 950 | 562,787 |
| Simarsul | 200,024 | - | 495,096 | 169,994 | 971 | 866,085 |
| Simdouro | - | - | - | 158,853 | - | 158,853 |
| Simlis | 82,458 | - | 300,433 | 43,920 | 397 | 427,208 |
| Simria | 242,580 | 602,173 | 379,414 | 41,872 | 1,339 | 1,267,379 |
| Simtejo | 650,736 | 583,548 | 957,882 | 40,660 | 1,388 | 2,234,214 |
| Valorsul | - | 107,812 | - | - | 1,000 | 108,812 |
| Algar | - | - | - | - | 500 | 500 |
| Amarsul | - | - | - | - | 500 | 500 |
| Valorlis | - | - | - | - | 500 | 500 |
| AdP Energias | - | 11,765 | - | - | 611 | 12,377 |
| Trevo Oeste | - | - | - | 2,375 | - | 2,375 |
| | 9,412,493 | 8,715,136 | 9,405,202 | 1,616,322 | 108,520 | 29,257,673 |

In addition, dividends were paid out to shareholders with a total value of € 24,615,033.73.

3.2 Information Concerning 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 - Águas de Portugal Serviços Ambientais, S.A. AdP - Águas de Portugal, SGPS, S.A. owns 100% of the share capital of this company and the transactions it carried out with the company in 2010 totalled € 4,537,524.

These transactions mainly related to the rental of office space, including related services and supplies, for a total amount of € 2,192,433 (€ 2,150,085 in 2009). AdP Serviços also supplied services in the following areas: legal, accounting, financial, procurement, engineering, marketing and information systems.

3.3 Procedures Regarding 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 good 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 elected at a General Meeting. The Board of Directors may delegate the current management of the company to an Executive Board.

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

4.1. Governing Bodies

General Meeting

The specific responsibilities of the General Meeting are to:

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

Board of Directors

Article 12.1 of the Articles of Association stipulates that the Board of Directors should be composed of five or seven directors, one of whom shall be the chairman and the other 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.

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 entailing rights and assets;
- f) Incorporating companies and subscribing to, entailing and disposing of shareholdings;
- g) Determining the technical and administrative structure of the company and 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.

In 2010, the Board of Directors met ten times.

Executive Board

Under the terms of article 12 of the Company Statutes, current management can be delegated to an Executive Board composed of three or 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 15 May, 2008, 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 resources management, the acquisition and provision of services and the contracting and allocation of financial resources;
- d) Implementing the actions needed 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 the development of the company's core objective.

In 2010, the Executive Board met forty-five times.

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 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 supporting documents are in order;
- d) Verify, whenever it deems such action convenient and by the means it considers appropriate, the extension of the cashbook and the stock of any kind 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, accounts and proposals presented by the board;
- h) Convene the General Meeting when necessary, 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 convenient and by the means it considers appropriate, the extension of the cashbook and the stock of any kind 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^o-B of the Commercial Companies Act, it is the responsibility of the Company Secretary to:

- a) Act as secretary at meetings of governing bodies;
- b) Draw up the minutes of meetings and sign them together with the members of the respective company 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 company bodies;
- e) Certify the signatures of the members of company 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 the holders of shares 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 registration of corporate deeds subject to registration.

Governing Bodies Elected for the 2008-2010 Mandate

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 Pedro Eduardo Passos da Cunha Serra

Member Justino Manuel Matias Carlos

Member António Manuel da Silva Branco

Member João Manuel Lopes Fidalgo

Member José Maria Martins Soares

Member Parcaixa, SGPS, S.A. represented by José Fernando Maia de Araújo e Silva

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

Executive Board

| | |
|-----------------|-------------------------------------|
| Chairman | Pedro Eduardo Passos da Cunha Serra |
| Member | Justino Manuel Matias Carlos |
| Member | António Manuel da Silva Branco |
| Member | João Manuel Lopes Fidalgo |
| Member | José Maria Martins Soares |

Supervisory Board

| | |
|-----------------------|--------------------------------------|
| Chairman | Paulo Alexandre Santos Ferreira |
| Member | Pedro António Martins Mendes |
| Member | Célia Maria Marques Rocha Lino |
| Reserve Member | Graça Maria V.N. Montalvão Fernandes |

Statutory Auditor

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

Reserve: Salvador Figueiredo Vás e Lima

Company Secretary

Ana Cristina Rebelo Pereira

Specialised Committees

The Board of Directors regularly appoints multidisciplinary teams to manage and supervise cross-company projects. These include: **i)** a working group to monitor the implementation of PEAASAR II; **ii)** a supervisory group to deal with the information system requirements of AdP business units; **iii)** a sustainability working group; **iv)** a working group to monitor the use of management information; **v)** a working group to implement the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS); **vi)** a social responsibility working group; **vii)** a working group for monitoring and negotiating the revision of concession contracts; **viii)** a working group for studying downstream systems; **ix)** an Equality Plan working group; **x)** an Ethics Committee .

External Auditor

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

Posts Held by Members of the Executive Board

On 31 December, 2010, members of the Executive Board held the following posts in other companies:

Pedro Eduardo Passos da Cunha Serra

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

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

António Manuel da Silva Branco

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

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

João Manuel Lopes Fidalgo

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

Chairman of the Board of Directors of EPAL - Empresa Portuguesa das Águas Livres, S.A.

José Maria Martins Soares

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

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

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

Chairman of the Board of Directors of Simdouro - Saneamento do Grande Porto, S.A.

Justino Manuel Matias Carlos

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

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

Chairman of AdP - Águas de Portugal, Serviços Imobiliários, S.A.

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

Board of Directors - Responsibilities for Operating Areas and Business Units

Pedro Eduardo Passos da Cunha Serra

Company Bodies Company Secretary
Public Relations and Corporate Image
Corporate Human Resources
Research and development

Business Units International
Water - Distribution and Collection
Waste

António Manuel da Silva Branco

Business Units Other Businesses

João Manuel Lopes Fidalgo

Business Units UN EPAL

José Maria Martins Soares

Company Bodies Sustainability and Social Responsibility

Business Units Water - Production and Purification

Justino Manuel Matias Carlos

Company Bodies Business Development and Regulation
Auditing and Risk Control
Corporate Finance

Business Units Shared Service
International

Governing Body Members - *curricula vitae*

Board of the Annual General Meeting

Chairwoman - Ana Cristina de Menezes Sequeira Rodrigues

Academic Qualifications

- Law degree from Universidade Lusíada de Lisboa (1990).
- Specialised Course for Auditors on the National System of QCA III Supervision, Instituto Superior de Economia de 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..
- Vice-Chairman of the Board of the Annual General Meeting of AdP-Águas de Portugal, SGPS, S.A..
- Chairman of the Supervisory Board of Metro do Porto, S.A..

Secretary - Manuel Bruno Rossi Ruano Gouveia Pereira

Born Lisbon: 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 Master's 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 (since November 2009)
- 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).

Board of Directors Executive Directors

Chairman - Pedro Eduardo Passos da Cunha Serra

Born Lisbon: 9 June 1946.

Academic Qualifications

Bachelor and Masters Degrees in civil engineering from the Higher Technical Institute (IST-Instituto Superior Técnico), Lisbon.

Professional Career

- He began his career in 1969 at COBA, S.A., a Portuguese engineering consultancy, first as a hydraulics engineer and subsequently as general director (1982/87) and managing director (1984/87). He was involved in planning and building hydroelectric projects, dams and their related water systems as well as in hydrological studies and the planning of water resources. He left Coba in 1989 to become an independent consultant.
- In 1994, he was appointed president of Portugal's Water Institute, in which role he participated actively in the negotiations that led to the signing of the Albufeira Portuguese-Spanish Agreement on Shared River Basins (1998) and in the preparatory work for the European Union's Framework Directive for the water sector.
- He was president of the National Commission for Major Dams and the National Commission for Irrigation and Drainage as well as the River Basin Councils for the Minho, Douro, Tagus and Guadiana rivers. He has been a member of the National Water Council since 1994.
- In 1999, he was appointed president of the Regulating Institute for Water and Waste and presided over the setting up of the new body. In March 2001, he became president of the Portuguese Road Institute and a number of other road transport bodies. In November 2002, he returned to his private consulting practice.
- In 2006, he was invited by the minister for the environment, territorial planning and regional development to coordinate and oversee the revision of Portugal's Strategic Plan for Water Supply and Wastewater Sanitation.
- He has regularly published articles on water law and the regulation of the water sector. He also is also a lecturer on postgraduate courses in these as well as water planning and applied hydrological statistics.

Current Responsibilities

He has been Chairman of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A. and of Boards of Directors of AdP - Águas de Portugal Internacional - Serviços Ambientais, S.A. since May 2005.

Member - António Manuel da Silva Branco

Born Angola: 16 May 1946.

Academic Qualifications

Degree in Chemical and Industrial Engineering from the Higher Technical Institute (IST-Instituto Superior Técnico), Lisbon.

Professional Career

- He began his career at Hidroprojecto, S.A., where, from 1974 to 1978, he was a member of the Environmental Technology and Processes Department, working as a designer and project leader in the following areas: drinking water treatment; treating water for industrial uses; urban wastewater treatment; industrial wastewater treatment; and the collection, processing and final disposal of urban refuse.
- From 1978 to 1980 he was general director of Hidrocontrato, a company owned by Hidroprojecto that builds water treatment and sanitation installations. He headed Hidroprojecto's operations in Angola in 1981 and 1982.
- From 1983 to 1987 he returned to his post as general director of Hidrocontrato, a position he accumulated with his role as assistant director of production and sales at Hidroprojecto. From 1988 to 1992, being one of the investors who had acquired Hidrocontrato, he took over the management of the company.
- In 1993 he joined Parque Expo 98 as a manager of one of the companies belonging to the group and participated actively in all the negotiations leading to the setting up of Valorsul, S.A., which he joined in 1994 as chief executive, a post that he held until March 2000. From March 2000 to September 2002 he was managing director of Parque Expo 98.
- In September 2002, he was appointed chairman of the board of directors of Valorsul, a post which he accumulated with his position as chief executive.

- In October 2002, he was appointed executive director of Empresa Geral do Fomento, S.A., and from 2002 to 2004, he was president of the board of directors of the following companies owned by this holding company for the urban solid waste sector: Algar and Resioeste. From 2005 to 2008, he was chairman of the Board of Directors of Empresa Geral do Fomento, S.A., Valorsul, S.A. and Recigroup, S.A.
- He lectured in sanitary engineering and the operation of water, sewage and refuse treatment plants and gave post-graduate courses in sanitary engineering at Universidade Nova de Lisboa.

Current Responsibilities

He has been a Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A. and Chairman of the Board of Directors of AdP Energias - Energias Renováveis e Serviços Ambientais, S.A. (formerly entitled Reciclamas - Multigestão Ambiental, S.A.) since May 2005.

Member - João Manuel Lopes Fidalgo

Born Almada, Portugal: 22 May 1954.

Academic Qualifications

Degree in Economics and an MBA in Finance, the Catholic University of Portugal.

Professional Career

- Management control officer at EPSI/CNP.
- Head of polymer production planning at Neste Oy Portugal.
- Head of the management planning and control department at Somincor.
- Member of the Board of Directors of EGF with management responsibilities in several of its subsidiary companies (Braval, Resioeste, Valnor, Amarsul, Resulima, Suldouro and Valorsul).
- Member of the Board of Directors of Fundação de Oeiras, SA..
- Member of the Board of Directors of AdP - Águas de Portugal Serviços Ambientais, S.A..

Current Responsibilities

He has been a Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A. and Chairman of the Board of Directors of EPAL - Empresa Pública das Águas Livres, S.A. since May 2005.

Member - José Maria Martins Soares

Born Mozambique: 15 November 1960.

Academic Qualifications

Bachelor and Master's Degrees in mechanical engineering from Portugal's Universidade do Minho.

Professional Career

- Monitor at the Universidade do Minho during the academic years of 1984/85 and 1987/88. Work experience at the Viana do Castelo shipyard from September 1985 to September 1986, where he participated in the introduction of gravity welding.
- Work experience at the Mechanical Engineering Department of the Universidade do Minho from October 1988 to June 1992, where he subsequently became a lecturer from June 1992 to October 1997.
- Technical surveyor for the Vale do Ave Association of Municipalities, overseeing and providing technical support for the Vale do Ave urban solid waste treatment plant from June 1995 to September 1997.
- Managing director of the Vale do Ave Association of Municipalities from October 1997 to May 2002. Managing director of Águas do Ave, S.A. from May 2002 to May 2005.
- An executive director with Trofáguas, Serviço Ambientais EM, a municipal company responsible for water supply, sanitation and waste treatment for the municipality of Trofa, from December 2002 to June 2005.
- Executive director of Avepark - Science and Technology Park, S.A., from May 2004 to June 2005.

Current Responsibilities

He has been a Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A. since May 2005. He is Chairman of the Board of Directors of the following companies: Águas do Noroeste, S.A. (the company that resulted from the merger of Águas do

Cávado, S.A., Águas do Ave, S.A. and Águas do Minho e Lima, S.A., which he was Chairman of the Boards of until the new company was set up), Águas do Douro e Paiva, S.A. and Simdouro, S.A. He coordinates the Water Production and Purification Business Unit (UNA-PD), which comprises the concession companies operating the multi-municipal water supply and wastewater sanitation systems.

Member - Justino Manuel Matias Carlos

Born Lisbon: 2 April 1954.

Academic Qualifications

Degree in company management and organisation from the Higher Technical Institute (IST-Instituto Superior Técnico), Lisbon.

Professional Career

- He began his professional career in 1974 in the central planning office of Setenave - Estaleiros Navais de Setúbal, SA. He also worked in a technical capacity in the new projects department and headed the management planning control department of Cometna-Companhia Metalúrgica Nacional, SA (1980-87).
- He headed the technical team overseeing subsidiary companies in the service sector belonging to the corporate division of I.P.E.- Investimentos e Participações Empresariais, SA (1987-89).
- Until September 1993 he was a member of the management board of Unicar-Gestão de Participações e Concessões, Lda., an I.P.E sub-holding company for the auto services sector; a post he held simultaneously with his role as executive or managing director in the following I.P.E. subsidiary companies: Unicer, Lda., Retic Lda., Unimotor Lda., Ucar Lda., Visautocar Lda., Uticalbi Lda., Deltacar SA., e Cartic Lda. He later became finance director at Generg-Gestão e Projectos de Energias, SA and managing director of the following subsidiaries: Hidroeléctrica do Monte, Sociedade Hidroeléctrica da Grelo, SERE-Sociedade Exploradora de Recursos Energéticos and Hidriinveste.
- He was finance director at Empresa Geral de Fomento, SA (1995-97) and general director at the Mundial Confiança, SA insurance company (1997-2000).
- Until January 2003 he was general director of AdP - Águas de Portugal, SGPS, SA, managing director of Águas de Moçambique, SARL, chairman of the advisory board of Electra, SARL (Cape Verde) and a board member of AdP - Águas de Portugal Serviços Ambientais, S.A.
- Until June 2005, he was also a member of the executive board of Generg SGPS, SA and a member/manager of the board of directors/management of all the group's companies.

Current Responsibilities

Since May 2005, he has been a Member of the Board of Directors of AdP - Águas de Portugal, SGPS, S.A., a Member of the Board of Directors of AdP - Águas de Portugal Internacional - Serviços Ambientais, S.A., Chairman of the Board of Directors of AdP - Águas de Portugal Serviços Ambientais, S.A. and has been Chairman of the Board of Directors of AdP - Águas de Portugal, Serviços Imobiliários, S.A. since 2007.

Non-executive Directors

Member - Joaquim José de Oliveira Reis, nominated as representative of Parública, SGPS, S.A.

Born Lisbon: 16 March 1958.

Academic Qualifications

Degree in Economics from ISEG in 1983.

Post graduate qualification in European Studies, Catholic University of Portugal, Lisbon – 1985/86

Professional Career

- 1983-1984 - Lecturer.
- 1984-1985 - Compulsory Military Service.
- 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.
- 1989-1991 - Financial Director, Director of Financial Company IT Systems under the supervision of the Bank of Portugal - Socifa Beta, S.A.

- 1992-1993 - Director and Financial Intermediation Lead Trader on the Lisbon and Porto Stock Market - Socifa Beta, Sociedade Financeira de Corretagem, S.A.
- 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.
- 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.
- 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.
- September 2005 (through to March 2007), and through inherency, Chairman of the Board of Directors of OTLIS - ACE: a grouping of passenger transport companies implementing ticketing policies in Greater Lisbon.
- June 2005 - Director of Transtejo, S.A. - Empresa de Transporte Fluvial de Passageiros, responsible for economic and finance, human resources and information systems.
- November 2006 - President of the Board of Directors of Metropolitano de Lisboa, E.P.E.
- November 2006 - Chairman of the Board of Directors of Ferconsult, S.A., an engineering and projects firm in Grupo ML, focused on the Metropolitan (Heavy and Light) and Railway. Ferconsult currently runs projects on three continents: Europe (Portugal, Ireland), Africa (Algeria, Libya) and South America (Argentina).
- May 2009 - Chairman of the Meeting of UITP.
- May 2009 to December 2010 - Vice-chairman of UITP (the international union of public transport integrating associations, public transport companies, manufacturers and regulators from over 90 countries).

Current Positions

- May 2010 onwards - Chairman of the Board of Directors of Parpública (SGPS), S.A.
- June 2010 onwards - Non-executive director of AdP - Águas de Portugal, SGPS, S.A.

Member - José Fernando Maia de Araújo e Silva, nominated as representative of Parcaixa, S.A.

Born Brazil: 15 April 1951.

Academic Qualifications

- Degree in Economics from the Porto Economics Faculty completed in 1974.
- Specialised training in Paris (University of Paris IX, Dauphine) and London (Midland Bank: International Bankers' Course) from 1982 to 1984.

Professional Career

- Non-executive Member of the Board of Directors of AdP - Águas de Portugal, SGPS, SA since May 2009.
- Member of the Board of Directors of USP Hospitales, S.L. since December 2008.
- Member of the Board of Directors of Allipen Spain, S.L. since December 2008.
- Member of the Board of Directors of Monte Candina, S.L. since December 2008.
- Member of the Board of Directors of Flávio Luxembourg SARL since December 2008.
- Member of the Board of Directors of EDP Renováveis, S.A. since June 2008.
- Chairman of the Board of Directors of Locarent - Companhia Portuguesa de Aluguer de Viaturas, S.A. since May 2008.
- Chairman of the Board of Directors of Caixa Leasing e Factoring - IFIC, S.A. since March 2009.
- Chairman of the Board of Directors of Imocaixa - Gestão Imobiliárias, S.A. since February 2008.
- Chairman of the Board of Directors of Sogrupu IV - Gestão de Imóveis, ACE since February 2008.
- Chairman of the Board of Directors of Caixa Seguros e Saúde SGPS, S.A. since February 2008.
- Member of the Board of Directors of Caixa Geral de Depósitos, S.A. since January 2008.
- Director of Corticeira Amorim, SGPS and Member of its Executive Board from 2002 to 2007.
- Vice-chairman of Sonae Indústria, SGPS, S.A. from 1999 to 2002.
- Director of Spred SGPS, S.A. (Sonae group) from 1998 to 1999.

- Executive Director of Sonae Participações Financeiras, SGPS, S.A., the sub-holding company for the Sonae group's retail financial services, which had in its portfolio: Insurance brokering and risk management - MDS; consumer credit - Pensinsular SFAC, in partnership with Banco Pastor; automobile credit and fleet management - Finlog and retail financial services - Banco Universo and the Universo credit card from 1996 to 1998.
- Executive Director of Tafisa, S.A. (Spain) - resident in Madrid (Sonae group) from 1993 to 1996.
- Financial coordination of Sonae Investimentos, SGPS from 1991 to 1993.
- Financial coordination and management control of industrial operations (Sonae group) from 1989 to 1990.
- Director of Soserfin - Sociedade Internacional de Serviços Financeiros - Porto from 1987 to 1988.
- Director of the international department (Porto) of Banco Espírito Santo e Comercial de Lisboa from 1983 to 1986.
- Part-time technical adviser on the Northern Region Coordinating Committee for projects relating to the development of the liberal professions in SMEs/Consulting from 1980 to 1983.

Academic Posts

- Guest professor; responsible for the 'International Financial Management' programme of the 5th year of the Management degree course and joint head of 'Applied Projects in International Management' since 1991 at the Catholic University of Portugal, Porto.
- Head of 'International Financial Management' programme at the postgraduate course for financial analysts run at the Porto Economics Faculty by the International Organisation of Financial Analysts from 1987 to 1988.
- Lecturer at the Porto Economics Faculty from 1975 to 1984.

Supervisory Board

Chairman - Paulo Alexandre dos Santos Ferreira

Date of Birth: 23 May 1977

Academic Background

- 2001-2006 - Master's Degree in Economics, specialising in Applied Economic Quantitative Methods, from the Faculty of Economics, Universidade do Porto, having obtained a classification of 17/20 in the curricular section and a unanimous Very Good classification for his dissertation entitled "(As)symmetrical effects of Eurozone Monetary Policy, An Application to the Portuguese Case", deploying the VAR structural methodology as the mechanism for error correction.
- 1995-2001 - Degree in Economics from the Faculty of Economics, Universidade do Porto, with a final classification of 15/20.

Professional Experience

- Since October 2005 - Consultant to the Ministry of State and Finances of the 17th and 18th Governments, specialising in macroeconomics and public finances (budgetary accountancy and national accounting practices), within this scope undertaking the following roles:
 - 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.
- Since September 2010 - Chairman of the Supervisory Board of Águas de Portugal, SGPS, S.A.
- From August 1999 to October 2005 - Technical specialist at the General Directorate of Taxation, with roles in the Support and Planning Division of the Porto Tax Inspection Directorate of Finance.

Publications

December 2008 - The Financial Sustainability of the National Health Service, Commission for the Sustainability of National Health Service Financing, coordinated by Jorge Simões, Pedro Pita Barros and João Pereira, Secretary General of the Ministry of Health.

Member - Pedro António Martins Mendes

Born: 6 May 1962.

Academic Qualifications

- Degree in Civil Engineering - Structures, IST (1985).
- Masters Degree in Structural Engineering, IST, 1989 (Dissertation: Differential thermal action in bridges);
- PhD in Civil Engineering, IST, 1994 (Thesis: Numerical modelling of aerodynamic behaviour in narrow structures).
- Postdoctoral studies in Civil Engineering, IST (2004).

Professional Career

- Coordinator of the IST Degree in Civil Engineering from October 1998 to September 2000.
- IST Deputy Chairman of Administrative Affairs from 05/01/2001 to 30/06/2002.
- Member of the Board of Directors of LISPOLIS - Association for the Lisbon Technological Centre (2001-2002).
- Vice Chairman of FCT, I.P. - the Foundation for Science and Technology - from 01/07/2002 to 01/07/2003.
- Manager of POCTI - Operational Programme for Science, Technology and Innovation - from 02/07/2003 to 27/01/2004.
- Member of the Board of Directors of Fondation Universités de Paris - André de Gouveia Residence - Calouste Gulbenkian Foundation (2002-2004).
- Vice Chairman of LNEC, I.P. - Laboratório Nacional de Engenharia Civil, Portugal's National Civil Engineering Laboratory - from 28/01/2004 to 31/08/2007.
- Member of Managing Committee of LNEC, I.P. from 01/09/2007 to 28/04/2008, with suspension of service from 01/04/2008.
- Non-executive member of the Board of Directors of ANAM, S.A. - Aeroportos e Navegação Aérea da Madeira - from 16/07/2004 to 15/05/2008.

Member - Célia Maria Marques Rocha Lino

Born: 16 October 1974.

Academic Qualifications

- Law Degree, Law Faculty, Universidade de Lisboa, 1992/97.

Professional Career

- From March 1998 to August 2003, she worked as a lawyer with a Lisbon area law firm. She began as an internship and stayed on after the internship ended.
- During this period she worked in several legal areas, including:
 - commercial law;
 - real estate,
 - registry and notary law;
 - labour law;
 - family law;
- In the process of supervising promissory contracts and the legalisation of a number of urban buildings, she gained experienced in drafting promissory contracts, analysing the legal records of buildings and implementing the legal measures required for the approval of property deeds and their subsequent registration.
- She has supervised the constitution and legal affairs of a number of commercial companies.
- She also supervised the regeneration of an urban area that began as a clandestine neighbourhood.
- She has also been active in the fields of urban rental, family and labour law.
- In September 2003, she began her own law practice, focusing mainly on civil, commercial, company, criminal and labour law.

Reserve Member - Graça Maria V. N. Montalvão Fernandes

Born Mozambique: 12 March 1948

Academic Qualifications

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

Professional Career

- Since 1989 - Senior executive at the Directorate General of the Treasury, currently head of financial support;
- From 1972 to 1989 - Senior official in Mozambique at the Treasury and Finance Department and the Office for External Economic Cooperation, the Ministry of Finance, Central Staff Services, the Ministry for Administrative Reform and the Office for Economic Planning and Integration Services;

Other professional posts

- Chairwoman of the Council of Export and Investment Finance Guarantees since May 2007;
- Chairwoman of the Supervisory Board of E.P., S.A. since November 2007;
- Chairwoman of the Supervisory Board of NAV, EPE from 2004 to March 2008;
- Member of the Supervisory Board of IFADAP from 1999 to 2003;
- Member of the Management Committee of Social Aid Fund for the Reconstruction of the Chiado District of Lisbon (FEARC) from 1998 to 2002;
- Member of the Supervisory Board of Hidroeléctrica de Cahora-Bassa from 1993 to 2000;
- Chairwoman of the EIB's Article 9 Committee for Mediterranean countries from July 1996 to June 1997;
- Chairwoman of the EIB's Article 28 Committee for ACP countries from July 1995 to June 1997.

4.2. Organisational Structure

The structure of the AdP Group is based on Business Units (BU's), 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.



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 properly perform its functions, 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. Remunerations and Other Costs

I - Fixed remuneration statute

Governing Bodies

1. Board of the General Meeting

Mandate II 2008 to 2010

Chairperson - Attendance voucher in the amount of €700;

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

Secretary - Attendance voucher in the amount of €400.

2. Board of Directors

Mandate II 2008 to 2010

Executive Directors

Chairperson - Remuneration of € 9,592, 14 vezes a year:

Other benefits: Life/personal accident and health insurance; company car; meal subsidies; telephone – all these benefits being applicable under the regulations in force at the Águas de Portugal Group.

Members - Remuneration of € 8,952, 14 times a year:

Other benefits: Life/personal accident and health insurance; company car; meal subsidies; telephone – all these benefits being applicable under the regulations in force at the Águas de Portugal Group.

Non-executive Directors

Non-executive directors - Remuneration of € 2,111 euros, 14 a year.

3. Supervisory Board

Supervisory Board

Chairperson - 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.

II. Remuneration and Other Costs (Annual Amounts)

I. Board of the General Meeting

Unit: euros

| Board of the General Meeting | | | |
|-------------------------------|--|-------------------------------|--|
| Mandate 2008-2010 | Chairman | Vice-Chairman | Secretary |
| 2010 | Ana Cristina de Menezes PPS. Rodrigues | Maria Fernanda Joanaz Martins | Manuel Bruno Rossi Ruano Gouveia Pereira |
| I.1. Attendance allowance (a) | 700 | 520 | 400 |

Key

(a) - Corresponds to Annual Gross Earnings resulting from the fixed remuneration statutes

2. Board of Directors

Unit: euros

| Board of Directors | | | | | | | |
|--|-------------------------------------|--------------------------------|---------------------------|---------------------------|------------------------------|--------------------------|----------------------|
| Mandate 2008-2010 | Chairman | Executive Member | Executive Member | Executive Member | Executive Member | Non Executive Member | Non Executive Member |
| | 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 | Parpública |
| 2010 | | | | | | | |
| I. Remunerations | | | | | | | |
| I.1. Fixed Remuneration (a) | 134,287 | 125,324 | 125,324 | 125,324 | 125,324 | 29,557 | 29,557 |
| I.2. Reduction Stipulated by Law no. 12-A/2010, of 30 June | 4,316 | 4,028 | 4,028 | 4,028 | 4,028 | 950 | 950 |
| I.3. Fixed Effective Remuneration (I.1 - I.2) | 130 | 121 | 121 | 121 | 121 | -920 | -920 |
| I.4. Attendance Allowances | NA | NA | NA | NA | NA | NA | NA |
| I.5. Accumulation of Management Functions | N | N | N | N | N | N | N |
| I.6. Variable Remuneration (Management Bonuses) | N | N | N | N | N | N | N |
| I.7. Exemption from Working Schedules | NA | NA | NA | NA | NA | NA | NA |
| 2. Other Payments and Benefits | | | | | | | |
| 2.1. Telephone Bills | 1,279 | 538 | 5,095 | 1,880 | 1,650 | NA | NA |
| 2.2. Travel Costs | NA | NA | NA | NA | NA | NA | NA |
| 2.3. Meal Allowances | 1,596 | 1,481 | 1,596 | 1,596 | 1,596 | NA | NA |
| 2.4. Others (Specify in Detail) | NA | NA | NA | NA | NA | NA | NA |
| 3. Social Security Benefit Costs | | | | | | | |
| 3.1. Conventional Regime | 14,966 | 14,966 | 14,966 | 2,802 | 14,966 | NA | NA |
| 3.2. Conventional Regime | | | | | | | |
| 3.2.1. Social Security (Y/N) | Y | Y | Y | N | Y | NA | NA |
| 3.2.2. Other (Identify) | | | | CGA | | | |
| 3.3. Healthcare Insurance | 355 | 711 | 1,534 | 904 | 355 | NA | NA |
| 3.4. Life Insurance | 3,101 | 4,341 | 2,894 | 4,341 | 2,894 | NA | NA |
| 3.5. Others (Specify in Detail) | NA | NA | NA | NA | NA | NA | NA |
| 4. Company Vehicles | | | | | | | |
| 4.1. Brand of Company Car | Mercedes-Benz | BMW | Mercedes-Benz | BMW | BMW | NA | NA |
| 4.2. Model of Company Car | E350 CDI | 520d | E250 CDI | 520d | 520d | NA | NA |
| 4.3. License of Company Car | 32-HR-45 | 86-HM-03 | 32-HR-44 | 34-HN-44 | 86-HM-04 | NA | NA |
| 4.4. Value of Company Car with VAT (1) | NA | NA | NA | NA | NA | NA | NA |
| 4.5. Cost of Company Car Lease (2) | 16,929 | 11,278 | 12,723 | 11,587 | 11,745 | NA | NA |
| 4.6. No. Of Contractual Instalments (b) | 36 | 36 | 36 | 36 | 36 | NA | NA |
| 4.7. Year of Company Car Acquisition (3) | 2009 | 2009 | 2009 | 2009 | 2009 | NA | NA |
| 4.8. Cost of Company Car Fuel Consumption | 6,555.81 | 2,886.47 | 3,019.87 | 8,104.63 | 4,243.46 | NA | NA |
| 4.9. Company Car IRS Taxation (Y/N) | Y | Y | Y | Y | Y | NA | NA |
| 5. Additional Information | | | | | | | |
| 5.1. Option for Wage at Source (Y/N) | N | N | N | N | N | NA | NA |
| 5.2. Holding Remunerated Positions Outside of the Group | N | N | N | N | N | NA | NA |
| 5.3. Others (Specify in Detail) | NA | NA | NA | NA | NA | NA | NA |

Key

(a) - Corresponds to Annual Gross Earnings resulting from the fixed remuneration statutes or the place of origin where this option has been authorised

(b) - Where the Company Car has been acquired through Leasing, Renting or similar; the number of contractual instalments is to be provided

Y - Yes; N - No; NA - Non Applicable

(1) Company vehicles utilised by AdP SGPS are procured through vehicle rental contracts

(2) Sums relating to the vehicle rental payments made over the year; with VAT included

(3) Date of operational rental contract beginning

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 provided for all AdP Group employees).

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

3. Supervisory Board

Unit: euros

| Mandate 2008-2010 | Supervisory Board | | | |
|-----------------------------|-------------------|------------------------------|--------------------------------|---------------------------------|
| | Chairman | Member | Member | Reserve Member |
| 2010 | (*) | Pedro António Martins Mendes | Célia Maria Marques Rocha Lino | Graça Maria Montalvão Fernandes |
| I.I. Fixed Remuneration (a) | 20,037 | 20,143 | 20,143 | NA |

Key

(a) - Corresponds to Annual Gross Earnings resulting from the fixed remuneration statutes

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

4. Auditors and Statutory Auditors

The consolidated financial statements of AdP - Águas de Portugal, SGPS, S.A. and all group companies are independently audited.

The fees paid (in euros) to our auditors/statutory auditors in 2010 were as follows:

| 2010 | Mandate 2008-2010 | | | |
|---|-------------------|---------|----------------|-----------|
| | Statutory Audit | Audit | Other services | Total (a) |
| PricewaterhouseCoopers | 40,975 | 139,387 | 264,579 | 444,940 |
| Deloitte | 46,750 | - | 301,001 | 347,751 |
| E&Y | 243,083 | 154,583 | 134,575 | 532,241 |
| BDO | 29,390 | 23,028 | 149,157 | 201,575 |
| Alves da Cunha, A. Dias & Associados, SROC | 102,904 | - | - | 102,904 |
| Pedro Leandro | 24,869 | - | - | 24,869 |
| P. Matos Silva, Garcia Jr, Pires Caiado, SROC | 43,760 | - | - | 43,760 |
| O Lima, N. Silva, F. Colaço, A. Coelho, L. Rosa, SROC | 17,250 | - | 1,860 | 19,110 |
| ESAC - Espírito Santo & Associados, SROC | 5,796 | - | - | 5,796 |
| Grant Thornton, SROC | 14,828 | - | - | 14,828 |

Key

(a) - Corresponds to Annual Gross Earnings resulting from the fixed remuneration statutes

The amounts shown in the above chart correspond to the fees charged by the statutory auditors and associate companies.

6. Analysis of Sustainability

In 2009, the AdP Group produced its first Sustainability Report, covering 2008. This was the first report on the consolidated economic, environment and social performance of the Águas de Portugal Group. The 2009 Sustainability Report, published in 2010, was the first to be confirmed by an independent external body and was classified as A+ (according to the GRI index).

The Sustainability Report relates the consolidated performance of 38 companies in the AdP Group in which AdP SGPS has a majority stake, either directly or indirectly, and which were in operation in 2009 (the holding company, shared services and subsidiaries - water, wastewater and waste).

The report is available on the AdP website - www.adp.pt - and details the AdP Group's responses to the principles and commitments undertaken in its sustainability strategy, clearly and transparently relating the group's performance.

The report highlights the strategy adopted, the objectives and the level of compliance with the goals set. It is important to note that 2010 was marked by a high level of goals achieved and, in some cases, these were even surpassed.

The consolidated report of the AdP Group for 2010 is due to be published soon and confirmed by an external body. For now the following highlights may be mentioned:

- The increase in the number of Business Management Systems certifications in the group companies, specifically regarding standard SA 8000, thereby seeing a strengthening of our commitment to promoting the continued improvement which is essential to the public service mission with which we are charged, in accordance with the highest levels of responsibility regarding the social aspect of sustainable development.
- The organisation of an awareness-raising action on the issue of HIV/Aids in the workplace, as part of developing the commitment undertaken by all of the group companies in 2009, with their adhesion to the Companies Code of Practice on HIV.
- The adhesion to Global Compact, a United Nations initiative seeking to align business and civil society strategies and policies with ten universal principles covering human and labour rights, protection of the environment and anti-corruption mechanisms, which today has a membership of over eight thousand organisations from around 135 countries.
- The promotion, as part of the GreenFestival, of the conference on "Sustainable Cities" with the United Nations consultant for urban issues, Jaime Lerner, and the organisation of a workshop focusing on the theme of sustainability and corporate social responsibility, with a particular concern on biodiversity related issues and combating social exclusion.
- The development of the protocol established between all the group companies and the Portuguese Sports Federation for Disabled Persons (FPDD) to provide support for the National Adapted Swimming Squad 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 will be made. Employees of the AdP Group have been keen to join this social responsibility initiative.

6.1. Human Capital Management

Throughout 2010, there was continued emphasis on staff development and on providing them with the skills necessary to successfully carry out the company's missions and at the same time evolve in their professional career. Important initiatives were also begun which seek to provide the group companies with human resource management tools which are more integrated and adapted to the growing demands of our activity.

Performance Management

In 2010, the practices which had already been consolidated regarding performance and merit management maintained their importance in increasing the value and the development of our employees. The performance management system played a central role in identifying the best contributions and opportunities for improvement, both in terms of the individual and the organisation.

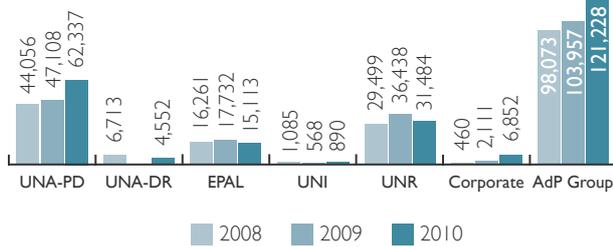
This process has made an important contribution to the implementation of development plans adapted to the real needs of each employee, to the alignment of individual performance with the group's strategy and to the promotion of excellence via continual improvement.

Training and Development

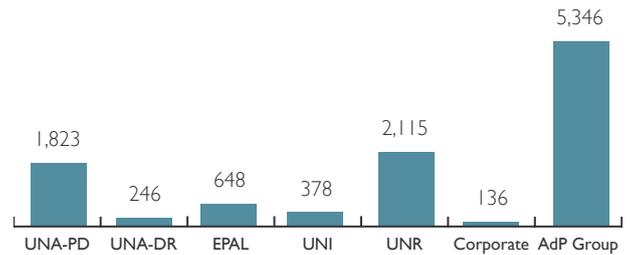
The development and qualification of its employees is at the heart of the AdP Group's strategy on human capital. In order for the group to maintain and increase its level of effectiveness and excellence in the various activities it carries out, we understand that it is fundamental to equip our employees with the skills necessary to enable them to achieve their full potential and therefore meet the challenges presented by the demands of the business.

This emphasis on training and qualification is corroborated in practice by the evolution in the number of training hours provided to our employees. In 2010, the previously recorded trend of increasing the number of training hours continued, with an increase on the previous year of 103,957, to 121,228 hours.

Hours of Training by BU



Number of Employees Involved by BU



Rewards and Benefits

In 2010, the rewards and benefits policies and practices continued to be based on principles and criteria of internal equity and external competitiveness, so as to best attract, motivate and retain the members of staff necessary to successfully achieve the group's strategic objectives.

Career Management

The internal mobility of employees was a particularly positive factor in 2010 in terms of the professional development of our employees. We regard internal recruitment as a critical tool in the personal and professional development of our employees, enabling them to be exposed to new contexts and challenges, which allow for the acquisition of new learning experiences and skills.

Organisational Environment

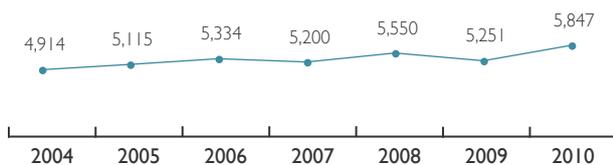
We believe that the level of satisfaction and motivation of our employees has a direct impact on the productivity and efficiency of our teams. With this conviction, in 2010 the head companies participated in the study "The Best Companies to Work for in Portugal", in order to assess the impact of our human resources management policies on the satisfaction of our employees.

The result obtained in this national study placed these companies among the top 100 best companies to work for in Portugal, which demonstrates the validity of the initiatives carried out as part of human resources management and provides several suggestions as to opportunities for improvement to be pursued in the future.

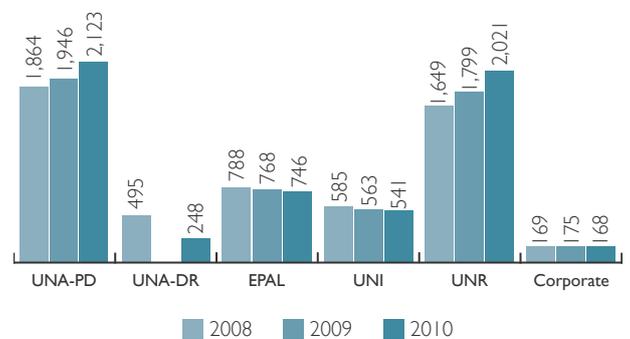
Characterisation of the Human Resources (31 December 2010)

The number of employees in the group increased, as a result of the creation of new companies and the launch of new activities which needed to be supplied with human resources. In the case of the UNA-DR, the increase in employees in relation to the previous year is related to the signing of a new partnership which led to the creation of AdRA - Águas da Região de Aveiro, included within a business unit (BU) which had been eliminated by the sale of Aquapor at the end of 2008.

Number of AdP Group Employees

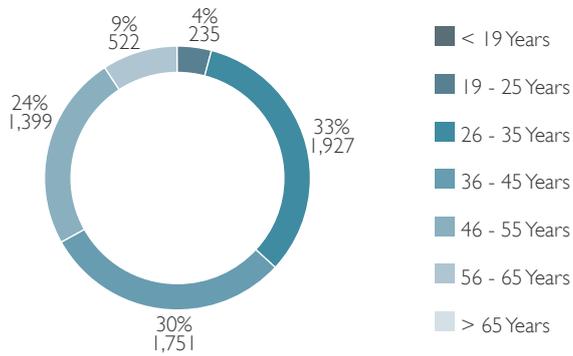


Number of BU Employees

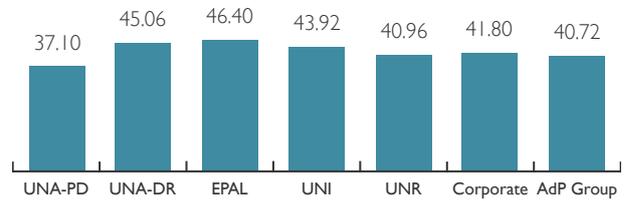


The average age within the group is 40.72 years. The UNA-PD is the business unit with the lowest average age, 37.10 years.

Age Structure

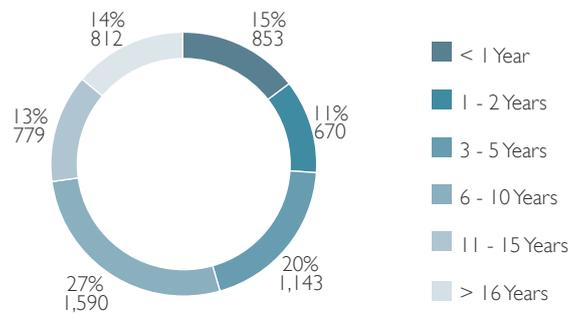


Average Age by BU

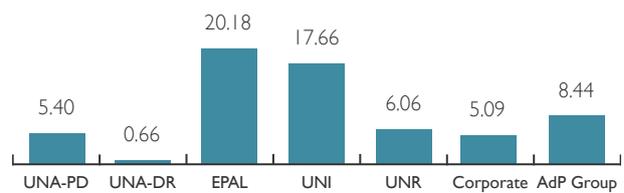


The average length of service within the group is 8.44 years, which represents a decrease on the previous year.

Average Length of Service

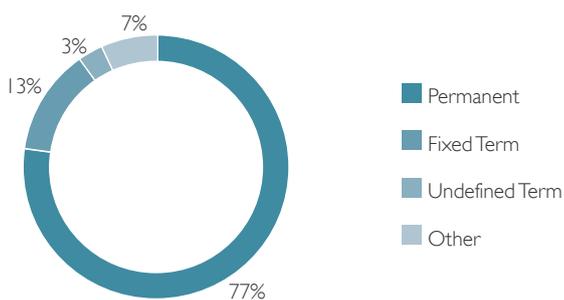


Average Length of Service by BU

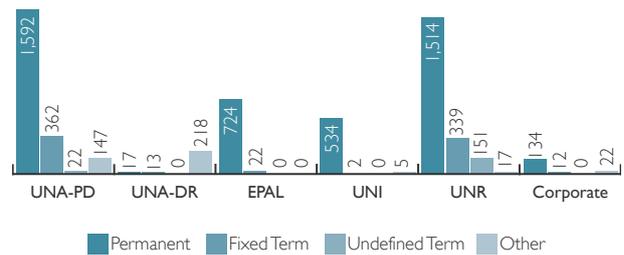


In terms of type of contract, permanent contracts account for 77% of the current situations.

Type of Employment Contract

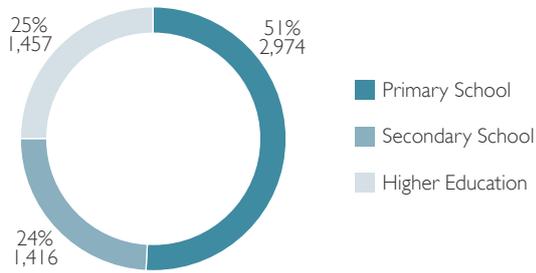


Type of Employment Contract by BU

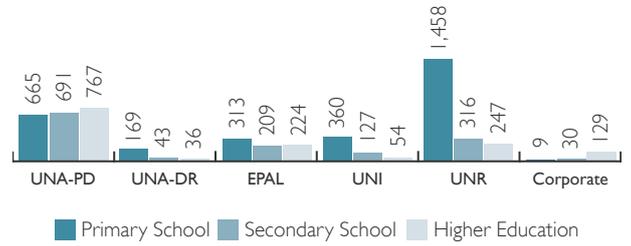


Regarding academic qualifications, a quarter of all employees have higher education qualifications.

Academic Qualifications

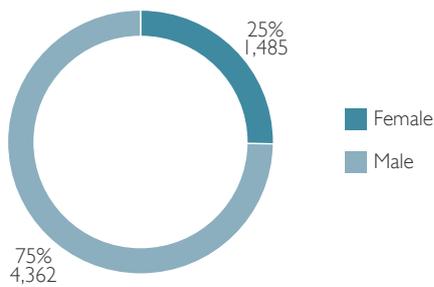


Academic Qualifications by BU

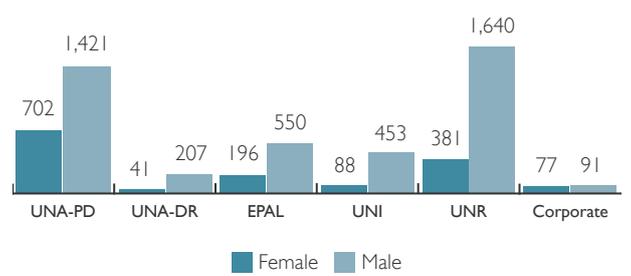


As far as distribution by gender is concerned, it can be confirmed that there is a higher percentage of men in the more operational business units, whilst the distribution is more even in the central support areas.

Gender Distribution

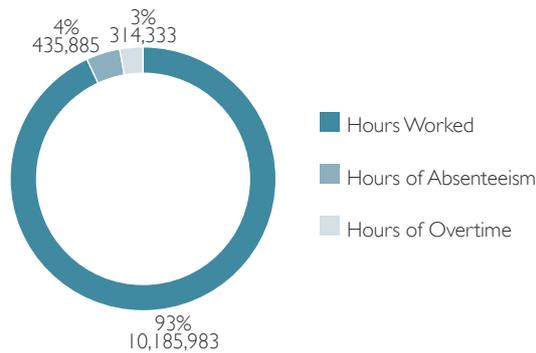


Gender Distribution by BU

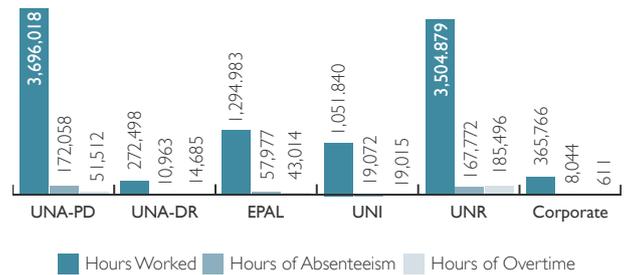


The accumulated percentage of absenteeism seen within the group in 2010 is within acceptable parameters for our type of activity.

Hours Worked and Absenteeism

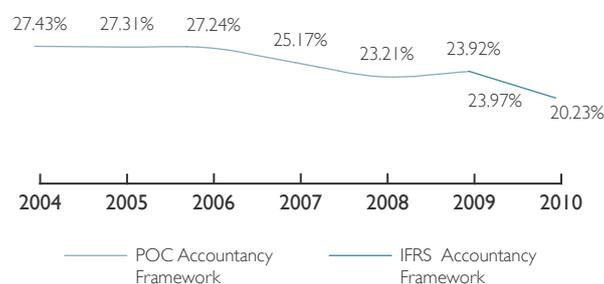


Hours Worked and Absenteeism by BU



Regarding staff costs, there was a significant reduction in the main indexes and financial ratios in 2010. In fact, total staff costs fell by 7%, while the average annual cost per employee fell 16.5%.

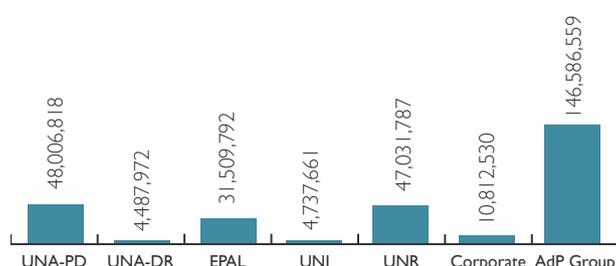
Staff Costs / Turnover



Staff Costs/ EBITDA



Staff Costs by BU (euros)



| Staff Costs | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Accounting standards | POC | POC | POC | POC | POC | POC | IFRS |
| Staff costs (million €) | 114.20 | 126.40 | 145.10 | 139.30 | 142.68 | 157.71 | 146.59 |
| Average annual cost per employee (€) | 23,244 | 24,704 | 27,204 | 26,780 | 25,709 | 30,035 | 25,070 |
| Average monthly cost per employee (€) | 1,660 | 1,765 | 1,943 | 1,913 | 1,836 | 2,145 | 1,791 |
| Staff costs/ Turnover | 27.43% | 27.31% | 27.24% | 25.17% | 23.21% | 23.92% | 20.23% |
| Staff costs/ EBITDA | 69.83% | 64.06% | 66.36% | 63.68% | 47.40% | 41.63% | 52.90% |

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 Monthly Cost per Employee was calculated on the basis of 14 months salary per year. **Note (3):** The amounts up to 2009 were based on the POC and those of 2010 on the IFRS. To allow for comparison the 2009 figures have also been expressed based on IFRS.

6.2. Research and Development

The most relevant aspects of activities undertaken in the 2010 financial year are set out below, demonstrating the group's alignment with the guidelines set out in the PEASAR II that contribute most towards the national 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.

Regarding the 7th Framework Programme (7th FP), the work carried out in the financial year of 2010 covered six European consortia, and was aimed at developing relevant knowledge for the AdP Group, and also support to a qualified participation of national scientific teams.

R&D Project Participation

| Co-Financing | Acronym | Coordinator | Summary | Budget (€ million) | Situation |
|--|----------------------|----------------------------|--|--------------------|--------------|
| 7° FP | MYWATER | GMV | Integration 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 | Starting up |
| | TRUST | IWW | Governance technologies and models guiding the transition of urban water systems towards new sustainable paradigms. | 8.0 | Starting up |
| | LENVIS | HYDROLOGIC | Environmental and healthcare information services for citizens: water quality and air quality. | 3.2 | Ongoing |
| | G-MOSAIC | TELESPAZIO | GMES services for crisis management. | 15.3 | Ongoing |
| | PREPARED | KWR | Adapting water and wastewater services to climate change. | 10.0 | Ongoing |
| | SISTIR | AGBAR/CETAQUA | Innovative and sustainable technologies for sludge management from an integrated recovery perspective. | 5.0 | Not approved |
| 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 | Ongoing |
| LIFE+ | WW4ENVIRONMENT | Instituto Superior Técnico | Minimising energy consumption in treating wastewaters and maximising the production of renewable energies by anaerobic sludge digestion. | 0.8 | Ongoing |
| EUROSTARS | INNOSENSOR | SIMBIENTE | Development of a sensor for on-line detection of volatile acids with the objective of optimising biogas production. | 0.2 | Starting up |
| National Strategic Reference Framework | GESTAR PLUS | MdeMÁQUINA | Remote planning and supervision tools for operations integrated into the other functional areas of the company (financial, maintenance...). | 0.8 | Ongoing |
| | AQUASAFE | HIDROMOD | Development and testing of an integrated information platform for risk management and reporting for water and wastewater systems. | 0.6 | Ongoing |
| Fundação para a Ciência e a Tecnologia | PTDC/ECM/112856/2009 | Instituto Superior Técnico | Integrated water and energy efficiency management for water supply systems. | 0.1 | Not approved |
| AdP | IWA BONN NETWORK | IWA | Support tools for implementing and managing Water Security Plans. | 0.2 | Ongoing |

The following may be highlighted regarding these projects:

- G-MOSAIC and MYWATER, insofar as they include case studies in Mozambique with an impact on the qualification of water resources management and the enabling of institutions;
- SISTIR and TRUST, with AdP's work as part of the Water and Sanitation Technological Platform greatly contributing to their appearance.

Beyond this active involvement in the 7th FP, other highlights included cooperation in the management of previously approved projects (five projects), the approval of a new project, and also the supervision of an application presented to the Portuguese Foundation for Science and Technology (which was unsuccessful).

As a complement to the R&D activities and the implementation of the respective products within the scope of the companies in the AdP group, promotion activities were carried out aimed at potential international clients. These actions assumed particular importance in 2010 in the case of the product developed as part of the GESTAR PLUS project (with participation by Aquasis), which has in fact already been used by many concession companies for multi-municipal water and wastewater sanitation systems, with recognized impact on the productivity and motivation of the employees.

Following on from these actions aimed at potential international clients, an opportunity has already arisen to install an operational pilot in the SABESP installation (water and wastewater sanitation company in the state of S. Paulo, Brazil).

As a result of these same initiatives, the Chief Executive Officer of McGrathEurope has demonstrated an interest in working with Aquasis on some works that this international company is involved in.

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

Activities taking place in 2010 allowed the AdP Group to strengthen its projection with the Community institutions.

Within this scope, AdP hosted a promotion activity of the Cluster EUREKA for Water, named ACQUEAU, which took place on 26 March with the presence of representatives of the Innovation Agency and those with main responsibility for the Cluster.

Additionally, via the Water and Sanitation Technological Platform, AdP contributed to formatting the future Community programme, European Innovation Partnerships, with suggestions for innovative projects. It was thus hoped to create good chances of success for investment intentions with innovative characteristics to be carried out by nine AdP subsidiaries, involving a sum of around € 68 million.

“Promotion of the R&D activities of the managing entities”

The initiatives of AdP led to the presentation of 15 papers at 10 national and international events in 2010, thus keeping up with the track record set in previous years of over one paper per month (see the table on the next page).

Communications

| Event | Organisation / Sponsorship | Location | Date | Authors |
|---|--|---------------|-------------------------|---|
| Presentation of AdP Group to AICEP Delegates | AICEP | Lisbon | 19 January 2010 | Águas de Portugal |
| Buffer Strips and Buffer Zones - Targeting Water Quality | WSSTP / COPA-COGECA | Brussels | 23 February 2010 | Águas de Portugal (co-author) |
| National Strategy for Adapting to Climate Change - Impact on Hydric Resources | Águas de Portugal | Lisbon | 24 February 2010 | Águas do Algarve Simtejo Águas de Trás-os-Montes e Alto Douro EPAL |
| Desalination through Recourse to Renewable Energies | Ao Sol / De Viris / PRODES | Faro | 26 February 2010 | Águas de Portugal |
| IWA Bonn Network - Best Practice Workshop | IWA / Águas do Algarve | Vilamoura | 17 to 19 May 2010 | Aquasis (co-autoria) Águas do Cávado (co-author) |
| AMBIESCOLA* Project | Mário Sacramento Secondary School | Aveiro | 7 June 2010 | Águas de Portugal |
| 1st G-MOSAIC Users Workshop | G-MOSAIC Project | Ispra (Italy) | 23 to 25 June 2010 | Águas de Moçambique (co-author) |
| 5th Expo Water Conference | Água & Ambiente | Lisbon | 19 to 21 October 2010 | Águas de Portugal |
| 14th Luso-Brazilian Sanitation and Environmental Engineering Conference (SILUBESA) | APESB | Porto | 26 to 29 October 2010 | Águas de Moçambique (co-author) AdP Serviços (co-author) |
| India-EU and Member States Partnership for a Strategic Roadmap in Research and Innovation | European Commission and the Hindu Ministry of Science and Technology | New Delhi | 11 and 12 November 2010 | Águas de Portugal |

* - With the participation of Members Luísa Roseira, of the Environment Commission and Nuno Reis, of the Economy Commission, of the Republican Parliament.

Beyond boosting the presentation of papers, the promotion of the R&D activities of the concession companies of the multi-municipal systems in 2010 also included a wide range of meetings and cooperation activities. Highlights include the presentation of relevant projects with interest for the managing entities of Portuguese-speaking Africa, on the occasion of a visit by Engineer Gildo Timóteo, the Director of Águas de Moçambique, to Águas do Algarve, and the organization of a visit to AdP by Dr. Corinna Summerill, a researcher from the University of Cranfield, who studied the culture of the companies of the AdP group in situ for almost one month. This latter activity was carried out at the request of the International Water Association (IWA) and constitutes further recognition of the practice of the AdP group regarding innovation within the scope of risk management in water supply.

“Maximising the use of biomass as a source of renewable energy, studying solutions specific to managing entities and solutions integrating other sectors”

Within this scope, an intra muros R&D activity was applied to the case of Simlis' North WWTP, by means of which a model was drawn up to simulate the functioning of Wastewater Treatment Plants (WWTP), with the aim of studying opportunities for co-digesting pig-rearing effluents in the anaerobic sludge digestors.

This project seeks to support the rational use of the capacities of the existing WWTPs in pursuing the objectives of Portugal's National Strategy for Agricultural and Agro-Industrial Effluents (ENEAPAI), minimising the need for investment in new infrastructures, which will always impact on the service price for disposing of such effluents, and also maximising the potential of these effluents for the generation of biogas to be used in renewable energy production.

Other aspects

Another aspect carried out during the financial year which has just ended was an analysis of the feasibility of AdP group applications to the programme for support to projects in Portugal granted by the Portuguese Carbon Fund. At the initial stage four projects were identified, covering wastewater treatment, municipal urban waste treatment and fleet management. Following this, the respective feasibility was studied from the point of view of the methodologies set out by the UNFCCC - United Nations Framework Convention on Climate Change, and with regard to the support that it would be possible to obtain. Unfortunately it was concluded that none of the projects would be feasible, and therefore the decision was taken not to present any application.

The financial year of 2010 was also marked by intense activity in support of the AdP group's internationalisation efforts, using the knowledge created and the network of contacts set up. Highlights in this area include:

- a working visit to the Office National de l'Eau Potable (ONEP) in Rabat, Marrocos, with the support of AdP Internacional;
- cooperation with AdP Serviços and AdP Internacional in the drawing up of a proposal for technical assistance to the Turkish Ministry of the Environment, presented in consortium with GTZ (a large public sector company in the Federal Republic of Germany);
- the drawing up of the bulk of the technical proposal for specialized consultancy services to the Holding Company for Water and Wastewater of the Arab Republic of Egypt, with the support of AdP Internacional;
- coordination of the technical programme for a visit to AdP by a delegation from the Republic of Senegal, led by the General Director of the Office National de l'Assainissement du Sénégal;
- organisation and management of a visit by a delegation of ONEP to identify possible technical assistance services to be provided by companies in the AdP group;
- production of a large part of the content for the leaflet promoting the AdP group's technological offer, distributed at the national pavilion during the IWA World Water Congress and Exhibition held in Montreal;
- lastly, but no less important, negotiation with the IWAS and UN-HABITAT of a joint application to the ACP-EU WATER FACILITY, agreement for which was concluded during the contacts made in Montreal at the IWA World Water Congress and Exhibition.

Balance sheet of the activity carried out in the period 2006 - 2010

In summary terms the following indicators can be presented, excluding involvement in activities with interest for AdP Serviços and AdP Internacional:

- involvement in 28 R&D consortia, which corresponds to 13 projects which received funding approval, 14 projects which did not begin due to lack of funding and one project co-funded directly by the AdP group;

- considering the objective established in PEAASAR II and in the Technological Plan, we may highlight involvement in the 7th R&D Framework Programme; in this area the AdP group's presence was felt in 16 R&D consortia, which resulted in six projects which received funding approval and 10 projects which did not begin due to lack of funding;

- in terms of the promotion of R&D activities of the companies in the AdP group, papers have been presented in national and international events at a rhythm greater than one a month.

The following table refers to the projects in which the work carried out by AdP has been decisive or relevant for obtaining funding and in which, simultaneously, the products to be developed are of express interest to a company in the AdP group.

Initiatives Leveraged by AdP - Support Grants

| Financing | Acronym | Coordinator | Objective | Grant (euro) | AdP Participation |
|--|------------------------------------|----------------------------|--|--------------|-------------------|
| European Space Agency | AQUAPATH | Instituto Superior Técnico | GMES downstream service for AdP Group company needs deriving from the Urban Wastewater Directive, the Framework Directive for Water and the Environmental Responsibility Directive. AdP Group company involved: AQUASIS. | 200,000 | DECISIVE |
| 7th R&D Programme Framework | G-MOSAIC | TELESPAZIO | A case study in Mozambique, in the Umbeluzi basin, that enables the development of a warning system for Águas de Moçambique based upon events originating in Movene. AdP Group company involved: Águas de Moçambique. | 90,000 | DECISIVE |
| | PREPARED | KWR | Adapting water and wastewater services to climate change. AdP Group company involved: EPAL. | 425,000 | DECISIVE |
| | TRUST | IWW | Transition of water and wastewater services to an urban management sustainability paradigm. AdP Group companies involved: Águas do Algarve and Águas de Moçambique. | 1,190,000 | RELEVANT |
| National Strategic Reference Framework | GESTAR PLUS | MdeMÁQUINA | Integration of remote operator working planning and supervision tools operations into systems from other company functional areas (financial, maintenance, ...). AdP Group company involved: AQUASIS. | 565,000 | DECISIVE |
| | AQUASAFE | HIDROMOD | Development and testing of an integrated information platform for risk management and reporting for water and wastewater systems. AdP Group companies involved: Águas do Oeste, Águas do Cávado and SIMTEJO. | 385,000 | RELEVANT |
| LIFE+ | WW4ENVIRONMENT | Instituto Superior Técnico | Maximise wastewater treatment plant energy efficiency and renewable energy production (with currently available technology). AdP Group company involved: SIMTEJO. | 380,000 | RELEVANT |
| EUROSTARS | INNOSENSOR | SIMBIENTE | Development of a sensor for on-line detection of volatile acids in the optimising of biogas production. AdP Group company involved: SIMTEJO. | 100,000 | DECISIVE |
| IWA | WATER OPERATORS PARTNERSHIP AFRICA | IWA / AdP | Workshop in Maputo where AdP presented its know-how to guests from Portuguese speaking Africa with travel and accommodation met by the IWA. | 10,000 | DECISIVE |

It may be concluded that AdP's action was decisive in obtaining around € 1.4 million in non-repayable funds for R&D products with interest for the AdP group. We may add to this amount the sum which resulted from relevant actions and the value, both tangible and intangible, of the products developed.

Regarding this value of the products developed, as mentioned above, AdP has supported their respective promotion with potential international clients. Although this process is still in the early stages, the initial results are encouraging.

7. Compliance with the Principles of Good Governance

AdP SGPS governance respects the Principles of Good Governance for companies operating in the state business sector as set out in Council of Ministers Resolution no. 49/2007 of 28 March.

| Mission, objectives and general action principles | | |
|--|---------------------|--|
| Principles | Level of compliance | Explanation |
| State owned companies are required to: | | |
| <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 Annual Report and Financial Statements 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 of the AdP Group commitments, and reflecting its sustainable strategy is to "guarantee equality of opportunity" and detailing its performance in the group Sustainability Report. |
| <ul style="list-style-type: none"> Annually report to members of the government, the Ministry of the Environment ministry 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 action principles

| Principles | Level of 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 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 total supplies or third party 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 supplies or third party 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 Corruption and Associated Infractions 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 | Level of compliance | Explanation |
|--|---------------------|---|
| <p>State owned companies are required to:</p> <ul style="list-style-type: none"> To operate 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 that do 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"> To 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. <p>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 managers as well as an overall evaluation of the governance structures and mechanisms in operation at the company.</p> | 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 Assembly, The Board of Directors, The Supervisory Board, The Statutory Auditor. <p>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.</p> |
| <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 Management, 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. |
| <ul style="list-style-type: none"> The governing bodies are to create and maintain an appropriate system of control so as to protect company investments and assets and taking into consideration all the relevant risks taken on 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 managers 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. <p>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</p> |

Remunerations and other rights

| Principles | Level of compliance | Explanation |
|---|---------------------|---|
| <p>State owned companies are required to:</p> <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. |

Prevention of conflicts of interest

| Principles | Level of compliance | Explanation |
|---|---------------------|---|
| <p>State company governing body members are required to:</p> <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 Statute of Public Sector Managers, notify the General Inspectorate of Finance of all their shareholdings and ownership interests, whether direct or indirect, in companies where they hold management positions. |

8. Code of Ethical Conduct

The AdP Group believes the goals of the mission conferred on the group by the Portuguese state can only be achieved through strict compliance with the highest standards of ethical behaviour.

The AdP Group's Code of Ethical Conduct 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 Ethical Conduct reflects a desire for permanent improvement by a business group that sees respect for the rights of employees, the responsibility of defending and protecting the environment, transparency in its external relations and contributing towards sustainable development as the guiding principles of its activities.

The ethical values and guiding principles of the AdP Group

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 **Code of Ethical Conduct** can be consulted and downloaded at the group's website (www.adp.pt).

9. 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 ongoing at all companies.

In 2010, the first phase of the business risk management project was completed with the main results including an integrated evaluation of AdP Group risk and the systematisation of risk management processes enabling the establishing of a common language for the definition and concept to each risk, in addition to aligning objectives with the risks and respective controls of each entity.

The risks encountered are organised in accordance with a class and category structure defined in accordance with the COSO methodology (Committee of Sponsoring Organizations of the Treadway Commission) and presented below:



The evaluation of risk is carried out from the perspective of incidence and impact probability, taking into consideration the risk inherent and the respective residual risk. Correspondingly, this seeks to ascertain the effectiveness of the internal control system set up by each company to maintain the level of risk at levels deemed acceptable.

The risks are evaluated across various dimensions and hence evaluating the impact takes into account diverse facets to each risk, specifically:

- Financial;
- Reputational;
- Legal and/or regulatory; and
- Level of alignment with business objectives.

The perspective of risk incidence probability is similarly evaluated in accordance with a broad range of factors, for example:

- Existence and effectiveness of controls;
- Prior incidence of risk;
- Complexity of risk; and
- Installed risk management capacity (persons, processes, systems).

The main objectives of Internal Audit and Risk Control processes are the validation of the internal AdP Group company control systems and the identification of factors of risk to core business activities, in conjunction with tests to evaluate the controls in effect. To this end, work took place in all AdP Group company sectors of activity: specifically, water supply, the treatment of wastewaters and the collection, treatment and recovery of urban solid wastes.

The risks related to classes of governance, strategy and planning, conformity and reporting are dealt with and monitored by each individual company while never overlooking the regular, and whenever the circumstances so require, submission to the AdP SGPS Board of Directors. The approach to operational and infrastructure class risks, beyond the coverage ensured locally by each company and its respective governing body, is complemented by centralized structures of activity monitoring and control, which are attributed responsibility for identifying and managing the main risks (for example: corporate human resource management, corporate financial management, information technology system management).

Within the prevailing economic context, we may highlight certain risks that the AdP Group is more exposed to, especially:

- Company holding portfolio management;
- Alterations to the legislative and regulatory frameworks;
- Political, economic and financial developments;
- Bad debt liabilities;
- Credit and financing; and
- Financial sustainability.

The AdP SGPS Board of Directors has established regular monitoring actions in relation to the main aforementioned risks so as to accompany their trends and ascertain levels of control with such processes currently operating as duly planned.

10. Preventing Conflicts of Interests

Members of the AdP - Águas de Portugal, SGPS, S.A. Board of Directors are fully aware of the conflict of interests regime defined under the auspices of 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), and which establish rules regarding the cumulative holding of positions and the requirements stipulated for the non-participation in decisions involving interests specific to these governing body positions. The Board also takes into consideration Law no. 4/83, of 2 February and transposed into Law no. 25/95, of 18 August.

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

- (i) Delivery, in conjunction with the General Inspection of Finances, of a declaration containing 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) Delivery of a Declaration of Assets and Earnings to the Constitutional Court (Law no. 4/83 of 2 February, as transposed in 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) Delivery to the Attorney General of the Republic of a Declaration of 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) Compliance with the stipulations further set out within both the scope of Decree Law no. 71/2007, of 27 March and the Corporation Code on this matter.

11. Reporting

AdP - Águas de Portugal, SGPS, S.A. complies with the Principles of Good Governance on the disclosure of information, specifically that stipulated by the Council of Ministers Resolution no. 49/2007, of 28 March, as specified in the following table:

| Information included on the SEE Site | Released | | | Comments |
|--|----------|---|------|----------|
| | Y | N | N.A. | |
| Updated Statutes (PDF) | x | | | |
| History, Vision, Mission and Strategy | x | | | |
| Company summary file | x | | | |
| Company Identification: | | | | |
| Mission, objectives, policies, public serv. req. and financing model | x | | | |
| Governance Model / Governing Body Iden.: | | | | |
| Governance Model (identification of governing bodies) | x | | | |
| Fixed remuneration statutes | x | | | |
| Bonuses and other benefits | 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 Ethics | x | | | |
| Historical and current financial information | x | | | |
| State Financial Inputs | x | | | |

Key:

Y - Yes

N - No

N.A. - Non Applicable

| Information included on the Company WebSite | Released | | | Comments |
|--|----------|---|------|----------|
| | Y | N | N.A. | |
| Existence of Site | x | | | |
| History, Vision, Mission and Strategy | x | | | |
| Organogram | x | | | |
| Governing Bodies and Model of Governance: | | | | |
| Identification of Governing Bodies | x | | | |
| Identification of Board fields of responsibility | x | | | |
| Identification of company commissions | x | | | |
| Identification of risk control systems | x | | | |
| Remuneration of Governing Bodies | x | | | |
| Internal and external regulations | x | | | |
| Off-market transactions | x | | | |
| Relevant transactions with related entities | x | | | |
| Analysis of economic, social and environmental sustainability | x | | | |
| Code of Ethics | x | | | |
| Management Report and Accounts | x | | | |
| Client Purveyor | | | x | |

Key:

Y - Yes

N - No

N.A. - Non Applicable

Compliance with special information 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 General Directorate of Treasury and Finance (DGTF) and the General Inspection 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 included in annual budgets;
- Quarterly reports on budgetary implementation accompanied by the management reports of the supervisory board;
- Copy of the minutes of general assemblies.

12. Compliance with Instructions, Ministerial Orders and Diverse Legislation

12.1. Compliance with the generic orientations for salary negotiations at state owned companies under the terms of order no. 1730, of 25 February 2010, from the General Directorate of Treasury and Finance

AdP SGPS ensured full compliance with the orientations handed down in order no. 1730, of 25 February 2010, from the General Directorate of Treasury and Finance and did not proceed with any increase in nominal salaries throughout 2010.

12.2. Compliance with the Ministry of State and Finance ministerial order of 25 March 2010, communicated through the circular order no. 2590, of 26 March 2010, that stipulates the non-awarding of management bonuses to members of governing bodies in the years 2010 and 2011

AdP SGPS ensured full compliance with the provisions of the Ministry of State and Finance ministerial order of 25 March 2010, communicated through circular order no. 2590, of 26 March 2010 and did not award any bonuses to AdP Group governing body members in the 2010 financial year.

12.3. Compliance with the orientations established for state sector human resource recruitment (ministerial order no. 438/10-SETF);

In terms of human resource recruitment, we hereby highlight that not only were the orientations conveyed to companies in which stakes are managed by the AdP - Águas de Portugal, SGPS, S.A. Executive Commission but then duly implemented to bring about compliance with ministerial order no. 438/10 - SETF, of 10 May 2010, in accordance with that stipulated by Circular

Order no. 6132, of the General Directorate of Treasury and Finance, of 6 August 2010, which determines the following formalities should be complied with for service provision contracts equal to or in excess of €125,000 (one hundred and twenty-five thousand euros):

- Prior to adjudication, the contracting requirement should be stipulated both in terms of the economic point of view, such as the lack of internal solutions, as well as setting out the respective objectives to be obtained,
- The results obtained should be subject to evaluation,
- Any overruns in either the timeframe for implementation or the budget are to be duly justified.

In addition to the above, in procedures undertaken in 2010 relative to establishing contracts under the auspices of the Code of Public Contracting, group companies, in accordance with individualised reporting submitted to AdP - Águas de Portugal, SGPS, S.A., duly took into full consideration the norms stipulated by the Code of Public Contracting as approved by Decree Law no. 18/2008, of 29 January, with the contents conferred under Law no. 59/2008, of 11 September, by Decree Law no. 278/2009, of 2 October and by Law no. 3/2010, 27 April.

12.4. Compliance with maximum limits of additional debt defined for 2010 in the PEC program approved by Resolution of the Republic Parliament no. 29/2010, of 12 April and specified in Ministerial Order no 510/10-SETF, of 1 June, and communicated by Circular Order no. 4348, 1 June 2010, from the General Directorate of Treasury and Finance

Through Ministerial Order no. 896/10 SETF, of 26 August, the AdP Group was exempted on an exceptional basis from the maximum additional debt limits defined for 2010 in the PEC program approved by Resolution of the Republic Parliament no. 29/2010, of 12 April and specified in Ministerial Order no 510/10-SETF, of 1 June.

12.5. Implementation of Stability and Growth Pact measures (membership of the National Public Procurement System)

AdP Serviços Ambientais represents the shared services AdP Group company, running a centralised operational structure, optimising and rationalising the acquisition of goods and services within the scope of AdP Group company activities. Within this framework, a relational model provides a standardised list of goods and services that are acquired through the AdP Serviços Procurement and General Support Directorate. This business model with centralised procurement has ensured high levels of efficiency and savings estimated to total between 10% and 25%.

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

AdP SGPS ensured full compliance with the provisions of article 12 of Law 12-A/2010, of 30 June, reducing AdP Group manager remuneration by 5%.

12.7. Compliance with that stipulated by Law no. 12-A/2010 on the Principle of State Treasury Unity

Since its foundation, AdP SGPS has taken on responsibility for coordinating and obtaining the financing necessary to meeting the needs of group companies constantly within the framework of maintaining financial structural equilibrium from a consolidated perspective as the final objective. Correspondingly, and in order to ensure group financing, and in particular that of the multi-municipal systems:

- Monitored companies in their relationships with the Cohesion Fund;
- Carried out negotiations with the EIB;
- Planned the accessing of capital markets in 2003 and completing the issuing of long term debt in 2005 with three further operations in 2007.

Complementing this medium and long term framework, AdP SGPS also centralised negotiations with the banking system over the obtaining of short term financing, reducing the capacity for the banks to individually penalise any particular group company whether in terms of costs or in terms of credit caps. This question is particularly relevant given that some group companies face challenging financial positions that would otherwise render the access to credit impossible.

Similarly, the fact that AdP SGPS centrally manages the negotiation of lines and retaining some temporary and cyclical surpluses has enabled the group to get through the financial crisis that first broke in 2008 in a relatively smooth fashion. A significant part of the group negotiation capacity derives from the volume of its short term financial assets when compared with the volume of debt and capacity to access already approved EIB credit lines.

There is an important volume of long term applications that the group needs to take up out of contractual obligations (Capital Reconstitution Fund). In October 2010, negotiations began with the Institute of Treasury and Public Credit Management for the transfer of these applications. This process was concluded during the month of March 2011, given the difficulties encountered in obtaining an application format that would satisfy these contractual obligations.

Within this framework, AdP requested that it be attributed a regime of exception that was duly granted by ministerial order signed by the Minister of State and Finance, under the terms of no. 1 of article 77 of Law no. 55-A/2010, of 31 December.

13. Trends in Average Payment Periods (APP)

The Council of Ministers Resolution no. 34/2008, of 22 February, approved the "Prompt and Timely Payment" Programme that has striven to reduce the average payment periods in effect at public entities for suppliers of goods and services.

The aforementioned resolution establishes the formula in effect for calculating the Average Payment Period (APP) recorded by state sector companies at the end of each quarter and with the General Directorate of Treasury and Finance attributed responsibility for ascertaining the end result and publicising it on its respective Internet page.

Ministerial Order no. 9870/2009, of 13 April, adapted the APP indicator as set out in no. 6 of the annex to the Council of Ministers Resolution no. 34/2008, altering the respective calculation formula.

According to Ministerial Order no. 9870/2009, the trend in APP at AdP - Águas de Portugal, SGPS, S.A. is the following:

| 2008 | 2009 | 2010 |
|-------------|-------------|-------------|
| 177.48 days | 103.88 days | 61.67 days |

14. Non-executive Directors' Report

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, the duty falls to us as non-executive directors to present a report on the performance of the executive directors in 2010.

2. Activities

In accordance with the law and the competences stipulated by the new public manager statute in addition to the others attributed by Board of Director decision, we monitored the management of the company and the performance of the executive directors.

We carried out our duties independently and our opinion in relation to the executive directors is wholly independent and impartial.

3. Opinion

In accordance with the stipulations described above, we hereby state that we have formed a broadly positive opinion on the overall performance of the executive directors sitting on the Executive Commission and their seeking out our opinions and value judgements on management actions and on many occasions adopting our more relevant interventions always designed to ensure greater rigour in company management.

Lisbon, 15 March 2011

The Non-executive Directors



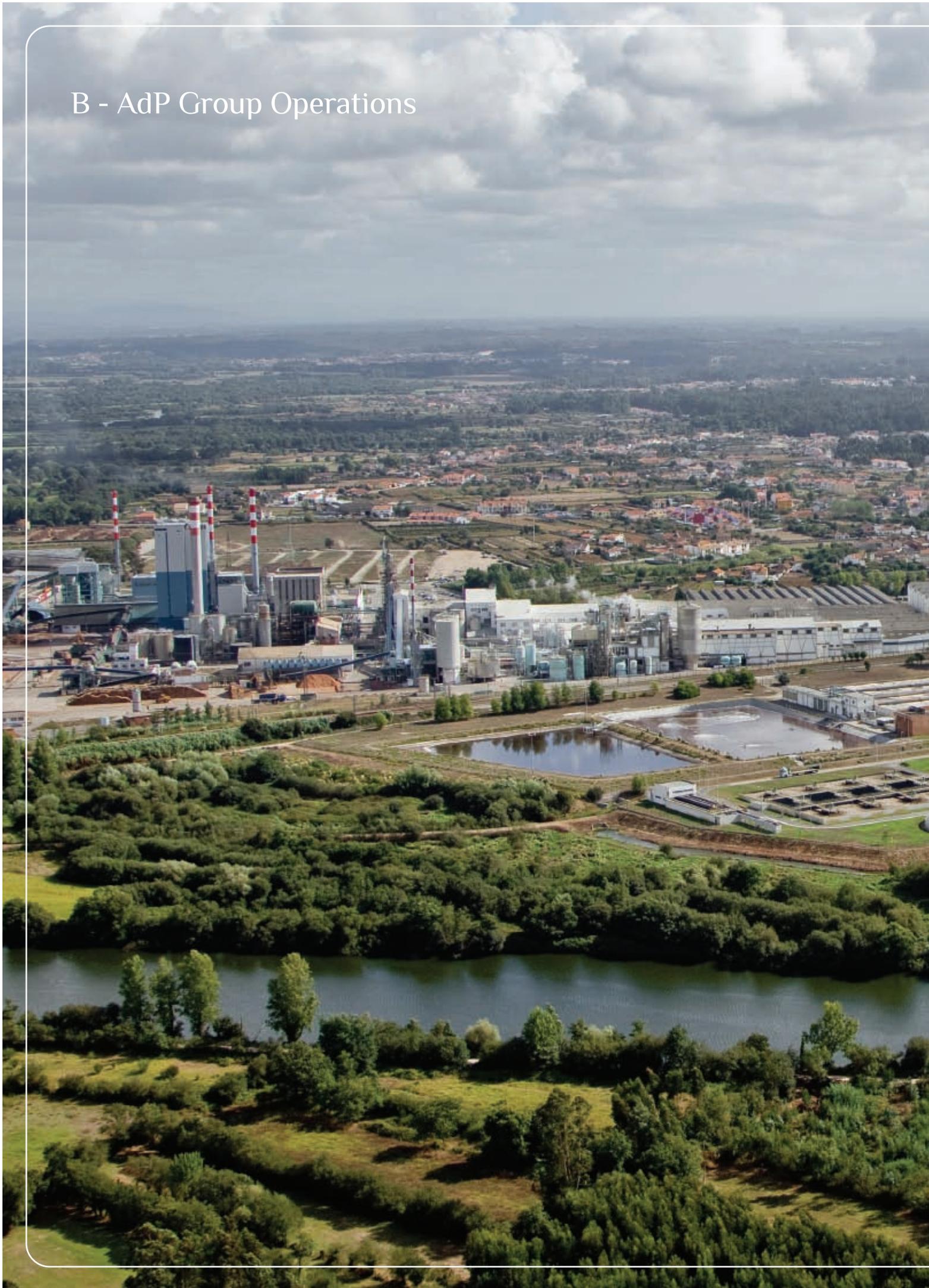
Joaquim José de Oliveira Reis



José Fernando Maia de Araújo e Silva

[blank page]

B - AdP Group Operations









B - AdP Group Operations

I. Introduction

The year of 2010 was characterised by the crystallisation of the worst financial crisis to impact on the Portuguese economy since the restoration of the democratic regime in April 1974. This recessionary position becomes still more serious when the economic indicators point to a large majority of developing countries returning to growth in conjunction with all of what are known as the emerging economies.

Clearly, the business sector and particularly the component units of the state owned business sector were seriously affected as indeed is the case for the financial year we report on here. Debt caps were set for the 2010-2013 period in addition to aggressive cost cutting programs. AdP and its portfolio of holdings is simply not immune to all of these ongoing structural changes.

Nevertheless, within this financial year, merger processes were consolidated so as to seek out synergies and economies of scale (Águas do Noroeste, Valorsul and Resioeste, Resinorte), furthermore undertaking the launch of new companies, (AdRA - Águas da Região de Aveiro, AgdA - Águas Públicas do Alentejo and Simdouro), improving the overall profitability of the group, with ongoing financing of projects without major difficulties, as well as turning in better net results than ever before. The group restructured its international portfolio of holdings with the total alienation of its stake in Águas de Moçambique.

Nevertheless, the year of 2010 shall certainly represent the year in which the AdP Group began designing its strategic development within a new paradigm and fully adopting the core objective of corporate sustainability. The fundamental questions set by the Board of Directors as challenges to be overcome by AdP Group now take on great urgency:

- Proceeding with the objective of endowing the country with the infrastructures defined in PEAASAR II (Strategic Plan for Water Supply and Waste Water Sanitation) and PERSU II (Strategic Plan for Municipal Solid Waste) implies ever greater economic/financial efficiency and rigorous selection in the investments to be carried out,
- The recapitalisation of AdP becomes essential for Shareholders to understand that major new projects are going ahead,
- Firmness in ensuring strict compliance in the contracts signed with multi-municipal and municipal customers,
- Definitive resolution of the tariff deficits that continue to accumulate at companies serving inland regions of the country in the water supplier and wastewater treatment sectors of activity. It should be highlighted that at the end of the financial year, the tenderer did provide due recognition of these and the right of the companies to recover such sums and naturally the corresponding recovery of the remuneration due to shareholders.

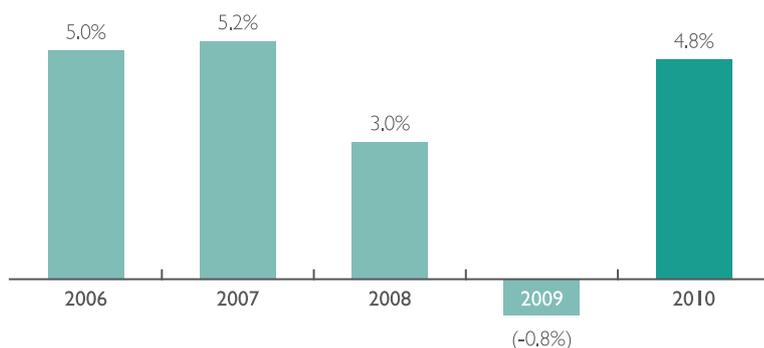
These questions demand that senior group management continue to focus action on changing the business culture, taking into consideration this new framework. Need drives ingenuity and crises, as underlying all such threats, throw up their own opportunities that very often drive the resolution of structural problems. The AdP Group continues ready to proceed with its mission that we would hereby recall involves "... *developing a strong Business Group with the highest competences, able to efficiently and effectively respond to the major challenges currently posed in the environmental sector*".

2. Economic Environment

Global

The world economy is forecast to grow by around 4.8% in 2010, once again powered by the newly emerging economies (China, India, Brazil, Mexico, African countries, etcetera). Europe and the United States are expected to turn in lower rates of growth (1.7% and 2.6% respectively).

Global GDP



The stabilisation of financial markets represents an essential factor to this forecast growth and contrary to that experienced over the last financial year in which the financial crisis caused by a generalised over-evaluation of assets, many of which served to guarantee debt issues, continued to impact and demonstrating the fragility of the financial paradigm that had sustained world economic growth in recent years.

This economic growth, according to some analysts, is jeopardised by the rise in raw material prices, with direct consequences on rising levels of poverty, in forthcoming years.

European Union

The European Union will continue to turn in low levels of economic growth. Recessionary conditions look set to prevail in some Eurozone countries, for example Greece, Ireland, Portugal, Italy and Spain, particularly as regards financial market evaluation as to the risks underlying their sovereign debt.

In the north of Europe, the scenario is more positive, particularly in Germany that has weathered the European and global turbulence extremely well and turned in a 3.3% rate of GDP growth with exports surging by around 14%. This German performance deepens the divergences with countries more prone to deficits thereby rendering the position of the European Central Bank (ECB) in setting appropriate and convergent measures for the entire Eurozone more difficult. With the reference interest rate at 1%, inflation may be expected to rise in Germany even while many other European Union economies are not prepared for rises in the interest rate.

It should be noted that in 2010, the ECB made a significant contribution towards Portugal, Spain, Greece and Ireland in purchasing bonds issued by these countries and relieving some of the pressures to which these markets have been subject.

Portugal

In 2010, Portugal experienced the effects of the approval of the Growth and Stability Program for the period 2010-2013 that incorporates a broad set of budgetary consolidation measures and the contention of public expenditure.

Following a contraction of 2.5% in 2009, Gross Domestic Product is due to come in between 1.0% and 1.5% in 2010, greatly supported by private consumption and by a slight increase in exports.

Portugal ran a budgetary deficit amounting to 7.3% of GDP a deficit in 2010 and faced significant difficulties in obtaining international financing. Financing secured towards the end of the year was only obtained with levels of interest rates bearing direct repercussions on the national accounts in the following years.

The year also saw a rise in taxation, with further hikes to come in 2011. Nevertheless, corporate and personal income tax levels are expected to be lower than in the previous year. The rise in fiscal revenues is above all obtained through the higher VAT rate, tobacco and vehicle duties.

Inflation in Portugal reached 1.4% for the twelve month period ending in December 2010 (-0.9% on the same period of 2009), while the figure for the Eurozone stood at 1.6%.

The unemployment rate closed the year at around 11%, one percentage point higher than in 2009, placing Portugal as one of the European Union member states with the highest unemployment rates, behind Spain, Slovakia and Ireland.

Contrary to the trend experienced in 2009, in which the PSI 20 index of the Portuguese stock market recorded a gain in excess of 30%, 2010 saw a 10% slide in value while some of shares listed recorded falls in excess of 50%.

This impact was nevertheless offset by the good performances turned in by the companies Jerónimo Martins, Portucel and Galp, without which the annual loss would have been in the region of 20%.

3. Sectorial Environment

Throughout this last year, work continued on achieving the targets set by the strategic national plans established for the water supply and wastewater treatment sector in the Strategic Plans for Water Supply and Wastewater Sanitation (PEAASAR II 2007-2013), approved by Ministerial Order published in Diário da República, 2nd Series, 14 February 2007, and Portugal's National Strategy for Agricultural and Agro-Industrial (ENEAPAI), approved by Joint Ministerial Order no. 8277/2007, of 2 March, published in Diário da República on 9 May 2007 – and in the field of waste treatment and recovery – the Strategic Plan for Municipal Solid Waste (PERSU II) for the 2007-2013 period, approved by Dispatch no. 187/2007, of 12 February.

These strategic operational programs, providing the guiding framework for AdP Group activities, derive from the overall QREN – National Strategic Reference Program 2007-2013, the instrument for defining the application of European Union economic and social cohesion policies in Portugal.

Within the framework defined by PEAASAR II and PERSU II, in accordance with the need to render greater flexibility to the management models in effect and fostering new forms of relationships with municipalities, Decree Law no. 90/2009, of 9 April was enacted in 2009 and introduced a new management model for water and wastewater treatment services based upon partnerships between the state and local authorities, a model that has since been adopted in two situations – in the centre and south of the country – over the course of the fourth quarter of 2009.

This period saw a trend towards growth in activities within the scope of the multi-municipal tendered water supply and wastewater treatment and waste management sectors.

At the end of 2009, and with the objective of strengthening the measures and instruments able to attain effectiveness in the regulation of public water and wastewater services, Decree Law no. 277/2009, of 2 October was passed and approving the organic 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.

The approval of the Stability and Growth Program 2010-2013, through Resolution no. 29/2010, of 12 April, by the national parliament and the subsequent Dispatch no. 510/10, of 1 June, set annual limits on levels of indebtedness for state owned companies for the 2010 to 2013 period.

Given the ongoing investment programme and the commitments already taken on by companies through to the date of this law and also in order to avoid jeopardising European funding, the Secretary of State for the Treasury and Financing subsequently issued Dispatch no. 896/10, of 26 August, annulling, on an exceptional basis, the application to Águas de Portugal of the cap set for the year of 2010 and determining, as regards the financial years 2011 to 2013, the presentation of Activity and Investment Plans by the AdP, Águas de Portugal Board of Directors, reviewed and detailed as regards the respective financing and an obligatory requirement within the scope of the European regulatory framework in effect for the funding limits set out in the Stability and Growth Program.

Stability and Growth Program also provided material expression to a set of important measure contained in the document “Strategic Orientations for 2011 for the State Owned Business Sector” in October; in particular, significant cuts based upon a 15% global reduction in costs, more specifically in costs incurred with human resources and third party supplies and services.

The process of identifying the cuts feasible and the reduction of costs, without impacting on the quality of services rendered, required a significant level of consideration and analysis prior to the consequences coming into effect as from the beginning of 2011.

The approval of the Stability and Growth Program implied the review of company investment plans so as to ensure consolidated AdP Group investment activity plans in accordance with the aforementioned restrictions that required dedicated coordination and revision and correspondingly resulted in the delay of multiple planned investment initiatives.

This new legislative framework, as well as the restrictions specifically set for state owned companies, assumes the continued adaptation of their managing bodies in an effort to constantly act in the public interest, essential to the wellbeing of populations, public health, ongoing economic activities and environmental protection, always underpinned by the principles of universal access, quality of service and efficiency and equity in prices.

Water Supply and Wastewater Sanitation

Based on the strategies defined in the PEAASAR II programme, the management entities, in addition to implementing the infrastructure necessary to achieving the desired service levels and modern quality standards, are required to ensure that the price of services reflects the cost of water and sanitation, as a means of guaranteeing the sustainability of services and promoting the efficient use of resources. This should be achieved using appropriate environmental practices, ensuring full compliance with legal obligations, without losing sight of the recommendations aimed at establishing socially acceptable tariffs, in particular those related to the increase in the territorial scale of interventions and the full use of related funding.

In short, it is clear that the national guidelines for the sector are based on upholding the principles of sustainability in a context of pressing demands on management to keep prices within socially acceptable limits and in the expectation that research, development and innovation will make a decisive contribution to these objectives.

The new management model established by Decree Law no. 90/2009, of 9 April implemented “one of the measures fundamental to PEAASAR II that involves the privatisation and professionalization of “downstream” management in Portugal” that fosters the creation of a “downstream” structure capable of implementing the investment planned for the 2007-2013 period and guaranteeing the future sustainability of the water sector in Portugal.”

Beyond the “public-public” partnership established for the management of water supply and wastewater treatment municipal services in the region of Aveiro, the “public-public” partnership for “upstream” management in the region of Alentejo also went operational.

The new management model for the rendering of public water supply and wastewater treatment services enables, within the framework of the aforementioned decree law, the territorial integration of municipal systems with the objective of leveraging economies of scale as well as integrating public water supply and urban wastewater treatment systems so as to maximise synergies. This model is also applicable to urban solid waste collection and treatment services.

An essential tool for the operational effectiveness of this strategy is Axis II of Portugal's Territorial Enhancement Thematic Operational Programme (POVT) referring to the Water Supply and Wastewater Treatment Structural Network within the scope of the National Strategic Reference Framework (QREN 2007-2013). This provides limited but crucial financial resources for the attainment of the objectives set out for the sector. In particular situations – when the operations are promoted by entities whose management does not fall under the auspices of the “verticalised framework”- there is also financial support provided under the Norte, Centro and Alentejo Regional Operational Programmes.

The cohesion funding available in POVT Axis II proves essential in support of the ongoing investment in the respective multi-municipal, inter-municipal and municipal systems and which were originally evaluated as costing over € 3.8 billion for the period 2008 – 2015.

In 2010, work advanced on the implementation of five applications made by AdP Group companies approved under the auspices of the 1st Notice of POVT Axis II, involving total investment of € 255 million euros eligible for European Union non-repayable grants (Cohesion Fund) of around € 153.3 million euros.

Within the scope of the 2nd POVT Axis II Notice, with the deadline for the submission of candidate application having ended at the end of 2009, the high level of project backers and projects once again demonstrated the high level of importance of European Union support for infrastructural projects in this sector: Demand exceeded the financing available several times over and hence worsening the pressure on the application evaluation methodology. Once again, there were subsequent changes to the financing strategy for the sector taking into consideration the deadlines for completing the investment applied for, the level of system maturity and the EU financial funding available.

Of particular importance within this field is the support expected for the candidates of recently established systems such as the Grande Porto Sanitation System (Simdouro), Águas da Região de Aveiro (AdRA), Águas Públicas do Alentejo (AgdA) and in addition to municipal partnerships for "downstream" systems in the areas of Mondego/Lis and Noroeste (yet to be contractually formalised).

Also still awaiting a final decision is the awarding of POVT financial support for the expansion of some multi-municipal systems (Águas de Trás-os-Montes e Alto Douro, Águas do Centro and Águas do Centro Alentejo) and investments resulting from new obligations at existing multi-municipal systems (Águas do Zêzere e Côa and Águas do Norte Alentejano).

In 2010, work continued on the ENEAPAI programme, which defines a sustainable strategy for the treatment of agricultural, livestock and agro-industrial effluents coordinated with the QREN, taking into account the specific characteristics of the production sectors involved and their importance within the regions where they are based. It also seeks to resolve serious environmental problems by optimising the technological infrastructures for wastewater treatment and management which have already been implemented, via an intervention structure guided by the objectives of technical, economic and environmental sustainability, ensuring that the business operations involved remain competitive.

It is important to note that the implementation of this strategy takes into account the work and the experience gained in recent years in the pig-rearing sector in the Leiria, Caldas da Rainha and Setúbal regions. Here, the development of new forms of intervention led to the implementation of innovative solution for environmental damage that should have long since been eradicated.

The strategy established for the agricultural, livestock and agro-industrial sectors maximises existing resources and drives the mobilisation of the technical capacities and the management of systems active in the sector, especially those available at AdP Group companies.

Urban 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 which reflected the development of the law and the science affecting this area. Thus, it was possible to consecrate within the national legal order a range of principles of great importance regarding waste management, namely:

- 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 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 the 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, within the scope of the former, the establishment of a preferential trend for reuse above recycling, and a preferential trend for recycling above energy recovery.

With the entry into force of Decree-Law no. 178/2006, of 5 September, the general waste management regime was established, transposing into Portuguese law Directive 2006/12/EC, of the European Parliament and of the 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 of waste collection, transportation, storage, sorting, treatment, recovery and elimination, including soil decontamination operations and monitoring of disposal sites after the closure of the respective premises.

Government Regulation 187/2007, of 12 February, regarding PERSU II - Strategic Plan for Urban Solid Waste, continues to be a guiding strategic instrument in the management of urban solid waste (USW). 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 urban biodegradable waste (UBW) 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 allocation of USW systems in meeting these goals, determining the agents with special responsibilities for their implementation, including EGF, the AdP Group's sub-holding company for the waste sector and the multi-municipal systems in which it is a shareholder.

In 2010, the objectives to be achieved by PERSU II were monitored, in order to guarantee the proper management of USW in line with EU strategies at a socially acceptable cost, and in this way contribute to a reduction in greenhouse gases (GHG) as stipulated by the Kyoto Protocol.

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.

Finally, the legislation relating to the urban solid waste (USW) sector in Portugal that was approved in 2010 focused mainly on improving existing legislation. Nevertheless, we would highlight the following:

- Decree Law no. 68/2010, of 15 June 2010 - establishing the multi-municipal system for the sorting, material recovery, processing and handling of urban solid waste in the Lisbon and Oeste regions and establishing the Valorsul, S.A. company and awarding the latter the concession for the operation and management of this system;
- Ministerial Order no. 72/2010, of 4 February - establishing the rules in effect for the settlement, payment and application of waste management charge and overturning Ministerial Order no. 1407/2006, of 18 December;
- Dispatch no. 3227/2010, of 22 February (2nd series), by the Minister of the Environment and Territorial Planning - Approval of the Program for the Prevention of Urban Waste (PPRU) for the 2009-2016 period;
- Ministerial Order no. 228/2010, of 22 April 2010 - establishing the regime for the founding, managing and functioning of the organised market for waste as well as the rules applicable both for transactions and the respective operators;
- Ministerial Order no. 165/2010, of 16 March - establishing an exceptional regime for the «Clean Portugal Project»;
- Dispatch no. 6844/2010, of 19 April (2nd series), of the Office of the Secretary of State for the Environment - Reduction in the cost of the SIRAPA registration charge for members of a Portuguese Environment Agency authorised trading platform.

4. Economic and Financial Analysis

1. Net Result

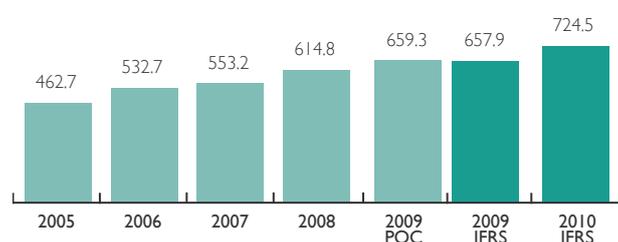
The consolidated result of AdP Group recorded an approximate € 79.5 million net profit, which represents a € 14 million increase on the recalculated result for the 2009 financial year and, therefore, the best result the group has ever obtained.

This performance results from the strategic actions undertaken in recent financial years and that have involved the disinvestment of noncore assets which, beyond providing some extraordinary gains resulting from the annulment of provisions in the meanwhile established, this move also brought a close to the systematic losses experienced at operations associated with these assets. Within the framework of these operations, the alienation of the holding in the company Águas de Moçambique, S.A. which, through the reversion of provisions, made a positive contribution of € 7.5 million. Other factors that impacted on net profitability in 2010 result from extraordinary events, such as the application of IFRS (EPAL - alteration of the working lifespan and changes to deferred taxation) and also to the annulment of a provision at EPAL, following the resolution of issues pending regarding subsoil utilisation charge rates. All these extraordinary adjustments/results amounted to a total of approximately € 28.4 million, while the net result stripped of these non-foreseeable earnings rose to € 51.1 million that, on a comparative basis, was up from € 40.9 million in 2009.

2. Turnover

Turnover in this period advanced by around 10% (€ 724 million in 2010) and directly related with the rise in multi-municipal system activities resulting from the operational launch of new infrastructures in already existing systems and the completion of new project start up phases, with a particular focus on AdRA - Águas da Região de Aveiro.

Turnover (€ million)



Note: the values through to 2009 were based upon Portuguese accountancy norms with the IFRS standards adopted in 2010. In order to ensure comparability, the 2009 result was recalculated according to the latter framework.

3. EBITDA

Operational cash flow (EBITDA) rose to € 277 million (up € 25.6 million, 10.2%, on the 2009 result).

| | 2005 | 2006 | 2007 | 2008 | 2009 POC | 2009 IFRS | 2010 IFRS |
|-----------------------------------|--------|--------|--------|---------|----------|-----------|-----------|
| Turnover | 462.7 | 532.7 | 553.2 | 614.8 | 659.3 | 657.9 | 724.5 |
| Tariff Deficit | 3.8 | 28.0 | 37.6 | 41.6 | 33.7 | 32.5 | 37.3 |
| Operational Income ⁽¹⁾ | 56.7 | 46.0 | 117.7 | 139.6 | 141.7 | 122.7 | 176.6 |
| EBITDA ^{(2) (3)} | 197.3 | 218.7 | 218.7 | 304.0 | 280.6 | 251.5 | 277.1 |
| Financial Results | (32.1) | (76.0) | (70.2) | (90.05) | (61.3) | (18.9) | (50.5) |
| Net Income of the year | 13.4 | (32.9) | 7.9 | 63.0 | 45.9 | 65.3 | 79.5 |

(1) Result before interest and taxation

(2) Includes extraordinary results and excludes investment grants and tariff deficits

(3) Deducting the gain recorded from the sale of Aquapor and Recigroup, 2008 EBITDA amounted to € 261 million

Note: the values through to 2009 were based upon Portuguese accountancy norms with the IFRS standards adopted in 2010. In order to ensure comparability, the 2009 result was recalculated according to the latter framework.

The largest contributions derive from a 10% increase in turnover and the reduction in human resource costs (and not yet subject to the further reductions stipulated under the PEC that only come into effect in January 2011).

4. Financial Results

The group registered negative financial results of € 50 million. Costs incurred in financing amounted to around € 70 million while earnings generated by applications came in at € 20 million.

In accordance with the prudent financial management practices of the group, around two thirds of medium and long term debt is held at a fixed rate. The average spread on the group's long-term debt is below 50 basis points, whether considering the variable indexed rate or fixed rate bond issues.

The group has recorded the following trend in loan interest and level of debt over the last five years:

| Year | Average Rates | | | |
|-------------|---------------|------------------------------|-------------|------------------|
| | Interest | Year-end Debt ⁽¹⁾ | Interest | Euribor 6 months |
| 2006 | 46 | 1,653 | 3.2% | 3.2% |
| 2007 | 70 | 1,878 | 4.0% | 4.4% |
| 2008 | 102 | 2,262 | 4.9% | 4.7% |
| 2009 | 76 | 2,549 | 3.3% | 1.4% |
| 2010 | 70 | 2,902 | 2.7% | 1.1% |

(1) Amounts in € millions

The interest rates indicated also include the credit spread, a value that has gone up significantly in recent years.

The weighting of the fixed rate component has been rising significantly in recent years and relates to the surge in the volatility of financial costs and risks associated with markets.

In addition to the fixed rate component weighting within the total of bank debt, the accounts reflect the maintenance of a conservative financial structure taking into account the weighting of long term financing within total group financing (80%), and its average operational duration.

5. Investment

In 2010, the AdP Group fixed assets rose by around € 540 million corresponding to an annual volume of investment of € 603 million.

6. Working Capital

Working capital needs were down in 2010 as may be verified from the following table resulting in a drop in the amount to be received from the European Cohesion Fund and the settlement of credits resulting from the sale of Prolagos (the Group's operation in Brazil).

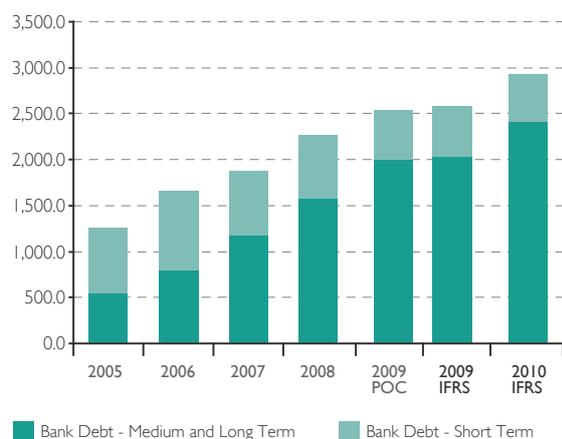
| | 31.12.2010 | 31.12.2009 | Var |
|---------------------------------|--------------------|--------------------|--------------|
| Current assets | 544,734,960 | 631,226,587 | (14%) |
| Inventories | 8,100,566 | 7,925,192 | 2% |
| Customer debts | 296,433,690 | 244,908,335 | 21% |
| State and other public entities | 12,385,344 | 13,366,328 | (7%) |
| Other current assets | 227,815,360 | 365,026,732 | (38%) |
| Current liabilities | 350,207,447 | 306,723,547 | 14% |
| Suppliers | 158,784,662 | 168,148,146 | (6%) |
| Other current liabilities | 119,158,242 | 105,909,938 | 13% |
| Current income tax liabilities | 43,219,244 | 6,208,330 | 596% |
| State and other public entities | 29,045,299 | 26,457,133 | 10% |
| Working capital | 194,527,513 | 324,503,040 | (40%) |

7. Financial Structure

Achieving the objectives set out in the strategic plans for Portugal's water and waste sectors has led to a slight increase in bank loans, which represent about 40.6% of the capital structure of the AdP Group.

We should highlight an important rise in long term financing with its weighting within the overall debt level rising from 70% in 2008, to 79% in 2009 and 83% in 2010. Should we consider net debt, the respective weighting becomes 80%, 89% and 99% respectively.

Bank Debt



Net medium and long term debt (€ 2.416 billion) is fundamentally composed of loans contracted through issuing bonds, private placements or European Investment Bank loans whether negotiated by the Group or directly through its holdings EPAL and Valorsul.

The reduction in short term debt results from a reduction in the utilisation of lines of advance on Cohesion Fund and European Investment Bank funding.

8. Financial Risk

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

The financial risk management policy seeks to minimise any eventual adverse effects resulting from financial market unpredictability.

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 funding sourced from the European Investment Bank (EIB).

In addition, AdP SGPS began a process of obtaining external financing in 2004 through a private placement of debt in 2005 and three private bond issues in 2007.

The majority of long term financing lines were negotiated prior to 2008 and achieved conditions that were favourable at the time and which now represent significant added value to the group.

As regards the interest rate regime, the group has preferred the fixed rate (directly or through other financial instruments), with around two thirds of debt held under such terms.

AdP financial risk management is carried out centrally for the group, with the prior approval of its Board of Directors.

The interest rate risk management policy is focused upon reducing the exposure of debt related cash-flows to market fluctuations through the contracting of structured financial instruments and, as far as is possible, corresponding reductions in financial costs.

9. Principles of Treasury Management

Since its foundation, AdP SGPS took on responsibility for coordinating and sourcing the financing necessary to meet group company requirements and always taking into consideration the final objective of maintaining financial structural equilibrium from a consolidated perspective.

Thus, AdP SGPS supervised companies and their relationships with the Cohesion Fund in order to facilitate access to European Union support funding, negotiated support from the EIB and carried out its first long term debt issue in 2005 with further operations taking place in 2007 and 2008 raising a total of € 600 million for the purpose of financing multi-municipal systems in the component relating to investment and the working capital for the first years of operation.

Complementary to this medium and long term framework, AdP SGPS also centralised negotiations with the banking system over obtaining short term financing thereby boosting its collective negotiating powers with financial sector institutions. This question is of particular relevance given that some group companies are in more fragile financial positions and their access to credits would only be attainable on fairly punitive terms. This factor furthermore contributed to the existence of the aforementioned weighting of long term financing.

Similarly, the fact that AdP SGPS centralises the negotiation of credit lines and retains some surpluses (courtesy of the aforementioned debt issue) has enabled the group to secure relatively smooth passage through the financial crisis ongoing since 2008.

Taking into account the group's powers of negotiation derives from the volume of its short term financial assets, the volume of short term debt and the capacity to access already approved lines from the EIB and furthermore taking into consideration that we are referring to a universe of around 40 companies in different phases of development, we requested that a regime of exception be opened up for the group and was duly attributed by dispatch issued by the Minister of State and Finances as detailed in no. 1 of article 77 of LOE.

In October 2010, we engaged in negotiations with the Portuguese Institute of Treasury Management and Public Credit that took on responsibility for defining and implementing procedures so that the sums that our concession holding companies are contractually obliged to undertake within the denominated Fund for the Reconstitution of Capital are instead applied through the Treasury, which had already come into effect at the end of the first quarter of 2011.

| Financial Risk Management - Dispatch no. 101/09-SETF, of 30-01 | Complied | | | Description |
|--|----------|---|------|--|
| | Y | N | N.A. | |
| Procedures adopted within the terms of risk evaluation and the respective coverage measures | | | | |
| Diversification of financial instruments | x | | | Opted in favour of private bank loans, private loans and private bonds |
| Diversification of available interest rates modes | x | | | Opted to maintain a balance between fixed and variable interest rates |
| Diversification of credit entities | x | | | Opted in favour of EIB, and private investors |
| Contracting of risk coverage management instrument in accordance with prevailing market conditions | x | | | Contracted so as 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 option of the EIB has resulted in below market costs |
| Minimisation of real guarantee payments | | | x | The only guarantee provided has been state authorisation for some EIB credit lines |
| Minimisation of restrictive clauses (covenants) | x | | | The contract covenants existing are relatively reduced |
| Measures achieved with a view to optimising the financial structure of the company | | | | |
| Adoption of policies minimising the allocation of third party capital for financial coverage of investments | | | x | The option was in favour of long term financing and not the minimisation of third party capital taking into account the structural bases of the sector |
| Option in favour of investments with proven social/ business profitability, favouring European Cohesion Funds and Equity | | | x | Opted in favour of investment with EF and profitability ensured by contracts with the state |
| Utilisation of self financing and disinvestment revenues | x | | | The phase in the business cycle still generates a low level of cash-flow. These have been channelled into self-financing |
| Inclusion in Annual Reporting | | | | |
| 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 DF 2009 | x | | | |

Key:

Y – Yes

N - No

N.A. - Non Applicable

5. Shareholdings Portfolio

| Business Unit | Company | Shareholding | Head Office | Activity |
|-------------------|--|--------------|---------------------|---|
| "Parent Company " | AdP – Águas de Portugal, SGPS, S.A. | - | Lisboa | Holding Company |
| 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. | 70.54% | 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-DR | 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 | Urban solid waste treatment and recovery |
| UNR | Valorlis, S.A. | 51.00% | Leiria | Urban solid waste treatment and recovery |
| UNR | Valorminho, S.A. | 51.00% | Valença | Urban solid waste treatment and recovery |
| UNR | Resulima, S.A. | 51.00% | Vila Nova de Anha | Urban solid waste treatment and recovery |
| UNR | Ersuc, S.A. | 51.46% | Coimbra | Urban solid waste treatment and recovery |
| UNR | Amarsul, S.A. | 51.00% | Moita | Urban solid waste treatment and recovery |
| UNR | Algar, S.A. | 56.00% | Faro | Urban solid waste treatment and recovery |
| UNR | Valnor, S.A. | 53.33% | Alter-do-Chão | Urban solid waste treatment and recovery |
| UNR | Resiestrela, S.A. | 62.95% | Fundão | Urban solid waste treatment and recovery |
| UNR | Resinorte, S.A. | 67.58% | Celorico de Basto | Urban solid waste treatment and recovery |
| UNR | Valorsul, S.A. | 56.17% | S. João da Talha | Urban solid waste treatment and recovery |
| International | AdP Internacional, S.A. | 100.00% | Lisboa | Sub-holding company |
| International | Águas de Moçambique, S.A.R.L. | 73.00% | Maputo - Mozambique | Operating the water supply service for the cities of Beira, Quelimane, Nampula and Pemba and ending the water supply service for the municipalities of Maputo - Matola. |
| International | Aquatec, Lda. | 100.00% | Maputo - Mozambique | Technical services |
| International | Águas do Brasil, S.A. | 100.00% | Cabo Frio - Brazil | Sub-holding company for Brazil - under closure |
| International | AdP Timor-leste, Lda. | 100.00% | East Timor | Technical services |
| Services | AdP Serviços, S.A. | 100.00% | Lisboa | Instrumental - shared technical 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 | Environmental management activities |
| Others | AdP Imobiliária, S.A. | 100.00% | Lisboa | Real estate management |
| Others | Netdouro, S.A. | 51.00% | Porto | Telecommunications infrastructure management |
| Others | Clube de Golf das Amoreiras | 100.00% | Lisboa | Company to be wound up |
| Others | Trevo Oeste, S.A. | 35.00% | Alcobaça | Handling and recovery of livestock waste |

On 28 December 2010, a promissory contract for the sale of shares in Águas de Moçambique was agreed. On 2 January 2011, the purchaser took over control of the company with the sale completed on 31 March 2011 with the conveyance of share ownership.

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

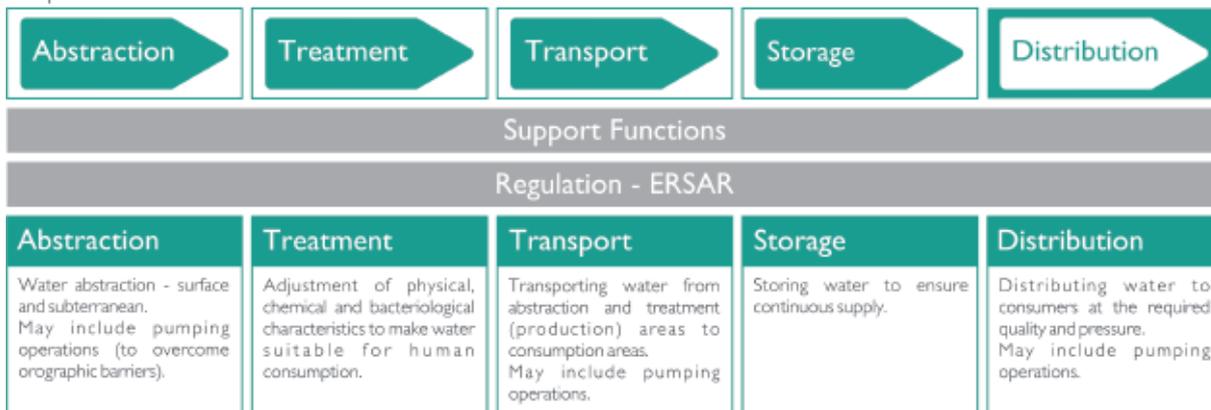
6. Value Chain

The AdP group operates an extensive and complex value chain, involving an interdependent series of activities ranging from the identification of potential markets to delivering finished products to customers. This helps create shareholder value and contributes to the high performance standards required of the company.

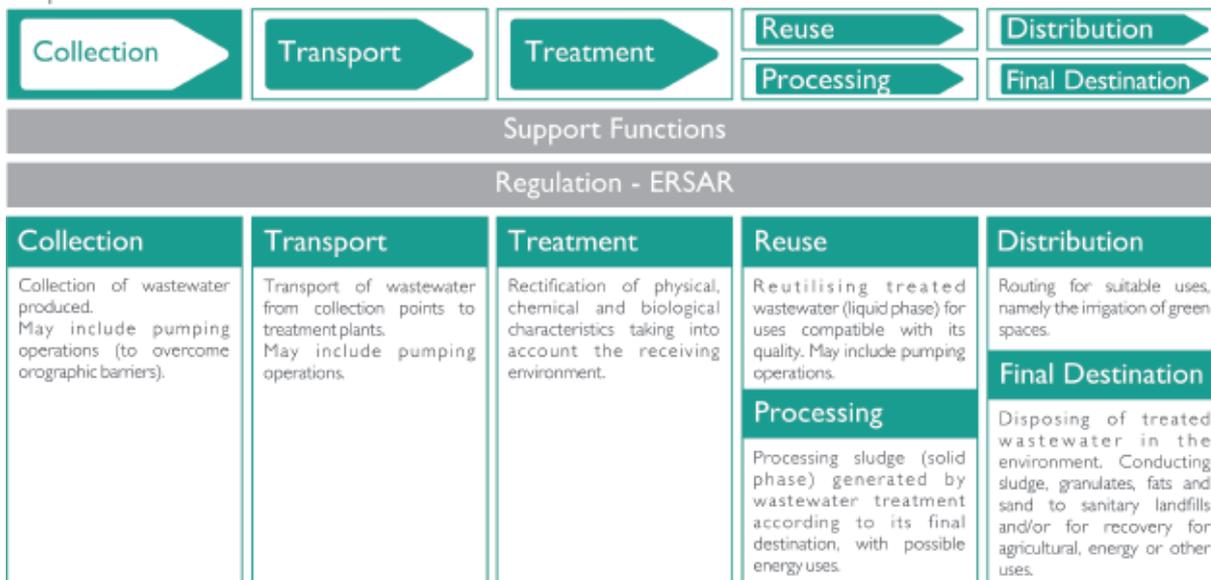
Value Chain



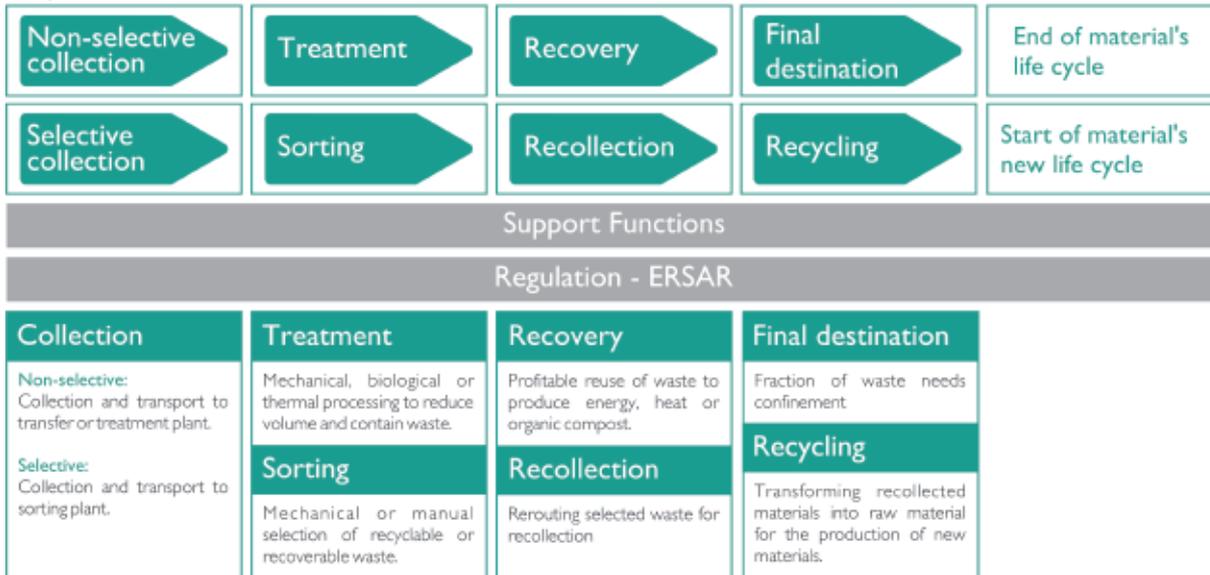
Operation - Water



Operation - Sanitation



Operation - Waste



7. 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. These services operate in a context defined by current legislation and regulations; the public service concession contracts agreed with the state 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 to end-users have not been optimised. 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 supply of water 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 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.

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.

Proposals are presented according to the terms of Ministerial Order 275/2003, of 7 November.

The 2010 budget cycle, begun in September 2009, extended to October 2010, the date on which the last tariff was approved. On

average, the budget cycle of a multi-municipal water system was about 136 days (a minimum of 73 days and a maximum of 258). The average cycle for a multi-municipal waste system was about 136 days (a minimum of 82 days and a maximum of 275 days).

The extended period for assessing and approving budget and tariff proposals resulted in undermining relationships with end users and had a significantly negative impact on company treasuries because of the difficulties end-users had in accepting the effects of setting tariffs from January.

Although the multi-municipal systems sometimes presented their budget and tariff plan proposals late (25 companies delivered them on time, four companies were late by six to 36 days, and one company did not present a proposal given its tariff results from the signing of the concession contract), the biggest impact was caused by the extended period taken up by the Regulator's analysis of the proposals and the responses to the Regulator's findings.

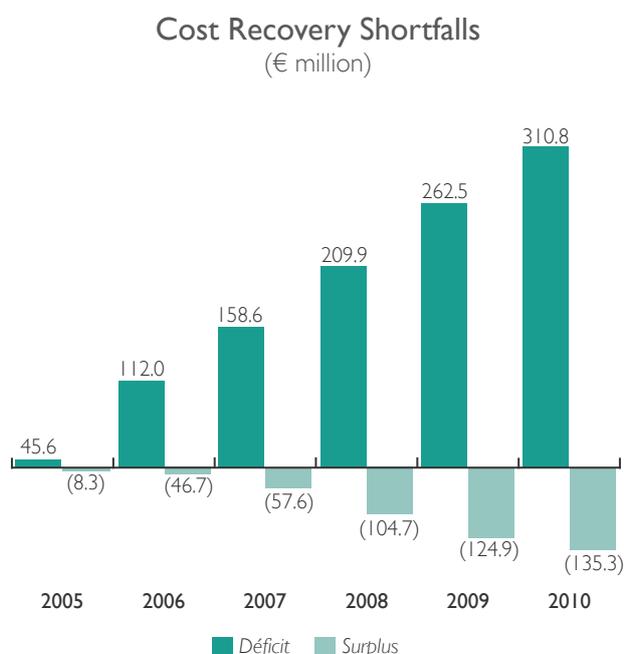
Águas do Douro e Paiva for the first time submitted a pluri-annual budget and tariff project. This proposal was accepted with the company budget and tariff (set for the period at the price in effect in 2010) approved for the 2010-2012 period.

The budget cycle for 2011 began in September 2010 and was concluded for many companies within the legally established framework through to the end of March, hence representing a very significant improvement in the regulator's compliance with deadlines.

In accordance with the regulatory system in force (service cost) and the terms of the concession contracts, differences may arise between the amount of revenue required to cover the total costs incurred by the system managing company, including corporate taxation and return on equity, and the amount of revenue generated in each financial year. These differences are called cost recovery discrepancies.

These discrepancies are shortfalls when the revenue generated is less than required and surpluses when it is more than required. The AdP Group's consolidated financial statements for 2010 show cost recovery discrepancies totalling €175.5 million (before taxation and minority interests), of which €310.8 million was a shortfall relating to water services and €135.3 million in a surplus relating to recovery of costs.

The following chart shows the evolution of cost recovery discrepancies (before tax and non-controlled interests) in the consolidated financial statements of the AdP Group from 2005 to 2010:



During the course of 2010, the Regulator put forward a legislative proposal for the recovery of the deficits and surpluses in the recovery of costs regarding each multi-municipal system given this is not stipulated in the concession contracts or the applicable legislation, which was not in the meanwhile approved.

Upholding the sustainability of the system managing companies, in strict compliance with the law and with the contracts in effect, requires that there is no further delay in explicitly recognising the policy that has been followed, defining the amount of company cost discrepancies to be recovered and clarifying the rules for compensation.

This proposal also again raised the procedures for distributing contractual productivity gains. The amounts that have been capitalised as equity by the system managing companies will be divided among shareholders and end-users (through future tariffs) in accordance with regulations that are expected to be clarified over the course of 2011.

The 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 the experience accumulated since 2004, ERSAR reformulated the indicators it uses to assess service quality. The assessment made of service quality in 2010 should be made on the basis of this new series of indicators.

8. Business Units

8.1. Water and Wastewater

Water - Production and Purification (UNA-PD)

Created in 2001, the UNA-PD Business Unit groups together AdP companies that manage multi-municipal water supply and wastewater sanitation systems. Its mission in Portugal is to ensure the provision of water supply (abstraction, treatment, transport and storage) and wastewater sanitation (collection, treatment and disposal) services to the municipalities served by these multi-municipal systems. It furthermore incorporates, due to the complementariness, the partnership with Aveiro Region.

The unit's strategic guidelines are based on the objectives set out in the Strategic Plan for Water Supply and Wastewater Sanitation (PEAASAR) 2000-2006. The strategic objectives of this plan include the completion of the infrastructures required for the improvement of the country's water supply system, 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. The Strategic Plan for Water Supply and Wastewater Sanitation 2007-2013 (PEAASAR II), approved at the end of 2006, has also created new challenges for the companies that manage multi-municipal water supply and wastewater sanitation systems, setting out the 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 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 enhancing eco-efficiency.

In this context, it falls to AdP-Águas de Portugal, SGPS, S.A., 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 multi-municipal systems. Investment in existing systems is expected to total €5 billion up to 2015 and is aimed at resolving the country's structural difficulties in the water sector:

In 2010, AdP - Águas de Portugal, SGPS, S.A. proceeded with its strategy of expanding the existing multi-municipal systems to new municipalities located within the same hydrographic basin or geographically contiguous, in order to capitalise upon scale effects, adopting identical institutional procedures to the practices in effect for the founding of the currently operational systems.

We would also refer to how responsibility for the execution of downstream investments, fundamental to managing the urban water cycle, is attributed to the municipal authorities. Through to 2013, this involves investment in excess of € 2.2 billion and designed to ensure the water supply and wastewater sanitation levels of service standards are met. Nevertheless, the Águas de Portugal Group may also intervene in this field dependent on reaching agreement with the respective municipal authorities.

In the sequence of protocols for the development and implementation of downstream water supply and wastewater sanitation systems, and in striving to attain the objectives incorporated into PEAASAR II, AdP SGPS has continued with contacts with a vast range of municipalities for discussion as to the feasibility of establishing partnerships for the organisation of municipal systems. Without overlooking the flexibility inherent to the management model, progress in talks has proven conditioned in certain regions of Portugal by the trends in the service financing model. Furthermore, and under current circumstances, despite the economies generated by an integrated model with scale, the costs attributed to the resulting services still prove greater than the tariffs deemed socially acceptable.

Following the contacts already made, and subsequent to appreciation by the Board of Directors, two project partnerships with Noroeste and Mondego e Lis were submitted for the approval of the regulatory authorities at the end of November 2010.

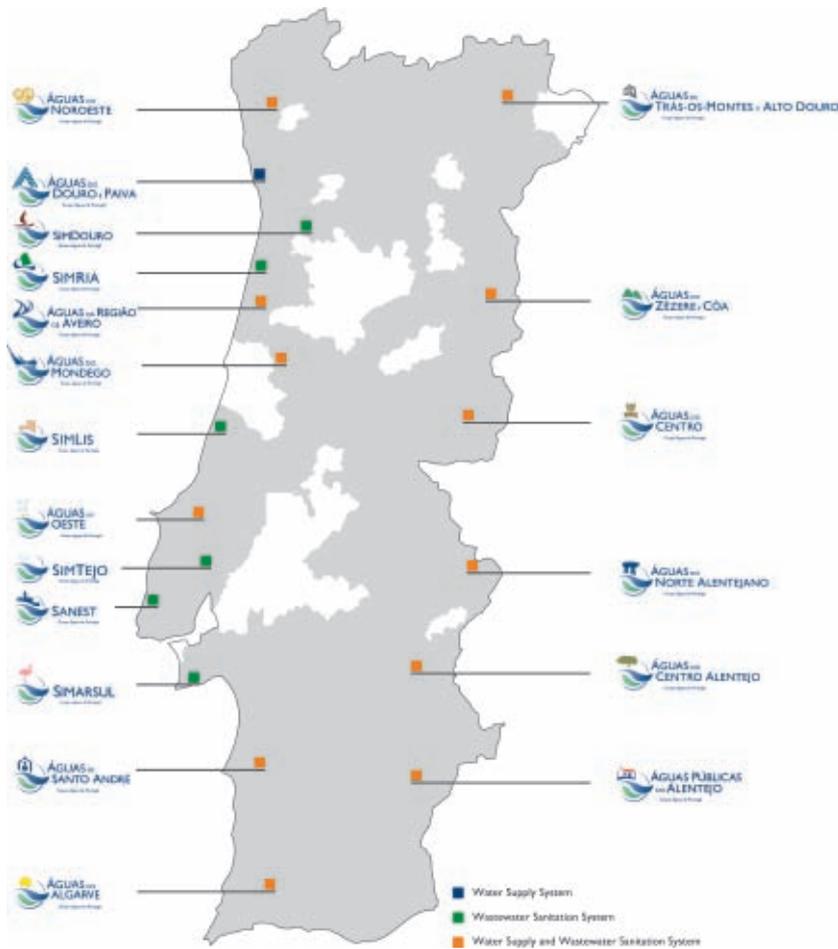
The partnership proposal with the Noroeste municipal authorities involves a set of 14 municipalities and an area corresponding to around 3% of the national territory and a resident population in the region of 560,000 inhabitants, corresponding to around 5.5% of the population of mainland Portugal. The forecast initial investment plan totals around € 138.6 million euros and involves significant expansion to water service coverage.

The partnership proposal with the municipal authorities of Mondego e Lis gathers together a group of 13 municipalities with a total area corresponding to around 3.4% of Portugal and a resident population of around 440,000 inhabitants, representing around 4.4% of the mainland total. The forecast initial investment plan amounts to € 125.3 million and results in an important boost to the extent of wastewater sanitation coverage. In parallel, the parties engaged in discussion of merging the companies Águas do Mondego, S.A. and Simlis, S.A., with a proposal also submitted to the regulatory authorities at the end of November 2010.

Additionally, in 2010, the management entities for two partnerships launched their operational activities and in the case of the partnership with Aveiro region municipalities this has integrated the Ovar municipality since the beginning of January 2011.

The company Simdouro - Saneamento do Grande Porto, S.A. was also founded and exclusively attributed the operation and management of the Greater Oporto multi-municipal sanitation system for the collection, recovery and disposal of effluents, in accordance with the stipulations of Decree Law no. 260/2000, of 17 October.

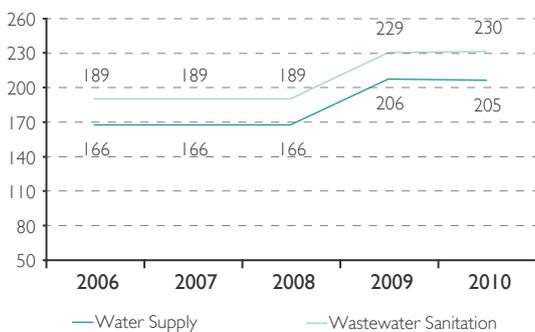
Correspondingly, at the end of December 2010, there were a total of 19 water supply and wastewater sanitation management companies, with their locations and coverage set out below.



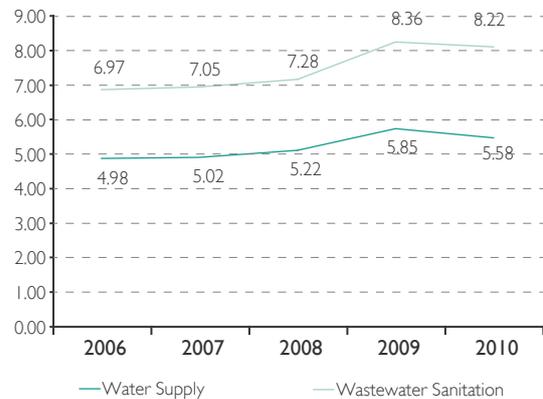
At the end of 2010, AdP Group companies that manage multi-municipal water supply and/or wastewater sanitation systems had established partnerships with 234 of the 278 municipalities in mainland Portugal.

Of those partnerships, 205 are for water supply - corresponding to around 74% of the total - and 230 involve wastewater sanitation systems - around 83% of the total. These agreements involve a contractual responsibility to provide upstream public services in these areas to 5.58 million and 8.22 million residents respectively.

Municipalities Served



Population Served (million inhabitants)



As regards the population effectively served, 2010 saw totals of 4.42 million and 5.89 million inhabitants receiving water supply and wastewater sanitation services, respectively.

Hence, at the end of 2010, multi-municipal system management companies were already responsible for the rendering of public service supplies to 88.4% and 85% of the population forecast to be supplied with water supply and wastewater sanitation services, respectively, in 2013.

Unit: million m³

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------------------------------|-------|-------|-------|-------|-------|
| Volume of water produced/supplied | 289.4 | 301.6 | 317.3 | 336.2 | 347.4 |
| Volume of effluent treated / invoiced | 299.8 | 312.9 | 357.0 | 392.8 | 472.3 |

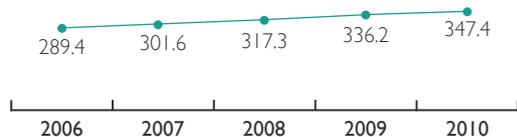
Municipalities and resident populations covered and served by multi-municipal systems

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------------------------|------|------|------|------|------|
| Municipalities covered | | | | | |
| Water Supply | 166 | 166 | 166 | 206 | 205 |
| Wastewater Sanitation | 189 | 189 | 189 | 229 | 230 |
| Municipalities served | | | | | |
| Water Supply | 104 | 125 | 138 | 145 | 174 |
| Wastewater Sanitation | 144 | 165 | 169 | 178 | 197 |

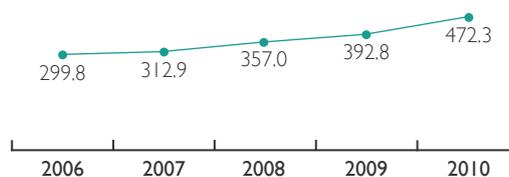
| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|------|------|------|------|------|
| Population covered (million inhabitants) | | | | | |
| Water Supply | 4.98 | 5.02 | 5.22 | 5.85 | 5.58 |
| Wastewater Sanitation | 6.97 | 7.05 | 7.28 | 8.35 | 8.22 |
| Population served (million inhabitants) | | | | | |
| Water Supply ⁽¹⁾ | 3.24 | 3.53 | 3.92 | 4.24 | 4.42 |
| Wastewater Sanitation ⁽¹⁾ | 4.24 | 4.79 | 5.12 | 5.41 | 5.90 |

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

Volume of Water Produced
(million m³)



Volume of Wastewater Treated
(million m³)



Management companies collectively produced/supplied 347.4 million cubic metres of drinking water and collected and treated approximately 472.3 million cubic metres of municipal wastewater.

In accordance with the figures presented, 2010 recorded a slight increase in the volume of drinking water supplied, up 3.3%

A similar performance was achieved in the area of wastewater sanitation with an increase of around 20% in the volume collected and treated by multi-municipal systems.

In the case of wastewater, the 2010 figures include industrial effluent received and effectively treated. Changes in the amount of drinking water supplied and effluent treated over the past five years are shown in the charts above.

Figures on operational performance for each multi-municipal system management company are shown in the following table.

Key indicators on UNA-PD aggregate systems

| 2010 Indicators by Company | Flow (10 ³ m ³ /year) | | Population served | | Municipality served | |
|--|---|----------------|-------------------|------------------|---------------------|------------|
| | WS | WWS | WS | WWS | WS | WWS |
| Águas do Noroeste, S.A. | 38,586 | 57,724 | 737,702 | 1,241,357 | 17 | 27 |
| Águas de Trás-os-Montes e Alto Douro, S.A. | 19,295 | 21,583 | 313,400 | 200,443 | 28 | 29 |
| Águas do Douro e Paiva, S.A. | 106,376 | - | 1,472,854 | - | 21 | - |
| Simria, S.A. | - | 37,679 | - | 450,941 | - | 13 |
| AdRA - Águas da Região de Aveiro, S.A. | - | 216 | 241,908 | 164,170 | 9 | 9 |
| Águas do Mondego, S.A. | 19,435 | 19,650 | 259,637 | 235,284 | 8 | 10 |
| Águas do Zêzere e Côa, S.A. | 19,122 | 14,249 | 180,227 | 132,853 | 16 | 16 |
| Águas do Centro, S.A. | 16,705 | 14,791 | 197,087 | 143,656 | 17 | 17 |
| Simlis, S.A. | - | 13,096 | - | 190,161 | - | 5 |
| Águas do Oeste, S.A. | 24,932 | 20,879 | 307,607 | 311,775 | 14 | 14 |
| Sanest, S.A. | - | 65,883 | - | 675,714 | - | 4 |
| Simtejo, S.A. | - | 109,660 | - | 1,277,067 | - | 7 |
| Simarsul, S.A. | - | 21,583 | - | 330,614 | - | 7 |
| Águas de Santo André, S.A. | 13,400 | 6,465 | 27,356 | 23,157 | 2 | 2 |
| Águas do Norte Alentejano, S.A. | 8,492 | 9,363 | 85,800 | 90,612 | 11 | 15 |
| Águas do Centro Alentejo, S.A. | 7,256 | 9,692 | 87,345 | 84,920 | 6 | 6 |
| AgdA - Águas Públicas do Alentejo, S.A. | 6,051 | - | 95,351 | - | 10 | - |
| Águas do Algarve, S.A. | 67,798 | 49,761 | 414,437 | 346,406 | 15 | 16 |
| Total UNA-PD | 347,448 | 472,273 | 4,420,712 | 5,899,131 | 174 | 197 |

WS - Water Supply

WWS - Wastewater sanitation

The significant increase in the amounts of drinking water supplied and wastewater collected in 2010 was largely attributable to the operational start-up of new and integrated infrastructures, as shown in the following table:

UNA-PD aggregate system infrastructural characteristics

| Infrastructures operated by UNA-PD companies | 2008 | 2009 | 2010 | Δ 2010 / 2009 | |
|--|---------|---------|----------------|---------------|-------|
| | | | | Amount | % |
| Water Supply Systems | | | | | |
| Volume of water produced/supplied (10 ³ m ³ /year) | 317,272 | 336,203 | 347,448 | 11,245 | 3.3% |
| Number of water intakes | 423 | 422 | 678 | 256 | 60.7% |
| Number of water treatment plants | 76 | 86 | 148 | 62 | 72.1% |
| Mains (km) | 5,423 | 5,974 | 9,804 | 3,830 | 64.1% |
| Number of pumping stations | 1,181 | 1,258 | 1,858 | 600 | 47.7% |
| Number of storage facilities | 842 | 887 | 1,152 | 265 | 29.9% |
| Wastewater Sanitation Systems | | | | | |
| Volume of effluent treated (10 ³ m ³ /year) | 357,042 | 392,774 | 472,273 | 79,499 | 20.2% |
| Sewers (km) | 3,159 | 3,492 | 5,553 | 2,061 | 59.0% |
| Number of wastewater treatment plants | 569 | 626 | 744 | 118 | 18.9% |

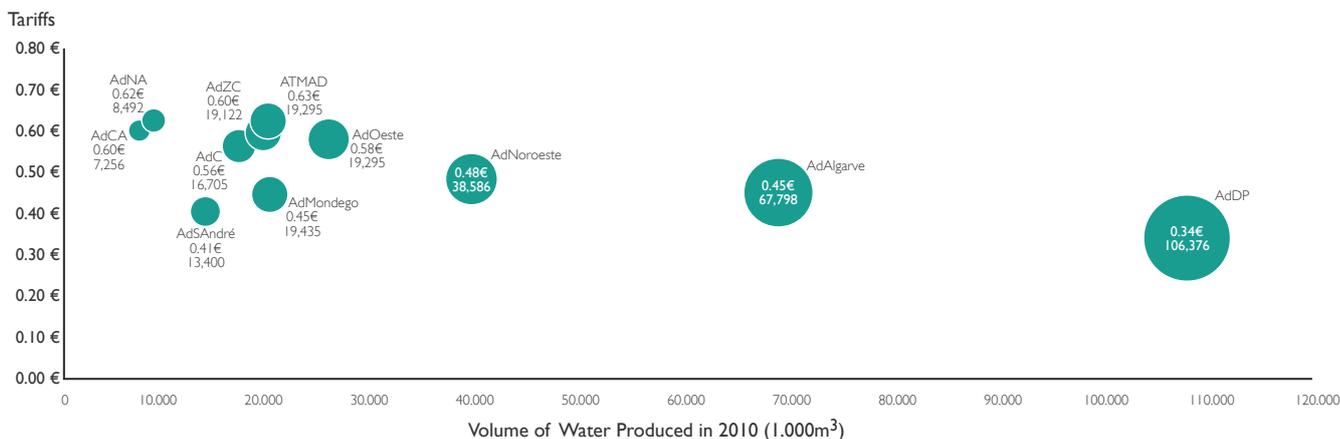
As regards infrastructures, there was significant progress in expanding the number of pumping stations (+600), the size of the supply and drainage networks (+3,830 and 2,061 km, respectively) as well as a sharp rise in the water collection sources (+256), largely due to the work of AdRA - Águas da Região de Aveiro and AgdA - Águas Públicas do Alentejo, which launched its operational activities in 2010.

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 and can require larger investments) as well as in the

amount of grants conceded by the European Union. Thus, in terms of water supply, tariffs varied in 2010 from a minimum of € 0.3400 per cubic metre to a maximum of € 0.6264. Tariffs for wastewater sanitation ranged from a minimum of € 0.3221 to a maximum of € 0.6875 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.

Water Supply



Wastewater Sanitation



The water supply and wastewater sanitation multi-municipal system management companies, over the course of 2010, made infrastructural investments totalling € 303 million, with € 79 million and € 224 million allocated to water supply and sanitation respectively against a total of € 390 million in 2009.

The evolution in investment demonstrates the group is entering into a final phase in the infrastructural cycle at a proportion of multi-municipal system management companies. The declining curve will, in part, be compensated for in the future by embarking on a new investment programme involving the already mentioned new companies and given that they are at the launch phase in the business cycle, their contribution towards overall investment in 2010 still remained very moderate.

The 110 construction tenders launched in 2010 corresponded to total investment of € 171 million, with 38 tenders worth € 34 million for water supply and 72 tenders amounting to € 137 million for sanitation. This compares with € 175 million and 90 tenders in 2009.

With regard to the group's commitments to building water supply and sanitation infrastructures, 100 construction contracts were signed following the respective tenders and worth a total of € 149 million – 46 contracts worth a total of € 57 million in the area of water supply and 54 contracts worth a total of € 92 million in sanitation. This compares with 92 contracts worth a total of € 120 million in 2009.

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, public tender processes, contracts and respective amounts

| Investment in UNA-PD infrastructures | 2008 | 2009 | 2010 | Δ 2010 / 2009 | |
|--|------------|------------|------------|---------------|----------------|
| | | | | Amount | % |
| Infrastructure investment (millions of euros) | 387 | 390 | 303 | (87) | (22.3%) |
| • Water Supply | 170 | 133 | 79 | (54) | (40.6%) |
| • Wastewater Sanitation | 217 | 257 | 224 | (33) | (12.8%) |
| Number of public tenders | 98 | 90 | 110 | 20 | 22.2% |
| • Water Supply | 32 | 29 | 38 | 9 | 31.0% |
| • Wastewater Sanitation | 66 | 61 | 72 | 11 | 18.0% |
| Value of tender processes (million euros) | 160 | 175 | 171 | (4) | (2.3%) |
| • Water Supply | 38 | 37 | 34 | (3) | (8.1%) |
| • Wastewater Sanitation | 122 | 138 | 137 | (1) | (0.7%) |
| Number of contracts | 122 | 92 | 100 | 8 | 8.7% |
| • Water Supply | 51 | 31 | 46 | 15 | 48.4% |
| • Wastewater Sanitation | 71 | 61 | 54 | (7) | (11.5%) |
| Value of contracts (million euros) | 222 | 120 | 149 | 29 | 24.2% |
| • Water Supply | 85 | 18 | 57 | 39 | 216.7% |
| • Wastewater Sanitation | 137 | 102 | 92 | (10) | (9.8%) |

As was the case in previous years, a large percentage of the investments made by aggregate UNA-PD water supply and wastewater sanitation multi-municipal system managing companies was co-funded by European Union financial instruments, in particular the Cohesion Fund.

During 2010, under the auspices of projects approved by the Cohesion Fund II, managing companies presented Portugal's Territorial Enhancement Thematic Operational Programme (POVT/QREN) with requests for payment totalling around € 186 million of documented expenditure. In the same period, receipts from the Cohesion Fund totalled € 89 million.

In accumulated terms, out of the range of projects approved by the European Union Cohesion Fund, totalling € 1.787 billion in investment, multi-municipal companies have already submitted around € 1.690 billion in requests for payment. This expenditure corresponds to the co-funding due from the Cohesion Fund totalling around € 1.091 billion, with around € 976 million already paid out.

Of the 22 Cohesion Fund projects due for physical and financial completion through to the end of 2010, the European Commission ruled that, in exceptional circumstances, this date might be subject to alteration. Given this opportunity, the postponement of the project completion date for a total of ten projects until the end of 2011 was requested. The definitive closure, including the settlement of the final amounts by the European Commission, may eventually prolong through to the years 2012 and 2013.

Under the National Strategic Reference Framework (QREN 2007-2013), 2010 saw the national authorities approve five operations presented within the scope of the 1st Notice of Axis II of the Territorial Enhancement Thematic Operational Programme. Of the total approved investment, around € 255 million, requests for payment amounting to € 123 million have been submitted. Receipts paid out by the Cohesion Fund/QREN reached € 64 million, corresponding to around 42% of the total approved Cohesion Fund financing (€ 153 million).

Also of note are the 41 new applications to the National Strategic Reference Framework (QREN 2007-2013) presented in 2009, within the scope of the 2nd Notice of Axis II of the Territorial Enhancement Thematic Operational Programme. They were subject to reformulation due to the phasing of investment and the definition of priorities taking into account the scarce nature of European Union funding for structural water supply and sanitation networks. Emerging out of this set of alterations at the end of 2010 were 33 operational investments applying for sums totalling around € 906 million, with forecast Cohesion Fund grants in the region of € 625 million. The two planned phases in project approval should be noted: a first corresponding to total investment of € 527 million with co-financing of approximately € 365 million, and a second phase, that may be approved after 2012, following the financial reinforcement or reallocation of funding under Axis II of POVT, with total investment of € 379 million and European Union funding of around € 260 million from the Cohesion Fund within the framework of POVT/QREN.

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. However, for a range of reasons, it did not prove possible to bring together the conditions necessary to advance in some regions while there were also other municipalities that did not confirm their interest regarding the projects under negotiation. In such cases, POVT moved to issue notification of the “non-acceptance” of the application within the scope of its competences as the management authority.

In articulation with the strategic guidelines defined for PEAASAR II, setting down the principle to be followed by the AdP Group as “fostering the outsourcing of multi-municipal system operational activities and maintenance”, 2010 saw the implementation of the Strategic Plan for Multi-municipal Water Supply and Wastewater Sanitation System Operational and Maintenance Services – PESOMAS 2006-2015.

Taking into consideration the monitoring of the strategic implementation of outsourcing operations and maintenance services for aggregate UNA-PD public water supply and wastewater sanitation systems, throughout 2010, systematically carried out by each management entity, the tenders due for launch over the short and medium term were reviewed, discriminating their scope and the nature of the service provision to be contracted, the forecast duration as well as the estimated costs involved. Furthermore, the evaluation of service quality was regularly subject to evaluation across the technical, juridical/administrative and financial facets so as to identify aspects susceptible to improvement in future contracts.

Finally, mention should be made that, in order to determine a quantitative measurement of service efficiency and effectiveness provided by the management entities, UNA-PD is now equipped with a system of performance indicators, which integrate those adopted by the regulator ERSAR, in conjunction with a set of complementary and broader reaching indicators.

The group of companies that comprise UNA-PD closed 2010 with a consolidated net profit (taking into account the respective percentages owned) of €24.1 million, up by the amount of € 5.5 million (+ 29.8%) on the previous financial year.

Contributing towards this result was the strong operational result of € 89.9 million that more than offset the negative behaviour of financial results that recorded a loss of € 40.7 million.

This advance in UNA-PD operational results, rising by 33.8% on 2009, is essentially explained by the increase in the gross margin by around 8.9%.

The performances of Águas do Noroeste and Águas de Trás-os-Montes e Alto Douro stand out from the remainder for turning in the largest operational results, € 13.278 thousand and € 10.516 thousand, respectively.

The positive contribution made by investment grants, now including 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 (€ 6.7 million) and Águas do Douro e Paiva (€ 5.8 million).

The negative value recorded in the financial results item in 2010 and its worsening on the 2009 result, surging by 64.1%, reflects the growing recourse to bank debts by companies as a means of financing ongoing investments given the significant delays experienced in the settlement of grants approved within the framework of European Union funding.

Águas de Trás-os-Montes e Alto Douro and Águas do Noroeste are the two companies most exposed in these terms. In addition, only Simdouro, Sanest and Águas de Santo André return 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.

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 aggregate system - economic and financial indicators

Unit: thousands of euros

| | 2008 | 2009 | 2010 | Δ 2010 / 2009 | |
|------------------------|---------|---------|----------------|---------------|-------|
| | | | | Amount | % |
| Turnover | 270,534 | 311,084 | 351,982 | 40,898 | 13.1% |
| EBITDA | 184,749 | 188,310 | 231,569 | 43,259 | 23.0% |
| Net Income of the year | 19,049 | 18,581 | 24,109 | 5,529 | 29.8% |

In the case of the operational cash flow indicator, this temporal evolution necessarily needs interpreting in conjunction with the adoption of the IFRS accountancy standards in 2010 and the consequent contribution of the investment grants towards the operational result.

The core economic-financial indicators according to the new IFRS accountancy standards are the following:

| Economic and financial indicators | 2009 | 2010 |
|-----------------------------------|--------|---------------|
| EBITDA margin | 65.25% | 65.79% |
| General liquidity | 0.69 | 0.69 |
| Financial structure | 5.76 | 6.25 |
| Solvency ratio | 0.79 | 0.86 |
| Financial autonomy (%) | 9.72% | 9.17% |

In terms of activities taking place in 2010, the UNA-PD public water supply and wastewater sanitation system management companies completed a series of important infrastructures with their subsequent entry into operation, enabling the launch of services across various sub-systems, the improvement of service levels and significant advances in operating performance standards. This progress and the performance quality associated are indeed confirmed by the rising levels of drinking water quality levels as published annually by the regulator, ERSAR.

There was also cooperation between the various companies in the Águas de Portugal Group, via technical support, mainly between those which are geographically proximate, and also via the temporary loan of their technical staff.

Following the publication of Decree Law no. 195/2009, of 20 August, which implements changes to the legal regime for public water supply and wastewater sanitation and municipal solid waste multi-municipal systems, reviews were also begun of concessionary contracts in order to advance with any adjustments necessary for incorporating any and all changes stipulated by this law. Through to the end of the third quarter, the concession holder was presented with the proposed decision for reviewing the EVEF and the appendix to the concession contracts relating to practically all management companies.

In accordance with Law no. 12/2008, of 26 February, and later also Law no. 24/2008, management companies continued with the systematic lodging of injunctions. Correspondingly, agreements for the recovery of debts were signed in 2010 for the amount of around €38.1 million with payment orders initiated for the amount of approximately €42.1 million. Respectively, these represent a decrease of 44% and an increase of 64% on the previous financial year.

In 2010, the main events for multi-municipal system management companies included:

- The Noroeste Multi-municipal Water Supply and Sanitation System was completed with the founding of the company Águas do Noroeste, S.A., through Decree Law No. 41/2010, of 29 April and replacing the Multi-municipal Water Capture, Treatment and Supply System of Norte Grande Porto, the Multi-municipal Water Supply and Sanitation System of Minho e Lima and the Multi-municipal Water Supply and Sanitation System of Vale do Ave. The system integrates as original users the municipalities of Amarante, Amares, Arcos de Valdevez, 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 do Bouro, Trofa, Valença, Viana do Castelo, Vieira do Minho, Vila do Conde, Vila Nova de Cerveira, Vila Nova de Famalicão, Vila Verde and Vizela. This merger derives out of the objective of leveraging synergies with a positive impact on tariffs and economic and financial sustainability.
- On 1 May 2010, AdRA - Águas da Região de Aveiro, S.A. began activities as the management company for the public partnership between the Portuguese State and the set of municipalities made up of Águeda, Albergaria-a-Velha, Aveiro, Estarreja, Ílhavo, Murto, Oliveira do Bairro, Sever do Vouga and Vagos, founded in July 2009. In December 2010, the Ovar municipality joined this partnership.

- In July 2010, AgdA- Águas Públicas do Alentejo, S.A. began activities as the management company for the public partnership between the Portuguese State and the set of municipalities made up of Alcácer do Sal, Aljustrel, Almodôvar, Alvito, Arraiolos, Barrancos, Beja, Castro Verde, Cuba, Ferreira do Alentejo, Grândola, Mértola, Montemor-o-Novo, Moura, Odemira, Ourique, Santiago do Cacém, Serpa, Vendas Novas, Viana do Alentejo and Vidigueira, founded in August 2009.
- The Concessionary Contract was signed with Simdouro, in November 2010, following the establishing of the Grande Porto Multi-municipal Sanitation System, in accordance with that stipulated by Decree Law no. 312/2009, 27 October, integrating eight municipalities, Arouca Baião, Castelo de Paiva, Cinfães, Maia, Paredes, Penafiel and Vila Nova de Gaia.
- Continuity was provided to the project "PAST21 - National Evaluation Initiative on the Performance of Urban Water and Wastewater Treatment Plants", launched in 2009 and due for completion in mid-2011. The objective is to test nationwide the performance evaluation systems in effect at urban water and wastewater treatment plants, recently developed by the National Laboratory of Civil Engineering (LNEC), as well as to carry out the performance evaluation and benchmarking of urban water and wastewater treatment plants systematically and in accordance with a coherent and reliable database. The project, coordinated by LNEC, has selected 27 treatment installations (10 and 17 water and wastewater treatment plants, respectively) for study, run by twelve management companies of which ten are aggregated into UNA-PDs with the exceptions being: AGS - Administração e Gestão de Sistemas de Salubridade, S.A. and Serviços Municipalizados de Água e Saneamento de Almada. The scope of this project focuses upon aspects related to the quality of water/treated wastewater and the operational means in effect throughout the various treatment phases and their respective levels of efficiency.

Shareholdings Portfolio

| Company | Management Model and Object | Duration | Municipalities Participating | Share Capital (€) | Share Capital Attained (€) | AdP Stake |
|--|---|-------------------------|--|-------------------|----------------------------|-----------|
| Águas do Noroeste, S.A. | Multi-municipal Water Supply and Wastewater Sanitation System | 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 | 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 | 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 | 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 | 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 | 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 | 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, Méda, Penamacor, Pinhel, Sabugal and Seia. | 26,607,560 | 26,607,560 | 87.46% |
| Águas do Centro, S.A. | Multi-municipal Water Supply and Wastewater Sanitation System | 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 | 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 | 30 years 2001-2030 | Alcobaça, Alenquer, Arruda dos Vinhos, Azambuja, Bombarral, Cadaval, Caldas da Rainha, Lourinhã, Mafra, Nazaré, Óbidos, Peniche, Rio Maior, S. Monte Agraço and Torres Vedras. | 30,000,000 | 29,733,970 | 51.00% |
| Sanest, S.A. | Multi-municipal Wastewater Sanitation System | 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 | 43 years 2001-2044 | Amadora, Mafra, Lisboa, Loures, Odivelas and Vila Franca de Xira. | 38,700,000 | 38,700,000 | 50.50% |
| Simarsul, S.A. | Multi-municipal Wastewater Sanitation System | 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 | 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 Sesimbra and Sousel. | 7,500,000 | 7,500,000 | 51.00% |
| Águas do Centro Alentejo, S.A. | Multi-municipal Water Supply and Wastewater Sanitation System | 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. | System for the abstraction, Treatment and Distribution of Water; the Collection, Treatment and Disposal of Effluents and the Collection, Treatment and Final Disposal of Solid Wastes | 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, Alvão, Arraiolos, Barrancos, Beja, Castro Verde, Cuba, Ferreira do Alentejo, Grândola, Mértola, Montemor-o-Novo, Moura, Odemira, Ourique, Santiago do Cacém, Serpa, Vendas Novas, Viana do Alentejo, and Vidigueira. | 500,000 | 500,000 | 51.00% |
| Águas do Algarve, S.A. | Multi-municipal Water Supply and Wastewater Sanitation System | 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 its activities and businesses.

EPAL is responsible for the “upstream” supply of water, directly or indirectly to over 33 municipalities on the northern bank of the Tagus River and for domestic distribution across the Lisbon municipality, with around 350,000 direct clients, reaching a global population in the region of 2.8 million people.

Outside the Municipality of Lisbon, EPAL supplies water to municipal and multi-municipal management companies who distribute it to end-users.

Regions supplied by EPAL

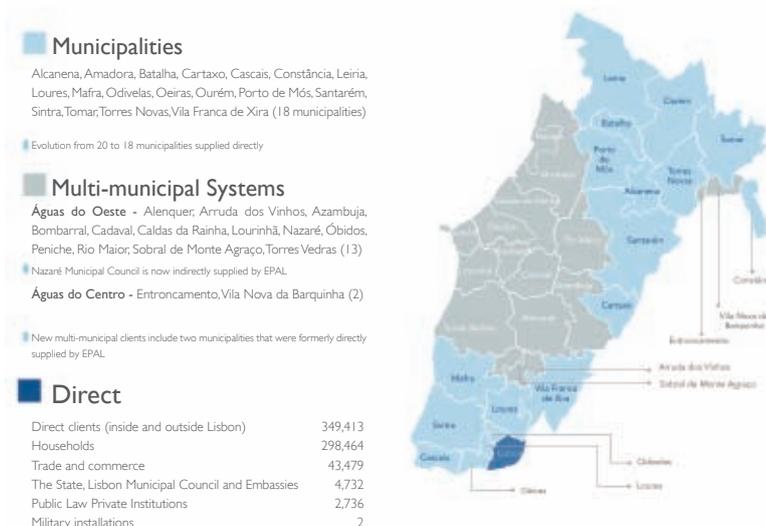
Summary characterisation of supply system:

Production and Transport

- 1,110,000 m³/day of abstraction capacity
- 2 wastewater treatment plants
- 705 km of water mains
- 31 Pumping stations
- 28 Storage facilities

Distribution

- 4 Altimetric Zones
- 83,000 connection branches
- 1,429 km of distribution network
- 10 Pumping stations
- 13 Storage facilities



Summary characterisation of activities:

| Activities | 2008 | 2009 | 2010 |
|--|-------------|-------------|-------------|
| Total Volume of Water Sold (m ³) | 211,256,465 | 217,085,364 | 213,799,910 |
| N.º of Direct Clients | 346,513 | 348,050 | 349,413 |
| N.º of Municipalities Supplied Upstream (Including Lisbon) | 33 | 33 | 34 |
| N.º of Consumers ⁽¹⁾ | 2,796,640 | 2,803,537 | 2,825,444 |
| Total Area Supplied (km ²) | 6,564 | 6,564 | 6,681 |
| N.º of Employees at 31 December | 788 | 768 | 746 |

⁽¹⁾ Population resident in area supplied (population figures from previous year)

In the face of the new challenges faced by water operators, including efficient asset management, the protection of water quality, the impact of climate change, infrastructure safety and resilience and the growing expectations of stakeholders, in 2010, EPAL strengthened efforts designed to ensure efficiency and improve customer services provided in order to fully meet its mission, ensure a sustainable financial position and deliver an adequate level of return to its shareholder.

Work also proceeded with the objective of redefining the legal and statutory regime of EPAL with the objective of enabling the company to manage the various activities making up the urban water cycle in Greater Lisbon and adjoining geographic areas.

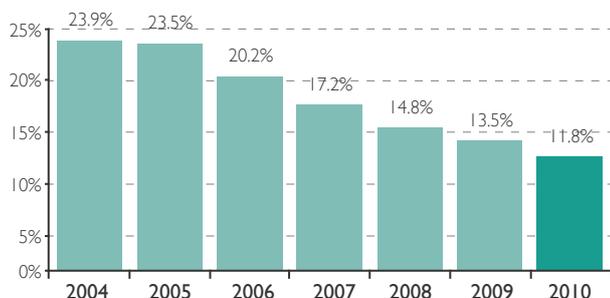
Within the scope of the asset management strategy, there is particular emphasis on projects ensuring system integration and surveying the processes and drafting inventories of assets designed to bring about improvements to their general and technical characterisation.

2010 saw the completion of the Lisbon segmentation project with the network now totally covered by Monitoring and Control Zones, a fundamental instrument for network operational management in terms of volumes, pressures and hydric resources.

We would furthermore highlight a landmark statistic for EPAL: non-invoiced water reached a historical low of 11.8% in the Lisbon distribution network. This trend is confirmed by volume, percentage, by network kilometre and by client.

Non-invoiced water in the Lisbon Distribution Network

(%)



2010 saw the Water Security Plan come into effect and providing an important tool for an integrated and systemic vision of the risks to the supply of water in terms of both quality and quantity.

Water quality explained one of the most significant investments in 2010 – the Central Laboratory – representing total investment of € 14,934 million, 6,453 m² of construction across four floors – one subterranean, two working floors and a technical floor hosting three laboratories (organic chemistry, inorganic chemistry and microbiology).

Another fundamental investment for water quality relates to the restructuring of the Vale da Pedra wastewater treatment plant within the scope of which work has proceeded towards the launch of a design and construction tender, seeking not only to restructure the plant but to reformulate and expand its treatment capacity. The project for the design and launch of the tender for the Valada Tejo Pumping Station was also concluded in 2010.

The company's strategic planning necessarily incorporates such preeminent concerns as the impact of climate change on hydric resources. EPAL participates in the PREPARED Project, co-financed by the 7th European Union Framework Programme, with the core objective of establishing a common European platform for climate change adaptation solutions for water supply and sanitation sector managers. Simultaneously, the project seeks to engage in pluri-annual research into adapting the urban water cycle to the climate change scenarios with one research group hosted by the University of Lisbon's Faculty of Science.

Total investment in 2010 amounted to € 23.6 million, reflecting the results of the priority attributed by the company to asset management, with the implementation of risk and infrastructure criticality analysis methodologies and very selective and structured investment selection criteria.

Unit: euros

| Investment | 2010 |
|--|-------------------|
| Guarantee of Capacity | 2,925,498 |
| Guarantee of Reliability and Security | 9,221,734 |
| Guarantee of Quality | 8,774,637 |
| Sustainability and Innovation | 537,905 |
| Information and Communication Technologies | 828,619 |
| Other Investments | 1,286,020 |
| Total | 23,574,412 |

Of the investment carried out in 2010, we would highlight:

- Construction of a new Central Laboratory;
- Renovation of the Lisbon Distribution Network (17.4 km replaced);
- Modernisation of the Olivais Pumping Station;
- Duplication of the Castelo do Bode water mains:
 - Throughout the Azambuja Special Work Zone;
 - The stretch upstream of Várzea das Chaminés;
- Modernisation of the Vila Franca de Xira Storage facility and adjoining structures.

EPAL turned in its best result ever in 2010 (€ 45.9 million), greatly exceeding the results achieved in previous years.

Unidade: euros

| Economic-Financial Indicators | 2008 (POC) | 2009 | 2010 |
|-------------------------------|--------------------|--------------------|--------------------|
| Turnover | 143,526,457 | 149,068,299 | 147,454,719 |
| Net Income of the year | 26,675,351 | 32,735,676 | 45,887,092 |
| EBITDA | 76,672,503 | 72,284,414 | 74,431,036 |
| Investment | 26,014,737 | 26,795,930 | 23,574,412 |
| Total Net Assets | 714,323,829 | 887,953,175 | 916,852,189 |
| Equity | 365,046,276 | 488,027,389 | 506,107,842 |
| Total Liabilities | 349,277,553 | 399,925,786 | 410,744,347 |

- EBITDA = Operational Results + Extraordinary Results + Amortizations + Adjustments - Depreciations and Reverse Adjustments + Provisions and Reversions – Investment Grants

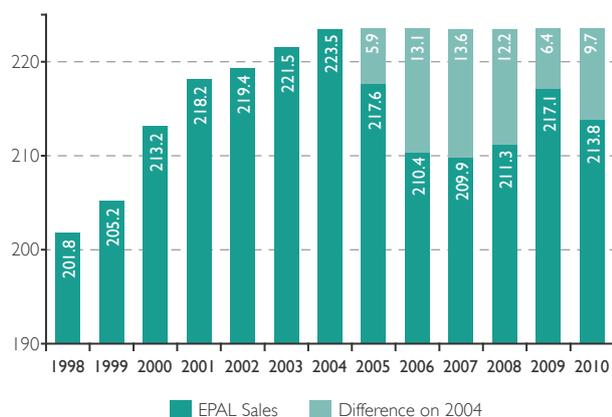
- 2008 financial reporting according to POC - the Portuguese accountancy norms.

Turnover, however, experienced a downturn on the previous year resulting from a fall in sales and the revenues obtained from services due to the signing of contracts and installation of water meters.

Thus, in 2010, there was a 1.5% drop in volumes sold on the previous year, which represents about 3.3 million cubic metres, of which 2.6 million cubic metres related to municipal and multi-municipal clients and 0.7 million cubic metres directly to clients. In fact, there has been a decrease in the volumes sold by EPAL ongoing since 2004 (down 9.7 million cubic metres in 2010 on the 2004 level), even while there has been an increase in the number of municipalities supplied and a progressive expansion of supplies to Águas do Oeste and demonstrating a change in demand and patterns of consumption.

Trends in Water Sales 1998-2011

(millions of m³)



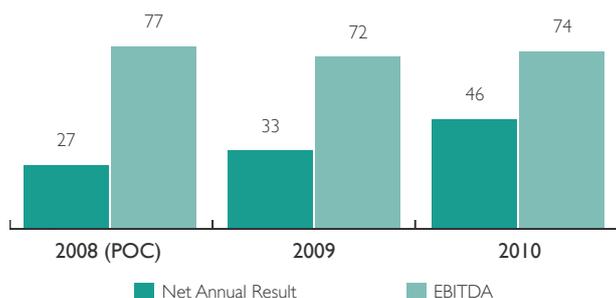
The financial results of the year stem from a reduction in costs, both operational and financial, resulting from the structural measures taken in order to ensure more efficient management of the asset base. They have demonstrated a very positive influence given the very significant annulment of provisions in this financial year of € 11 million, a one-off factor and not subject to repetition in forthcoming years.

The adoption in 2010 of the International Financial Reporting Standards (IFRS) in substitution of the previous regime established by the Portuguese accountancy and auditing norms also involved restating 2009 financial reporting with an impact of around € 7 million on the reduction of amortizations in the financial year and hence a change in the net annual financial result of 2009, rising from € 27.1 million to € 32.7 million.

The 2010 EBITDA generated by the company rose by 3% on the previous year even though not in keeping with the increase in results given that these non-current impacts do not reflect in any growth in the cash flow generated.

Net Income vs. EBITDA

(€ million)



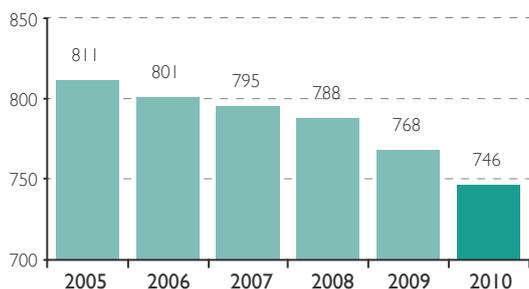
In fact, there was a € 2.1 million improvement in EBITDA, which, given the reduction in business turnover of € 1.6 million (-1.1%), only proved possible via a reduction in costs, specifically on human resources.

In terms of the financial structure, the main change came with the valuation of equity capital and total net assets on 2008 brought about by the application of the new accountancy framework with these breaking the € 500 million and € 900 million marks respectively.

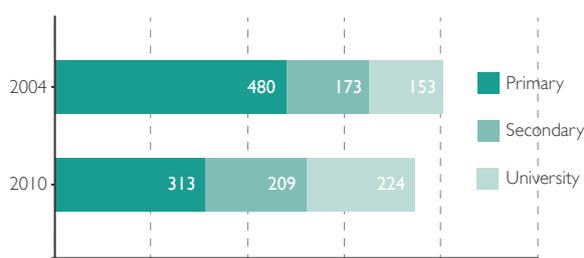
In addition to this good business performance, we would highlight how EPAL continued to prove financially very robust, demonstrating a strong capacity to meet all its short, medium and long term commitments.

The number of company members of staff as at 31 December was 746 employees, down 22 on the same date in 2009.

Nº. of Employees



Trends in Employee Numbers by Level of Education



EPAL has nurtured the progressive rejuvenation of members of staff and raising levels of qualification, especially through programmes such as Novas Oportunidades (New Opportunities), through which 102 employees have already gained certification. Employees with higher and secondary levels of education today represent 58% of total company human assets, a figure that stood at just 40% in 2004.

8.2. Waste

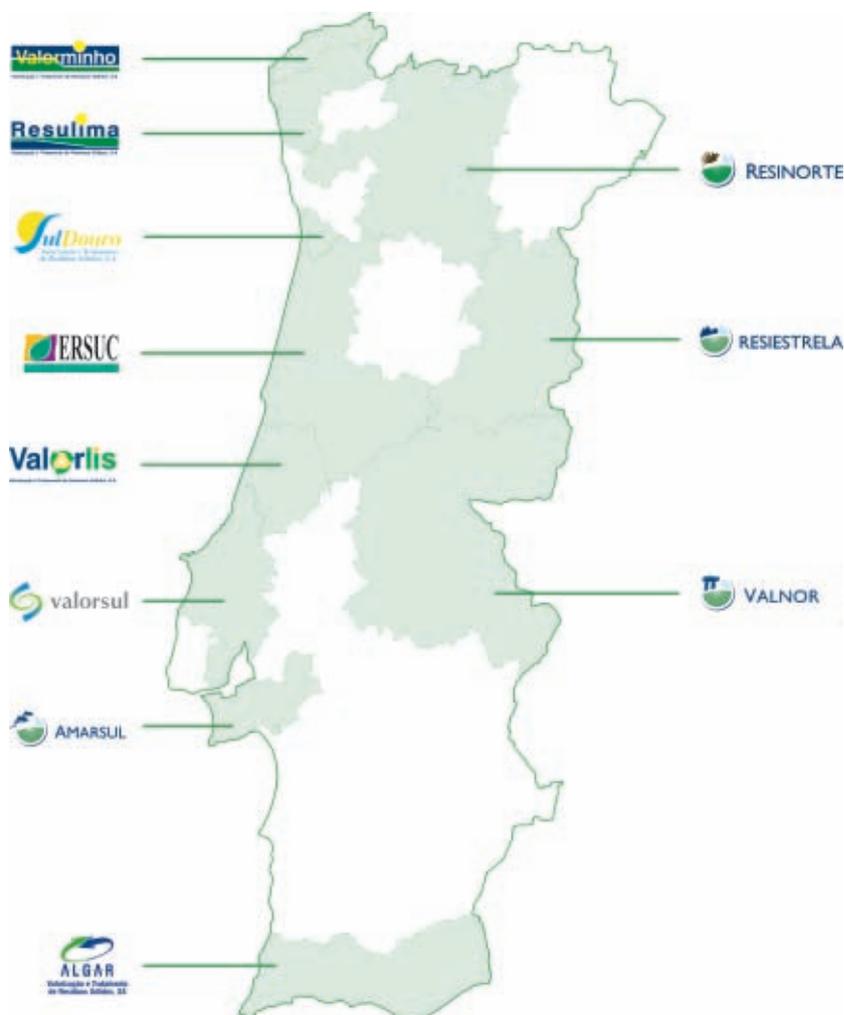
Empresa Geral do Fomento, S.A. is the Águas de Portugal sub-holding company responsible for the waste business unit that comprises the treatment and recovery of waste in an environmentally correct and economically sustainable manner, contributing to quality of life and environmental improvements.

Management of the multi-municipal waste treatment and recovery systems is by means of 11 concessionary companies, set up in partnership with the municipalities served, which process around 3.7 million tons of municipal solid waste (MSW) per year, produced in 174 municipalities, serving 60% of the population of Portugal.

Playing a fundamental role in supporting the structuring and definition of environmental policies in the waste sector, one of EGF's priorities is to contribute towards achieving the national and European Union strategies and targets for the sector, particularly the increase in the selective collection of multi-material packaging and the reduction in the disposal of urban biodegradable waste in landfill sites.

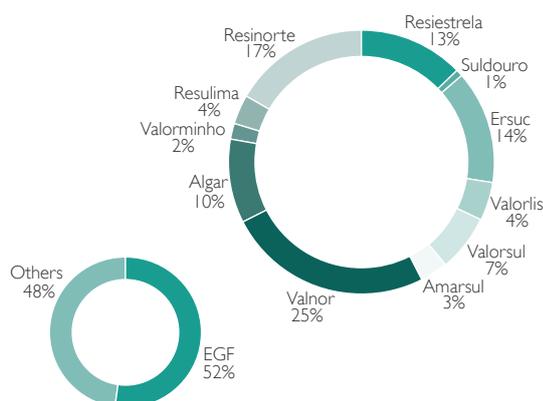
The multi-municipal systems in the EGF universe serve an area of 48,009 km², which represents 52% of the national total.

The following chart and graph show the geographical areas in which each system carries out its individual activities, and also the relative weight of each company.



Geographic Concession Area

| System | Area (km ²) | % |
|------------------|-------------------------|-------------|
| Valorminho | 951 | 2% |
| Resulima | 1,743 | 4% |
| Resinorte | 8,031 | 17% |
| Resiestrela | 6,133 | 13% |
| Suldouro | 384 | 1% |
| Ersuc | 6,694 | 14% |
| Valorlis | 2,160 | 4% |
| Valorsul | 3,378 | 7% |
| Amarsul | 1,559 | 3% |
| Valnor | 11,981 | 25% |
| Algar | 4,996 | 10% |
| Total EGF | 48,009 | 100% |



The following represent the main key events taking place at the Waste BU in 2010:

- The founding of, following the merger of the Valorsul and Resioeste companies, the new Valorsul— Valorização e Tratamento de Resíduos Sólidos das Regiões de Lisboa e do Oeste, S.A., and the respective multi-municipal system under the auspices of Decree Law No. 68/2010 of 15 June, and for a period of 25 year;
- Expansion of Valnor to the municipalities making up Raia Pinhal (Beira Interior), through Dispatch 16510/2010, of 29 October, duly recognising the public interest in this merger and the increase in the company capital through the incorporation of reserves and carried over results as well as the issuing of new shares in order to restructure permanent capital within a period of high investment levels in accordance with the respective signing of the Addendum to the Concessionary Contract, on 27 December 2010;
- Authorisation by the sector regulatory entities and the Ministry of Finance for expanding the Ersuc concessionary period through to 2030 and for the correction adjustments to company capital through the incorporation of reserves and carried over results as well as the issuing of new shares in order to restructure permanent capital within a period of high investment levels in accordance with the respective signing of the Addendum to the Concessionary Contract, on 29 December 2010;
- Supervision of the sub-contracting work on the construction of the Mechanical Biological Treatment Plants and Organic Recovery Plants making recourse to a new generation in anaerobic digestion technologies, taking place at Valnor; with the tendering of the expansion of the site (at the civil construction phase, specifically land moving, foundations and structures); at Valorlis (undergoing an experimental service phase, running tests and operational procedures with wastes); at Algar (in the final phase of civil construction); at Amarsul (at the stage of civil construction with project negotiations and equipment approval processes ongoing); in Suldouro (in an experimental service phase, running tests and operational procedures with different waste types); and at Ersuc, in Aveiro and Coimbra (at the stage of civil construction with project negotiations and equipment approval processes ongoing);
- Supervising, within the scope of landfill biogas energy recovery projects, the subcontracted construction and installation of energy recovery units at the following companies: Valorminho, Resulima, Suldouro, Ersuc, Resiestrela, Valorsul, Valnor, Amarsul and Algar. With the operational start-up of these new installations, installed EGF Group landfill biogas capacity will rise to 21.8 MW.
- Within the framework of the decontamination of the soils of the former national steel foundry and a chemicals plant, applications were submitted and approved by the POVT for the implementation of phase two - Removal, transport and deposit in a contaminated soil landfill, with this work due to begin in the first quarter of 2011;
- Accompanying the contracting of EIB - European Investment Bank financing for ongoing investments at Amarsul, Algar, Suldouro, Valorlis, Valnor and Ersuc, with a total contractual sum of € 145 million;
- Design and development of a set of incentive initiatives combating the production of waste with the objective of contributing towards achieving the national target of cutting the production of urban waste by 10% through to 2016, and under the auspices of the Cooperation Protocol signed in November 2009 with the Portuguese Environment Agency. Of the diverse range of actions taking place, one highlight was the Fraldinhas (Diapers) Project, staged during Waste Prevention Week between 20 and 28 November. The project consisted of distributing reusable diaper kits to recently born babies at 24 state hospitals within the scope of the multi-municipal network and extending from the north to the south of the country and reaching out to 1,800 babies.
- EGF is represented on the Executive Committee of the Commission for Climate Change with the nomination of two members of staff for its respective Technical Secretariat. The Commission's mission is the technical management of the Portuguese Carbon Fund and ensuring the monitoring of the National Climate Change Plan.

Waste Treated

The eleven EGF group companies together collected, treated and recovered around 3.7 million tons of waste during 2010.

Unit: thousand of tons

| System | Waste treated/recovered | % | MSW | Private MSW/ Non-hazardous Industrial Waste | Inerts/ Construction and Demolition Waste | Selective Collection Multimaterial | Organic |
|--------------|-------------------------|-------------|-------------|--|--|---------------------------------------|-----------|
| Valorminho | 41 | 1% | 35 | 3 | - | 3 | - |
| Resulima | 146 | 4% | 127 | 7 | - | 12 | - |
| Resinorte | 404 | 11% | 342 | 23 | 3 | 37 | - |
| Suldouro | 207 | 6% | 181 | 7 | - | 19 | - |
| Resiestrela | 80 | 2% | 75 | 1 | - | 4 | - |
| Ersuc | 427 | 12% | 380 | 12 | - | 35 | - |
| Valorlis | 137 | 4% | 117 | 5 | 3 | 13 | - |
| Valorsul | 974 | 26% | 708 | 151 | - | 91 | 24 |
| Amarsul | 608 | 16% | 451 | 84 | 42 | 31 | - |
| Valnor | 206 | 6% | 85 | 90 | 20 | 11 | - |
| Algar | 468 | 13% | 350 | 47 | 38 | 33 | - |
| Total | 3699 | 100% | 2850 | 432 | 106 | 288 | 24 |

Financial Indicators

The following tables present the main EGF financial indicators and the individual performance of the group companies:

Summary of Indicators

Unit: thousand euros

| (EGF - Individual) | 2010 | 2009 |
|------------------------|-------|-------|
| Turnover | 1,688 | 1,836 |
| EBITDA | 5,098 | 2,256 |
| Financial Results | 3,280 | 1,869 |
| Net Income of the year | 3,494 | 1,839 |

Unit: thousand euros

| (EGF - Individual) | 2010 | 2009 |
|-----------------------|---------|--------|
| Tangible Assets | 71,213 | 68,376 |
| Financial Investments | 70,325 | 67,601 |
| Total Assets | 103,646 | 95,929 |
| Total Liabilities | 17,911 | 13,688 |
| Equity | 85,735 | 82,241 |

| Activity Data (EGF Group) | 2010 | 2009 |
|------------------------------------|--------|--------|
| Solid waste (1,000 tons) | 3,699 | 3,616 |
| Population served (1,000 hab.) | 6,410 | 6,258 |
| Nº. of municipalities covered | 174 | 168 |
| Geographic area (km ²) | 48,009 | 43,511 |
| Average number of employees | 1,943 | 1,746 |

Unit: thousand euros

| Companies | Turnover | EBITDA | Net Income | Net Assets | Equity |
|------------------------------|----------------|---------------|---------------|----------------|----------------|
| Valorminho | 1,642 | 916 | 179 | 9,158 | 1,366 |
| Resulima | 5,084 | 2,638 | 535 | 21,662 | 2,876 |
| Resinorte | 17,224 | 7,576 | (493) | 141,162 | 8,950 |
| Suldouro | 9,115 | 5,578 | 167 | 66,278 | 6,518 |
| Resiestrela | 4,319 | 2,750 | 630 | 38,296 | 4,697 |
| Ersuc | 17,415 | 5,427 | 1,183 | 112,128 | 14,642 |
| Valorlis | 5,952 | 4,128 | 553 | 52,843 | 3,613 |
| Valnor | 9,980 | 4,685 | 1,536 | 56,649 | 12,699 |
| Valorsul | 60,141 | 10,979 | 6,028 | 251,084 | 53,335 |
| Amarsul | 16,691 | 6,117 | 30 | 96,964 | 11,226 |
| Algar | 17,532 | 8,488 | 136 | 125,050 | 9,713 |
| Total Group Companies | 165,094 | 59,283 | 10,484 | 971,274 | 129,633 |

Holding Portfolio

| Company | Concessionary Period | Municipalities Participating | AdP Holding | Share Capital € |
|-------------------|-----------------------|---|-------------|-----------------|
| EGF, S.A. | Holding | n.a. | 100% | 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 | Aljód, Amarante, Armamar; Baião, Boticas, Cabeceiras de Basto, Celorico de Basto, Cinfães, Chaves, Fafe, Guimarães, Lamego, Marco de Canaveses, Mesão Frio, Moimenta da Beira, Mondim de Basto, Montalegre, Murça, Penedono, Peso da Régua, Resende, Ribeira de Pena, S. João da Pesqueira, Sabrosa, Santo Tirso, Semancelhe, Santa Marta de Penaguião, Tabuaço, Tarouca, Trofa, Valpaços, Vila Nova de Famalicão, Vila Pouca de Aguiar, Vila Real, and Vizela. | 67.58% | 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, Meda, Penamacor, Pinhel, Sabugal and Trancoso. | 62.95% | 3,532,835 |
| Suldouro, S.A. | 25 years 1996-2021 | Vila Nova de Gaia and Santa Maria da Feira. | 60.00% | 3,400,000 |
| Ersuc, S.A. | 25 years 1997-2022 | 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, Ilhavo, 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% | 4,075,000 |
| 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. | 29 years 2001-2030 | Abrantes, Alter do Chão, Arronches, Avis, Campo Maior, Castelo Branco, Castelo de Vide, Crato, Elvas, Fronteira, Gavião, Idanha-a-Nova, Maça, Marvão, Monforte, Nisa, Oleiros, Ponte de Sôr, Portalegre, Proença-a-Nova, Sardoal, Sertã Sousel, Vila de Rei and Vila Velha de Ródão. | 53.33% | 8,912,321 |
| Valorsul, S.A. | 25 years 1995-2020 | 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 years 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 |

8.3. Energy and Other Businesses

The activities of the AdP Group in the field of renewable energies is centralised in the company AdP Energias - Energias Renováveis e Serviços Ambientais, S.A., attributed the mission of maximising the energy efficiency of group assets and endogenous resources and contribute towards the sustainable develop of companies, rationalising their energy consumptions and reducing or offsetting their greenhouse gas emissions.

AdP Energias develops projects for the production of RDFs (refuse derived fuels) and the Water and Wastewater Treatment Plant Sludge - Energy Recovery Plants (ERPs), the recovery of low temperature heat (Rankine Organic Cycle Technology), leveraging hydro-electricity capacity - hydic-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 to group companies in advancing with energy efficient solutions, in the optimisation of energy production in already existing installations and equipment and in the development of regional and local solutions for the appropriately environmentally correct and energy efficient treatment of water and wastewater treatment plant sludges.

Within this field, of particular importance are activities in support of accessing financial incentive programmes for energy efficiency under the auspices of the PPEC (Plan for the Promotion of Efficient Consumption), technical support for the management optimisation of biogas resulting from anaerobic digestion processes, support in taking out licenses for energy delivery installations and points as well as the development of sludge drying and handling projects based upon the utilisation of solar energy.

Relevant facts of the year

2010 may be a termed a year of some disappointment for the renewable energies field of the AdP Group as its projects did not advance on their level of implementation, a knock-on effect of the macroeconomic framework which Portugal currently faces, especially the consequences of the Stability and Growth Pact, with the review of the philosophy behind the legislative framework of the sector, particularly in terms of regulations on activity levels and remuneration tariffs for the sale of energy to RESP.

In effect, the supervisory decision to review the construction program for two Energy Recovery Plants (ERPs), taking into account the impact on AdP Group debt levels, as well as the decision of one selected partner for one ERP having decided to withdraw from project participation led to the freezing of the plan of action set out for the implementation of one planned unit.

With the other ERP, a co-generation unit, awaiting the publication of a regulatory diploma for this activity, establishing the rules and the parameters enabling the definition of the tariff to be applied and without which it becomes impossible to ascertain project viability thus preventing project implementation.

In the remaining renewable energy fields, progress was achieved with the publication of a section of the regulatory framework for activities in this sector with the reformulation of the table for micro-generation and still awaiting the table relating to mini-generation.

These two diplomas are essential to planning any business investment as they define the tariffs, their temporal scopes and any other eventual conditions that may be applied.

It should be mentioned that the general scope for AdP Group intervention in the field of renewable energies falls within the extent of micro and mini generation, with AdP Energias having always contributed, whenever possible, towards the consultation phases of the aforementioned diplomas.

As regards the diverse projects, we would hereby highlight:

Micro Photovoltaic

Despite the new diploma on micro-production activities only having been published in late October 2010, a total of 208 installations were in production by the end of the year and fully meeting and exceeding the objective set for this period.

Taking into account the climatic irregularities in 2010 and the fact that this is the project launch phase, with the necessary adjustments and fine tuning following entrance into operation, the results from installations have been within the range of those expected, while there was a shortfall in the guaranteed results of around 5%, which may contractually only be ascertained at the end of the second year of production. Any eventual shortcomings are met by bank guarantees supplied by the installation entity.

Mini Photovoltaic

Continuing to await the publication of the regulatory diploma for this field, due in the first quarter of 2011, study has been ongoing as to the scope for the implementation of mini-generation plants at AdP Group multi-municipal systems (MMSs). Current plans feature the possible launch of tenders for the construction of around ten installations with total installed capacity of 1 MW over the course of 2011.

Projects will first focus on MMSs (water, sanitation and waste) in the south of Portugal, where the installation conditions are more favourable and enabling greater project profitability.

Photovoltaic Concentration

AdP Energias is a member, along with Dreen and Solfocus, of 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, with the respective PIP granted in July 2010 by DGEG, through the Commission for the Evaluation and Selection of PIPs for Solar Plants for the production of electricity. Following publication of the respective ministerial order stipulating the tariff to be applied to demonstration installations tendered out by the Secretary of State for Energy and Innovation, which took place in October 2010, the Economic and Financial Viability Study was reformulated. Furthermore, the request for authorisation to found the Holding Company that shall undertake installation construction was submitted to the Ministry of Finance

Negotiations also proceeded with the appropriate authorities for licensing the expansion in capital of the aforementioned unit from 1 MW to 3 MW, that which was duly authorised by DGEG in July 2010, while also awaiting confirmation of the energy tariff rate in effect for the 2 MW in expanded capacity.

Low Temperature Heat Recovery (LTHR)

In May 2010, an international public tender was launched for the construction of the first two demonstration units with unit potential of 150 kW, having proceeded with notification of adjudication in October. Project construction is due to begin on these two units by the end of the second quarter of 2011.

A partnership was established between AdP Energias and the Suldouro MMS for the construction of this project.

Micro Hydrics

Work proceeded on assembling the technical and administrative processes regarding the construction of the Small Hydric Plants in partnership with Águas do Algarve in Alcantarilha, with Águas de Santo André in Montes Chãos and Águas do Noroeste in Beiriz.

There has been a significant delay in the launching of these projects as, in addition to the aforementioned lack of a regulatory framework for mini-generation, which remains a conditioning factor in determining project viability, there was also the need to request the concession of the respective public property rights from the Hydric Resource Manager for the production of electricity by the captured water flows given that the respective MMS concession only awards public rights for supply. However, this problem is on the verge of resolution.

Solar Sludge Drying

Work proceeded on the installation of the first solar sludge drying unit, located in the Algarve. Having advanced with pre-negotiations over the land necessary for the project, a favourable ruling is awaited from the municipality following confirmation of site compatibility with the Municipal Zoning Plan.

Correspondingly, a visit, with municipal political leaders, was made to a similar installation located near a bathing zone, and henceforth awaiting the respective authorisation so that the project may advance, in accordance with any restrictions that the municipal authorities may establish, and reach agreement over the terrain and launch the tender for installation.

Energy Recovery Plants

The development of the two projects under consideration (in the north and south of the country) experienced serious delays over the course of 2010 due to the already detailed problems, the withdrawal of one institutional partner and the failure to update the tariff system in effect for the sale of energy to the national grid for co-generation installations.

Focus needs to be placed on the high levels of investment involved (around € 400 million). However, the projects were subject to the analysis of the respective ministry and awaiting, at the end of 2010, for the respective authorisation that ended up being issued in early 2011.

As regards feasible locations, the terrains initially identified in two industrial poles proved to contain levels of soil contamination with costs incompatible with the project and hence other locations need to be analysed.

Biomass Plants

In August 2010, AdP Energias, on the decision of AdP SGPS and the authorisation of DGEG, acquired the position of EGF in the MIESE consortium (AMMesquita, Isolux and EGF), thereby taking up a stake in Sociedade Miese - Vila Real Alijó. During the second half of 2010, one of the consortium partners was declared bankrupt, the company AMMesquita, with a bankruptcy administrator appointed to the company that ended up negatively impacting on the development of consortium projects.

In May 2010, MIESE had been awarded the adjudication of the Vila Verde Plant by the DGEG. However, the competitor classified in second place made recourse to legal action and challenged the adjudication with no definitive decision thus far having been reached.

In analysis of individual project viability, the consortium found that, given changes in the marketplace (with four years having lapsed since the launch of the public tender) and with the tariff in effect for the remuneration of electricity sold to the grid, such projects struggled to attain the characteristics compatible with viability. This conclusion was in line with all other groupings who had been awarded biomass plant concessions.

Correspondingly, negotiations were launched with other groupings and the state authorities over the need to raise the aforementioned tariff. At the end of November of 2010, a Council of Minister's Resolution served to change the tariff rates in effect for these projects.

Another approach to ensuring project viability was the MIESE consortium entering into discussions with another tender recipient for a plant located around 25 kilometres away over the potential merger of the two projects so as to obtain economies of scale on the investment to be undertaken and also to gain a significant reduction in operational costs.

The proposal was warmly accepted and now awaiting the publication of the legal diploma detailing the tariffs and hence updating the joint EVEF for the two plants and to submit the request for the merger of the two plants to the DGEG.

Supervisory aspects since the end of the year

It is assumed that 2011 shall represent the effective launch of AdP Energias projects in the field given the following decisions/publications in the meanwhile issued:

- In January 2011, a contract was signed for the supply and installation of the low temperature recovery unit, with an eight month deadline for completion;
- In January 2011, Decree Law 5/2011 was published and stipulating the review of the Z coefficient applicable to Forestry Biomass Plants;
- In February, the Ministers of State and Finance and of the Environment and Territorial Planning published a guiding dispatch for the construction of only one ERP, attributing AdP Group with responsibility for defining which would proceed;
- Also in February 2011, the Minister of the Environment and Territorial Planning sent to the Secretary of State for Treasury and Financing authorisation for the development of the Photovoltaic Concentration Project while nevertheless still awaiting final authorisation for setting up the Holding Company;
- In the month of March, the Government published the legal diploma regulating the mini-generation regime.

8.4. 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..

With activities aligned with the economic and environmental sustainability of the projects and missions engaged in, the main AdP Internacional guidelines are:

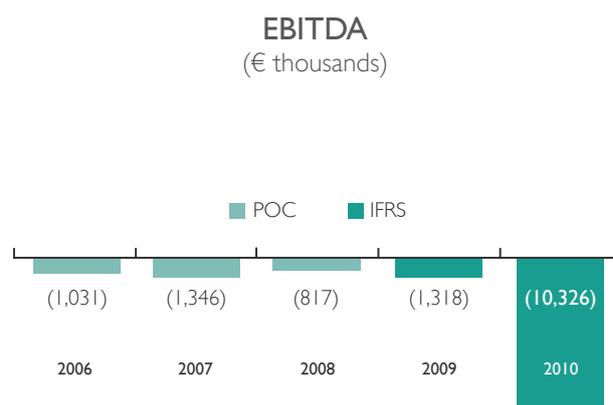
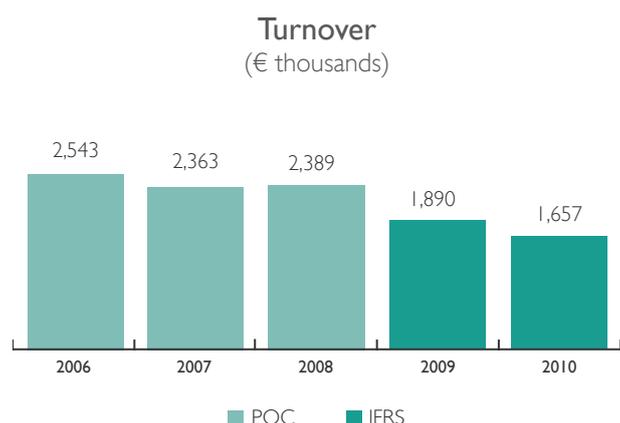
1. Consolidating existing projects, favouring expansion into new businesses in markets where already holding a significant presence or relevant experience.
2. Sustaining growth by attracting new business within a logic of investment risk minimisation and within a fee-based perspective.
3. Strengthening 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.

Economic and financial indicators

The economic and financial indicators presented reflect the essentially instrumental nature of AdPI, which carries out the transfer of the resources necessary either for the development of activities undertaken by its subsidiaries or its own direct development of projects when the group does not contain a company appropriate for implementing the respective international project.

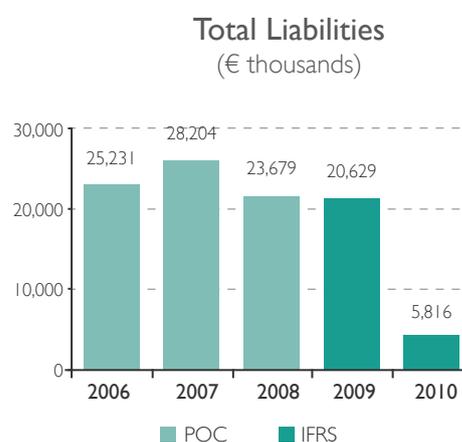
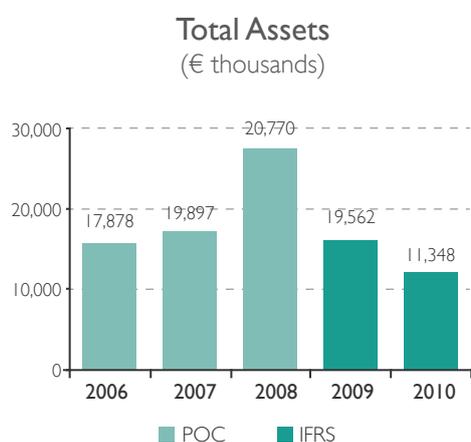
The turnover in 2010 verified a slight fall on 2009 due to the conclusion of an EPAL EP assistance project. This furthermore reflects on the results relating to new charitable projects, including the profile attained by DNAAS, for example.

The inability to release cash flow remained an issue, resulting from the existence of an imbalance between the current structural costs and the prevailing levels of ongoing activities. The worsening of the position derives from the reversion of provisions associated with Águas de Moçambique, following its disposal.



Net assets slid by approximately € -8.5 million euros (-43%), relating to the commercial debts at Águas de Moçambique and the advance payments granted and now removed from the accounts following the sale of the company.

AdPI saw its liabilities drop significantly, by around €15 million. This decrease essentially resulted from the reversion of the Águas de Moçambique provisions that had already been established.



Key Events

Brazil

There was continuity provided to the process of winding down AdB - Águas do Brasil, S.A. begun in the previous year.

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 presence in this market to the stake held in Aquatec.

This operation takes on particular relevance within the company's performance in 2010, reflected in the turning in of a positive result, an achievement in contrast to previous years.

Thus, 2010 saw an improvement in the AdeM performance brought about by the consolidation of the strategy designed to reach out to clients and the commitment to ensuring operational process quality.

Despite the organisational and conjunctural turbulence, in 2010 AdeM managed to consolidate its trajectory of steadily improving operational, economic and financial results.

Reflecting this improvement, we would highlight the hike in operational results to MZN 82.6 million, the attraction of over 10,000 new clients and a rise of around 20% in the rate of coverage that collectively contributed towards net operational results of MZN 33.8 million.

Aquatec

Following the strategic reorientation of group businesses in Mozambique, AdPI relaunched Aquatec activities in 2009, which has now become an instrumental company for the waste sector in Mozambique.

Throughout 2010, the company remained practically inactive as a result of difficulties emerging with EGF in the waste business and that restricted any approaches to new business.

Angola

In 2010, operational activities in the Angolan markets resulted from the signing of three new contracts with the National Directorate of Water Supply and Sanitation, of the Ministry for Energy and Waters, with the Ministry of the Environment and with the Municipal Authority of Kilamba Kiayi.

The technical assistance contract with the public company EPAL, EP ended in August 2010, after having continued to turn in the good results attained in previous years. At the end of the year, its future remained under negotiation with the prospects of continuation in still to be defined formats.

With the consolidation of the Angola subsidiary that in 2011 is expected to be renamed AdP Angola, there is a good outlook for new business in the water sector, especially deriving from the tenders launched under the auspices of PDISA – Programme for the Institutional Development of the Water Sector, with World Bank financing.

Perspectives

According to the strategy defined by the AdPI Board of Directors, the perspectives for the consolidation and development of new businesses in 2011 involve:

- Consolidating the group presence in the Angolan market. When the AdPI subsidiary is formally established, it should prove easier to establish partnerships with leading local companies and provide support for the development of new business projects. Within this rationale, the Angolan entity shall be renamed AdP Angola over the course of 2011;
- Remaining in the Angolan market, it may be expected that AdPI boosts its activities in 2011, especially through strengthening support provided at the level of 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 the PDISA - Programme for the Institutional Development of the Water Sector;

- AdPI activities in the Mozambican market may be expected to contract sharply following the sale of the stake in Águas de Moçambique to FIPAG confining the group's activities to Aquatec and remaining unknown any results of a new urban solid waste collection tender due to be launched in the first semester of 2011 by Maputo Municipal Council;
- The north of Africa, particularly Morocco, will be a focus of intensified contacts in the wastewater and urban solid waste treatment with the objective of signing technical assistance contracts;
- In Brazil, the consortium established by the Portuguese companies (AMAL and AdPI) and their Brazilian counterparts (COMBUSTOL and DSPAR) are to launch their commercial activities in the urban solid waste sector;
- In agreement with the strategy defined by the Board of Directors, the principles of economic and financial sustainability shall underpin all projects in which AdPI participates.

8.5 Shared Services

Shared Services (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 group, efficiently and at competitive prices, facilitating the generation of economies of scale, providing technologically advanced solutions, incorporating good management practices and guaranteeing the pursuit of the group's corporate aims.

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 BD 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 | Providing accountancy services to 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 to 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. | 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. |

Key activities and events

The year of 2010 was characterised by the implementation of a new AdP Group Shared Service relational model within the context of clarifying and strengthening the role of the Shared Service Centre within the AdP Group in accordance with strategic orientations handed down by AdP SGPS for this business unit.

This model, which seeks to consolidate long lasting partnerships between AdP Serviços, the respective Business Units (BU's) and company holdings, came into effect in April 2010 and has since driven a significant improvement in some key areas, in particular:

- Greater clarification in the services provided, their scope, responsibilities of parties in their respective development and the definition of service levels;
- Development of a relational platform - PACO - with the objective of monitoring services requested;
- Consolidation of the service evaluation model, with a particular focus on the evaluation of projects and reviewing the overall service evaluation procedures;
- Development of external communication bases, in particular the "+Serviços" bulletin with the objective of promoting AdP Serviços activities across group companies.

Activities were also developed within the terms of efficiency and procedures resulting from this new relational model with particular emphasis on adapting management process of which one example is the initiative to review the timekeeping application and improving reporting processes seeking to ensure more robust monitoring of operational performance.

Within this same context, efforts sought to boost the proximity between Business Units and AdP Serviços through promoting a strengthening of representation at the company Board of Directors level with the appointment of non executive directors from group BU's thus strengthening the already existing relationships.

Following the deep commitment of AdP Serviços to support studies for the negotiation of new partnerships between AdP and municipal authorities, the year of 2010 also saw monitoring of the launch of companies founded towards the end of 2009 and the merger processes in the meanwhile carried out. Within this scope, highlights from among the work carried out in adapting and implementing the already consolidated group processes include the implementation of ERP SAP, the implementation of institutional and commercial public relations campaigns and support for the contracting and management of group company human resources.

We would also point to the adoption of the International Financial Reporting Standards (IFRS) by group companies involved the significant involvement of AdP Serviços, both in terms of accountancy supervision of the conversion of accounts and the development of financial reports, notes and accounts for the group in accordance with this model as well as the development and setting of parameters for SAP and Magnitude.

Of the projects and initiatives undertaken by AdP Serviços management in 2010, we would highlight the following facts:

- Launch of preparations leading up to the launch of the public tender procedures for Fixed/Mobile Communications;
- Launch of the "Water Type Safety Plans" project;
- Implementation of optimisations in terms of biogas production and energy production from the sludge digestion phase at the Sul (Simria) wastewater treatment plant;
- Drafting of regulatory models for the provision of public supplies of clean water and wastewater treatment services;
- Implementation of SAP-BW across UNA-PD companies;
- Development of the awareness campaign "Water in the Tap", accompanying the events and protocol signing and the undertaking of institutional and internal communication and public relations campaigns.

Aquasis

The mission of Aquasis, Sistemas de Informação, S.A. is to develop and consolidate information technology systems able to:

- set up, promote and retail 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 urban 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 the operation and maintenance of basic sanitation infrastructures in Portugal. Aquasis, on the one hand, ensures the standardisation of company and management business procedures and, on the other hand, leverages synergies in the development of activities and 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 seventeen of 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 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 seven AdP Group companies with a further five due to install the system in the short term.

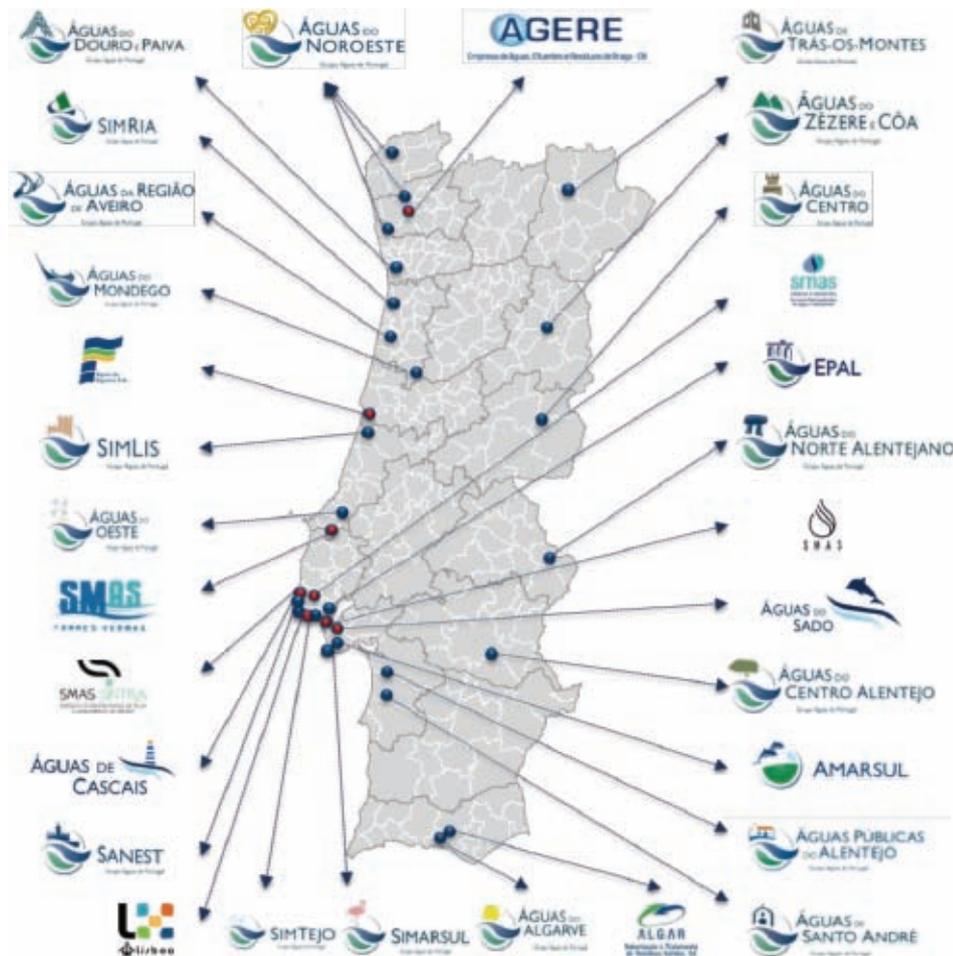
In the field of Automated Control and Communication Network Systems, Aquasis has been developing its activities in conjunction with AdP Group companies and the marketplace in general across various fields, including:

- 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.

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), and the collection of urban solid wastes from a multi-user perspective, designated by G/InterAqua (water and sanitation components) and G/InterAqua RSU (urban solid waste component). The SIG G/InterAqua solution currently represents, as the corporate AdP Group solution for its companies, unquestionably the most utilised SIG solution in Portugal at both water supply and wastewater sanitation system companies and management entities.

In the following figure, we set out the geographic distribution of the companies and management entities that deploy the SIG G/InterAqua solution within the national marketplace.



Beyond implementation in the Portuguese marketplace, the SIG G/InterAqua solution is now also under utilisation in the Spanish market. In fact, the SIG G/InterAqua was selected by EMALSA, Empresa Mixta de Águas de Las Palmas, S.A., as the information technologies management solution for its water supply and wastewater management structure and is now fully operational. EMALSA, S.A. is the concession holder for the municipal water supply and wastewater treatment system for the municipalities of Las Palmas de Gran Canaria and Santa Brígida, in Spain, supplying approximately 395,000 inhabitants and running a network extending over approximately 1,340 km.

Similarly, the company Aigües Ter Llobregat (ATLL) selected the SIG G/InterAqua solution for the management of its water supply infrastructures. ATLL is a public company founded in Gobierno de la Generalitat de Catalunya (under the auspices of Departamento de Medio Ambiente y Vivienda), with responsibility for the supply of water upstream to the city of Barcelona and the eight surrounding districts (Alt Penedès, Anoia, Baix Llobregat, Barcelonès, Garraf, el Maresme, Vallès Oriental and Vallès Occidental), thus supplying around 4,500,000 inhabitants belonging to over 100 municipalities as well as the range of industrial and service companies located within this region.

Furthermore, in the international market, it should be highlighted that Aquasis was responsible for the supply and installation of the SIG G/InterAqua solution at EPAL - Empresa Pública de Águas de Luanda, E.P., in Angola, and has been providing regular technical assistance services to its technical team.

More recently, based upon the SIG G/InterAqua solution, Aquasis developed, in partnership with ALGAR, Valorização e Tratamento de Resíduos Sólidos, S.A. (an AdP Group company responsible for the collection, recovery and treatment of solid waste in the Algarve region), a solution for the solid waste sector, designated the G/InterAqua RSU solution and also including the Desktop, Web and Mobility components.

The G/InterAqua RSU solution allies the characteristics of the SIG G/InterAqua solution to a motor for optimising the collection routes and a mobility component with navigation functions guaranteeing greater effectiveness and efficiency in undertaking collection activities with the consequent reduction in operational costs.

Given the significant number of management entities that have deployed Aquasis developed solutions, they now form a user community with shared interests, fostering synergies and the sharing of experiences and ideas that Aquasis seeks to foster and leverage.

The high level of implementation at basic sanitation infrastructural companies and management entities, necessarily associated with the commitment made towards the development of technologically innovative solutions gained due recognition and picking up international awards in the years of 2006, 2007 and 2009, under the auspices of the Registered Solutions Provider Awards, run by the Intergraph Corporation (<http://synergy.intergraph.com>), so as to award, on a global level, proven performance in the development and implementation of solutions based on Intergraph Corporation technologies as is the Aquasis case with the SIG G/InterAqua solution.

Finally, we should state that Aquasis, committed to the group business policy, has implemented a Corporate Responsibility System and since 2009 has been certified in accordance with the normative requirements of NP EN ISO 9001:2008 (Quality), NP EN ISO 14001:2004 (Environment), OHSAS 18001:2007 (Safety) and SA 8000:2008 (Social Responsibility). In advancing with Corporate Responsibility System implementation, Aquasis accepted the commitment to monitor existing processes and foster the continuous and systematic meeting of the needs and expectations of interested parties, with a particular focus upon its clients, in a socially responsible and environmentally sustainable fashion while foreseeing risks to employee health and safety.

9. Changes to accountancy norms

Adoption of the International Financial Reporting Standards (IFRS)

Decree Law no. 158/2009, of 13 July, approved the founding of a new normative system, designated as SNC (Accountancy Standardisation System), and correspondingly substituting the accountancy framework previously in effect. The application of SNC is compulsory for financial years on or after 1 January 2010 furthermore stipulating comparative information be produced for the 2009 financial year. This Decree Law furthermore sets out a set of circumstances, fully met by the Águas de Portugal (AdP) group, whereby companies may also adopt the International Financial Reporting Standards (IFRS), which were duly adopted by an AdP Group decision in alignment with the suggestion of its majority shareholder, Parpública, S.A.

Correspondingly, AdP - Águas de Portugal, SGPS, S.A. applied the IFRS norms for the 2010 financial year and carried out the restatement of its 2009 accounts (as from 1 January 2009), in accordance with the accountancy norms in effect for financial reporting on 31 December 2010.

The quantitative and qualitative impacts on results are presented in detail in note 5 of the annex to the financial reporting.

10. Future Perspectives

The presentation of future perspectives, given the prevailing circumstances, whether internationally, for the national economy or for the water and sanitation service sector in Portugal as well as for the AdP Group, represents an exceptionally difficult exercise.

The nuclear accident in Japan has reopened discussions around the nuclear option to the extent of forcing the early foreclosure of many older plants and bringing about the suspension of projects ongoing, with delays caused due to the need to review and re-evaluate their risks and even forcing their cancellation. Consequently, in the short term, we are witnessing a rise in fossil fuel prices (bad news both for the country and for its companies) and a recovery in the level of interest in renewable energies (good news for the group). The world economy is going to slow and the difficulties posed to weaker economies are going to rise. The Portuguese economy may be negatively impacted within this scenario.

While the national economy retains a negative outlook, to adopt the terminology in vogue at rating agencies, the difficulties in financial companies and the limits on debt levels contracted by the state owned sector are set to continue, restricting the implementation of projects in the portfolio and severely curtailing the opportunity to launch new projects however important such might be. New projects, new partnerships, new commitments to partners involving major financial commitments, as is indeed invariably the case, shall very probably have to await better days.

Nevertheless, the sector in Portugal continues to display many problems requiring resolution that may be summarised in three words: financing, efficiency, sustainability. There is a need to attract financial resources into the sector to complete still non-existent infrastructures able to boost the levels of coverage in addition to the rehabilitation and renovation of others. Furthermore, many management models, especially in the state sector, remain inefficient due to a lack of market competition and stimuli for efficiency (that ERSAR benchmarking in itself cannot overcome). Many operators remain unsustainable, including some within the AdP Group as has been made clear. These problems should be faced up to within the triennial now beginning and the AdP Group may, once again, be called upon to provide its input into their resolution. The question of deficits in the recovery of costs remains pending but should finally be approaching resolution.

The circumstances are now as diverse as they were at the end of 2006, when the new strategic plans, PEAASAR II and PERSU II, were approved for the sector. Decisions on new projects, particularly new multi-municipal systems and new partnerships with local government that have been subject to negotiations, are the responsibility of the national authorities that need to take all interests into account. This should very much take into consideration how the attainment of objectives set out in strategic plans, compliance with legal European Union objectives and the execution of the POVT may all be seriously jeopardised.

At the beginning of March 2011, the AdP SGPS Board of Directors presented to the authorities its Activity and Investment Plan, in compliance with Dispatch no. 896/10-SETF. This document sets out the project portfolio and the respective financing needs and the corresponding level of group indebtedness for the purpose of observing the limits set down in the Stability and Growth Program. The response provided to this proposal very much determines the agenda for the forthcoming mandate.

11. Final Considerations

The Board of Directors expresses its profound recognition to everybody who, directly or indirectly, contributed towards attaining the objectives of AdP Group in 2010, particularly:

- All the staff and employees of AdP SGPS and at all the group companies, for their competence, professionalism and dedication as demonstrated by the performance of their roles;
- To the managers of group companies for their commitment and the work undertaken and for their perseverance in overcoming the difficulties faced;
- To the municipalities, private partners and financial institutions, for the trust and cooperation shown in the development and consolidation of group companies;
- To members of the Table of the General Assembly, the Supervisory Board, the Statutory Auditor and the External Auditor, for the manner in which they have accompanied group activities;
- To the Shareholders, for their orientations, commitment, confidence and the support received;
- The regulatory authority, for the availability to cooperate in seeking out balanced solutions to the difficulties encountered in the course of concession contract management;
- The national and international official entities with which institutional relationships are ongoing, and especially the organisms coordinating, supervising and regulating the environmental sector;
- To the respective Ministers and other members of the offices of the Ministry of the Environment and Territorial Planning and the Ministry of Finance and Public Administration.

Lisbon, 15 March 2011

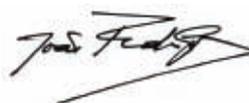
The Board of Directors



Pedro Eduardo Passos da Cunha Serra
(President)



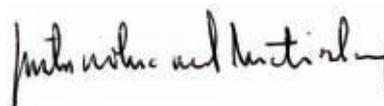
António Manuel da Silva Branco
(Member)



João Manuel Lopes Fidalgo
(Member)



José Maria Martins Soares
(Member)



Justino Manuel Matias Carlos
(Member)



Joaquim José de Oliveira Reis
(Non-executive Member)



José Fernando Maia de Araújo e Silva
(Non-executive Member)

12. Proposed Appropriation of Profit

AdP SGPS recorded a net profit for the financial year of 2010 that rose to € 27,343,552.00 (twenty-seven million, three hundred and forty-three thousand, five hundred and fifty-two euros).

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 Portuguese Company Code, proposes that the net profit for the financial year of 2010, as recorded in the individual financial statements, be applied as follows.

- To the Legal Reserve - € 1,367,177.60 (one million, three hundred and sixty-seven thousand, one hundred and seventy-seven euros and sixty cents);
- To the Carried Over Results - € 17,977,137.92 (seventeen million, nine hundred and seven-seven thousand, one hundred and thirty-seven euros and ninety-two cents);
- For distribution as dividends - € 7,999,236.48 (seven million, nine hundred and ninety-nine thousand, two hundred and thirty six euros and forty-eight cents).

Furthermore, the Board of Directors hereby proposes the distribution in dividends of the totality of the Free Reserves, in the amount of € 19,000,763.52 (nineteen million, seven hundred and sixty-three euros and fifty-two cents).

Lisbon, 15 March 2011

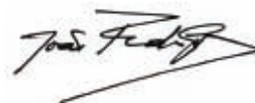
The Board of Directors



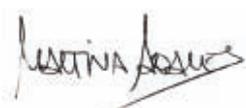
Pedro Eduardo Passos da Cunha Serra
(President)



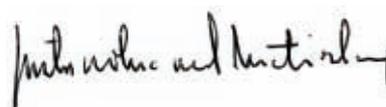
António Manuel da Silva Branco
(Member)



João Manuel Lopes Fidalgo
(Member)



José Maria Martins Soares
(Member)



Justino Manuel Matias Carlos
(Member)



Joaquim José de Oliveira Reis
(Non-executive Member)



José Fernando Maia de Araújo e Silva
(Non-executive Member)

13. Notes to the Annual Report

On the final day of the 2010 financial year, the equity capital of AdP - Águas de Portugal, SGPS, S.A. was held in its entirety by the following Shareholders:

| Shareholders | % | Number of shares | Amount (Eur) |
|---|---------------|-------------------|--------------------|
| Direcção 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 norms in effect, we would furthermore state that there are no outstanding debts to any State Public Sector.

C - Financial Statements for 2010







Separate Financial Statements

for the year ended 31 December 2010

Contents

| | |
|---|-----|
| Financial position statement | 121 |
| Income statement | 122 |
| Comprehensive income statement | 122 |
| Changes in total equity statement | 123 |
| Cash flow statement | 124 |
| Notes to the financial statements | 125 |
| 1. Economic activity of Águas de Portugal, S.G.P.S., S.A. | 125 |
| 1.1. Introduction | 125 |
| 1.2. Business activity | 125 |
| 1.3. Shareholders | 126 |
| 1.4. Approval of the financial statements | 126 |
| 2. Accounting policies | 126 |
| 2.1. Basis of accounting | 126 |
| 2.2. Financial holdings in subsidiaries and associated companies | 128 |
| 2.3. Foreign exchange | 130 |
| 2.4. Tangible fixed assets | 130 |
| 2.5. Intangible assets | 131 |
| 2.6. Investment properties | 131 |
| 2.7. Financial assets and liabilities | 131 |
| 2.8. Fair value hierarchy | 133 |
| 2.9. Derivatives and hedging | 133 |
| 2.10. Customers and other accounts receivable | 134 |
| 2.11. Cash and cash equivalents | 134 |
| 2.12. Impairment | 134 |
| 2.13. Equity | 135 |
| 2.14. Dividends payable | 135 |
| 2.15. Investment grants | 135 |
| 2.16. Provisions, assets and contingent liabilities | 135 |
| 2.17. Taxation | 135 |
| 2.18. Yield | 136 |
| 2.19. Own works | 136 |
| 2.20. Costs and losses | 136 |
| 2.21. Subsequent events | 136 |
| 3. Financial risk management policy | 137 |
| 3.1. Risk factors | 137 |
| 3.2. Credit risk | 137 |
| 3.3. Foreign exchange risk | 137 |
| 3.4. Liquidity risk | 138 |
| 3.5. Cash flow and fair value risk associated with interest rates | 138 |
| 3.6. Capital risk | 138 |
| 4. Estimates and judgements | 138 |
| 4.1. Provisions and adjustments | 139 |
| 4.2. Tangible and intangible assets | 139 |
| 4.3. Impairment | 139 |
| 4.4. Fair value of derivatives | 139 |
| 5. First time adoption of the IFRS | 139 |
| 6. Financial instruments (IFRS 7) | 141 |
| 7. Intangible assets | 142 |
| 8. Tangible fixed assets | 142 |
| 9. Financial investments | 143 |
| 10. Loans to group companies | 144 |
| 11. Other accounts receivable - non-current | 145 |
| 12. Customers | 145 |

| | | |
|-----|---|-----|
| 13. | Group companies | 146 |
| 14. | Other accounts receivable - current | 146 |
| 15. | Income tax of the year | 147 |
| 16. | Cash and cash equivalents | 148 |
| 17. | Total equity | 148 |
| 18. | Provisions | 149 |
| 19. | Loans | 149 |
| 20. | Derivatives | 150 |
| 21. | Suppliers | 151 |
| 22. | Other current liabilities | 151 |
| 23. | Sales and supply of services | 152 |
| 24. | External supplies and services | 152 |
| 25. | Staff costs | 153 |
| 26. | Depreciation of the year | 153 |
| 27. | Other operational costs | 154 |
| 28. | Other operational income and gains | 154 |
| 29. | Financial costs | 154 |
| 30. | Financial income | 154 |
| 31. | Transactions with related entities | 156 |
| 32. | Assets and contingent liabilities | 156 |
| 33. | Legally required information | 157 |
| 34. | Legal disputes and contingencies | 157 |
| 35. | Subsequent events | 157 |

Financial Position Statement

Unit: euros

| | Notes | 2010 | 2009 |
|--|-------|----------------------|----------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 7 | 1,509,319 | 1,509,319 |
| Tangible fixed assets | 8 | 28,017 | 44,999 |
| Financial investments | 9 | 731,291,204 | 708,163,888 |
| Loans to group companies | 10 | 224,551,800 | 179,821,330 |
| Other accounts receivable | 11 | - | 32,135,362 |
| | | 957,380,339 | 921,674,898 |
| Current assets | | | |
| Customers | 12 | 7,078,827 | 7,435,040 |
| Group companies | 13 | 36,194,848 | 38,246,118 |
| Other accounts receivable | 14 | 11,088,908 | 28,623,772 |
| Tax of the year | 15 | - | 2,485,491 |
| Cash and cash equivalents | 16 | 144,744,618 | 143,233,353 |
| | | 199,107,201 | 220,023,774 |
| Total Assets | | 1,156,487,540 | 1,141,698,672 |
| TOTAL EQUITY | | | |
| Share Capital | 17 | 434,500,000 | 434,500,000 |
| Adjustments in capital holdings in affiliates and associated companies | 17 | 27,638,892 | 29,934,672 |
| Free reserves | | 19,000,764 | - |
| Legal reserves | 17 | 10,163,283 | 7,867,715 |
| Retained earnings | 17 | (39,246) | (2,688,283) |
| Net income of the year | 17 | 27,343,552 | 46,264,622 |
| Total Equity | | 518,607,244 | 515,878,725 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Provisions | 18 | 7,818,454 | 7,818,454 |
| Bank loans | 19 | 597,772,414 | 599,017,132 |
| Derivatives | 20 | 14,914,691 | 9,334,823 |
| | | 620,505,559 | 616,170,409 |
| Current liabilities | | | |
| Bank loans | 19 | 4,581,657 | 290,771 |
| Suppliers | 21 | 834,637 | 1,149,254 |
| Tax of the year | 15 | 3,870,432 | - |
| Other current liabilities | 22 | 8,088,011 | 8,209,512 |
| | | 17,374,737 | 9,649,537 |
| Total Liabilities | | 637,880,296 | 625,819,946 |
| Total Liabilities and Total Equity | | 1,156,487,540 | 1,141,698,672 |

Lisbon, 15 March 2011

The Board of Directors

Pedro Eduardo Passos da Cunha Serra (Chairman)
 António Manuel da Silva Branco (Member)
 João Manuel Lopes Fidalgo (Member)
 José Maria Martins Soares (Member)
 Justino Manuel Matias Carlos (Member)
 Joaquim José de Oliveira Reis (Non-Executive Member)
 José Fernando Maia de Araújo e Silva (Non-Executive Member)

The Statutory Accountant

Carla Isabel Costa Pinto Ribeiro

Income Statement

Unit: euros

| | Notes | 2010 | 2009 |
|---|-------|-------------------|--------------------|
| Supply of services | 23 | 9,412,493 | 8,062,266 |
| Turnover | | 9,412,493 | 8,062,266 |
| External supplies and services | 24 | (6,392,949) | (7,592,901) |
| Staff costs | 25 | (4,461,916) | (6,573,797) |
| Amortization of the year | 26 | (16,981) | (20,029) |
| Provisions of the year | 18 | - | (5,365,582) |
| Other operational costs | 27 | (386,455) | (530,964) |
| Other operational income and gains | 28 | 2,104,835 | 3,263,146 |
| Operational income | | 259,027 | (8,757,861) |
| Financial costs | 29 | (26,169,035) | (25,594,657) |
| Financial income | 30 | 53,479,198 | 80,936,049 |
| Current income | | 27,569,190 | 46,583,531 |
| Income before taxes | | 27,569,190 | 46,583,531 |
| Income tax of the year | 15 | (225,638) | (318,909) |
| Net income of the year | | 27,343,552 | 46,264,622 |
| Earnings per share (basic and diluted) | 17 | 0.31 | 0.53 |

Comprehensive income statement

| | Notes | 2010 | 2009 |
|-------------------------------|-------|-------------------|-------------------|
| Net income of the year | | 27,343,552 | 46,264,622 |
| Foreign exchange differences | | - | 2,305,998 |
| Comprehensive income | | 27,343,552 | 48,570,620 |

Lisbon, 15 March 2011

The Board of Directors

Pedro Eduardo Passos da Cunha Serra (Chairman)
 António Manuel da Silva Branco (Member)
 João Manuel Lopes Fidalgo (Member)
 José Maria Martins Soares (Member)
 Justino Manuel Matias Carlos (Member)
 Joaquim José de Oliveira Reis (Non-Executive Member)
 José Fernando Maia de Araújo e Silva (Non-Executive Member)

The Statutory Accountant

Carla Isabel Costa Pinto Ribeiro

Changes in total equity statement

Unit : euros

| | Shareholder Equity | Ajust. Capit. Hold. | Legal Reserves | Free Reserves | Retained Earnings | Net Income | Total |
|--|-----------------------|------------------------|-------------------|-------------------|----------------------|-------------------|--------------------|
| Balances at 31 December 2008 - OPA | 434,500,000 | 44,163,779 | 4,718,934 | - | (48,817,514) | 62,975,614 | 497,540,813 |
| IFRS Adjustments : | - | - | - | - | - | - | - |
| Fair value of derivatives | - | - | - | - | (13,163,823) | - | (13,163,823) |
| Foreign exchange update | - | - | - | - | (7,142,860) | - | (7,142,860) |
| Cancellation of provisions | - | - | - | - | 1,073,975 | - | 1,073,975 |
| Reclassification of capital holdings adjustments | - | - | - | - | - | - | - |
| Balances at 31 December 2008 - IFRS | 434,500,000 | 44,163,779 | 4,718,934 | - | (68,050,222) | 62,975,614 | 478,308,105 |
| Foreign exchange effect (affiliates) | - | 2,305,999 | - | - | - | - | 2,305,999 |
| Creation of revaluation reserves (affiliates) | - | (16,535,106) | - | - | 16,535,106 | - | - |
| Distribution of income of 2008 | - | - | 3,148,781 | - | 59,826,833 | (62,975,614) | - |
| Dividend distribution | - | - | - | - | (11,000,000) | - | (11,000,000) |
| Net income of 2009 | - | - | - | - | - | 46,264,622 | 46,264,622 |
| Balances at 31 December 2009 | 434,500,000 | 29,934,672 | 7,867,715 | - | (2,688,283) | 46,264,622 | 515,878,725 |
| Offsetting of foreign exchange differences | - | (1,500,262) | - | - | 1,500,262 | - | - |
| Other adjustments | - | - | - | - | - | - | - |
| Creation of revaluation reserves (affiliates) | - | (795,518) | - | - | 795,518 | - | - |
| Distribution of income of 2009 | - | - | 2,295,568 | 19,000,764 | 24,968,291 | (46,264,622) | - |
| Dividend distribution | - | - | - | - | (24,615,034) | - | (24,615,034) |
| Net income of 2010 | - | - | - | - | - | 27,343,552 | 27,343,552 |
| Balances at 31 December 2010 | 434,500,000 | 27,638,892 | 10,163,283 | 19,000,764 | (39,246) | 27,343,552 | 518,607,244 |

Lisbon, 15 March 2011

The Board of Directors

Pedro Eduardo Passos da Cunha Serra (Chairman)
 António Manuel da Silva Branco (Member)
 João Manuel Lopes Fidalgo (Member)
 José Maria Martins Soares (Member)
 Justino Manuel Matias Carlos (Member)
 Joaquim José de Oliveira Reis (Non-Executive Member)
 José Fernando Maia de Araújo e Silva (Non-Executive Member)

The Statutory Accountant

Carla Isabel Costa Pinto Ribeiro

Cash flow statement

Unit: euros

| | 2010 | 2009 |
|--|---------------------|---------------------|
| Operational activities | | |
| Flows generated by operations | | |
| Accounts receivable - customers | 32,311,856 | 30,539,359 |
| Payments to suppliers | (7,419,788) | (11,627,574) |
| Payments to staff | | |
| Wages | (2,518,064) | (3,308,226) |
| Personal income tax | (1,128,662) | (1,230,267) |
| Social security | (1,009,941) | (1,160,017) |
| Other | (50,821) | (59,371) |
| Flows generated by operations | 20,184,579 | 13,153,904 |
| Other flows before extraordinary items | | |
| (Payable)/receivable income tax and VAT | (1,826,901) | 126,937 |
| Other receivables/(payments) related to operating activity | 43,519,606 | 10,920,931 |
| Flows before extraordinary items | 41,692,704 | 11,047,868 |
| Total operating activities (1) | 61.877.284 | 24.201.772 |
| Investment activities | | |
| Income from: | | |
| Financial investments | 136,055,420 | 180,605,400 |
| Tangible fixed assets | - | 1,750 |
| Intangible assets | - | - |
| Investment grants | - | 16,402 |
| Interest and similar income | 7,463,876 | 6,275,460 |
| Dividends | 30,209,501 | 30,787,350 |
| Subtotal | 173,728,797 | 217,686,362 |
| Payments related to: | | |
| Financial investments | (193,848,817) | (164,362,066) |
| Tangible fixed assets | - | - |
| Intangible assets | - | (82,098) |
| Subtotal | (193,848,817) | (164,444,164) |
| Total investment activities (2) | (20,120,019) | 53,242,199 |
| Financing activities | | |
| Income from: | | |
| Loans obtained | - | 3,000,000 |
| Subtotal | - | 3,000,000 |
| Payments related to: | | |
| Loans obtained | - | (7,000,000) |
| Repayment of financial leasing agreements | (21,772) | (38,768) |
| Interest and similar costs | (18,394,365) | (27,992,226) |
| Dividends | (26,120,748) | (10,854,438) |
| Subtotal | (44,536,885) | (45,885,431) |
| Total investment activities (3) | (44,536,885) | (42,885,431) |
| Changes in cash and cash equivalents (1 + 2 + 3) | (2,779,620) | 34,558,539 |
| Effects of foreign exchange differences | - | - |
| Cash and cash equivalents at the start of the period | 142,942,582 | 108,384,044 |
| Cash and cash equivalents at the end of the period | 140,162,962 | 142,942,582 |

Lisbon, 15 March 2011

The Board of Directors

Pedro Eduardo Passos da Cunha Serra (Chairman)
 António Manuel da Silva Branco (Member)
 João Manuel Lopes Fidalgo (Member)
 José Maria Martins Soares (Member)
 Justino Manuel Matias Carlos (Member)
 Joaquim José de Oliveira Reis (Non-Executive Member)
 José Fernando Maia de Araújo e Silva (Non-Executive Member)

The Statutory Accountant

Carla Isabel Costa Pinto Ribeiro

Notes to the financial statements

I. Economic activity of Águas de Portugal, S.G.P.S., S.A.

I.1. Introduction

AdP - Águas de Portugal, SGPS, S.A. (henceforth also referred to as AdP or the Company) was established on 29 September 1993, head office at Rua Visconde Seabra nº3 in Lisbon. AdP's main business involves managing capital holdings, as an indirect form of performing economic activities.

I.2. Business activity

AdP was established in 1993, having been given the responsibility for developing in Portugal multi-municipal systems for catchment, treatment and distribution of water for public consumption and collection, treatment and disposal of urban wastewater. In 1996, the Company's mission became broader, initiating a diversification process in terms of business segments and geographically broadening its work to the segment of water distribution and wastewater collection from the populations served in the domestic and international markets. In 2000, within the scope of the strategic guidelines for consolidating the main business group within the area of environment, AdP began to fully own Empresa Geral do Fomento, S.A (henceforth also known as EGF), and via this company controlled its affiliates, which were given the responsibility of developing multi-municipal systems for collecting and treating solid urban waste. Cabinet Resolution no. 72/2004 of 16 June, which defined the broad strokes for a model to restructure the water sector in Portugal, redefining the strategic positioning of AdP Group, focused on conclusion of the basic sanitation infrastructures cycle and instrumental in the aforementioned corporate restructuring of the sector. The AdP Group was thus instructed to undertake its business activity in core areas and dispose of or autonomize other areas. In March 2005, the Program of the 17th Constitutional Government emphasized the contribution of the AdP Group to the national challenge involved in improving the environmental infrastructures and their respective management in order to attain service levels similar to those of developed countries, ahead of a strategy for the corporate water and waste sector alternative to that which results from Cabinet Resolution no. 72/2004. The formulated guidelines point to a consolidation of this corporate group, equipped with the conditions to ensure development of environmental public policy for the sector in areas such as water supply, sanitation and waste treatment, notwithstanding establishment of strategic partnerships that help improve its response capacity, develop national capacities and structure investments, taking into account the targets of the Water Supply and Wastewater Sanitation Strategic Plan (PEAASAR) and the Municipal Solid Waste Strategic Plan (PERSU). Joint Order no. 169/2006 from the Ministers of Finance, Public Administration, the Environment and Territorial Planning and Regional Development approved the recommendation to the AdP - Águas de Portugal, SGPS, S.A. Board of Directors regarding the company's mission during the current term in which the respective missions and guidelines are defined according to Business Unit. The prevalent business model at AdP Group is based on concession contracts established between the Portuguese State and each of the subsidiaries companies of the AdP Group, establishing the rules for operating and managing the respective multi-municipal systems within an exclusivity framework for a period of twenty-five to thirty years. These concessions establish the criteria for setting and approving the rates to be applied by the companies for each year, in order to ensure a suitable financial balance between the concessions, according to the following criteria:

- a) Ensure, within the concession period, amortization of the real initial investment amount incurred by the concessionaire, net of the contributions and non-recoverable grants;
- b) Ensure proper functioning, preservation and security of all property allocated to the concession, along with the scheduled replacement of this property;
- c) Provide for the necessary costs for efficient management of the system and the existence of income not derived from tariffs;
- d) Ensure payment of the operational costs of the Follow-up Committee, current regulating entity ERSAR (Regulating Entity for Water and Waste Services), as well as ensure proper yield on the concessionaire's total equity on the basis of the date on which the capital was paid up.

1.3 Shareholders

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

| Shareholders | % Capital | Subscribed Amount | N.º 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 |
| Direcção Geral do Tesouro (National Treasury) | 8.82% | 38,331,410 | 7,666,282 | Nominal |
| | 100.00% | 434,500,000 | 86,900,000 | |

1.4 Approval of the financial statements

These financial statements were approved by the Board of Directors on 15 March 2011. The Board of Directors is of the opinion that they accurately reflect the operations of AdP, in addition to its financial position and performance and its cash flow.

2. Accounting policies

The present financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the previous Standing Interpretations Committee (SIC), adopted by the EU and in force for financial years beginning 1 January 2010.

During the year ended 31 December 2009, AdP also published, for the last time, financial statements made in accordance with accounting principles generally accepted in Portugal (see note 5).

The most significant accounting policies used to prepare these financial statements are described below. These policies were applied consistently within the comparative periods, except when stated to the contrary.

2.1 Basis of accounting

The amounts stated, except when indicated to the contrary, are expressed in euros (EUR). AdP's financial statements were prepared on a historical cost basis, except with regard to derivatives, financial investments held for negotiation and recorded at the respective fair value. (market value). The preparation of financial statements in accordance with IAS/IFRS requires use of estimates and assumptions that affect the reported amounts of assets and liabilities, along with the amounts of income and costs reported during the reporting period. Although these estimates are based on a better understanding of management in relation to events and current actions, the results may ultimately differ from these estimates. However, management believes that the estimates and assumptions adopted do not incorporate the significant risks that may cause material adjustments in the amounts of the assets and liabilities during the course of the next financial year.

2.1.1 New norms and policy changes

The most significant changes resulting from first application of the IFRS/IAS are mentioned in note 5.

As a result of European Union (EU) endorsement, the following standards and interpretations were adopted to come into force as of 1 January 2010:

- IFRS 1 (Amendment) - First adoption of the IFRS. Establishes additional exceptions when adopting the IFRS for the first time, see note 5.
- IFRS 2 (Amendment) - Recording of payments based on shares, paid in cash in intragroup transactions. This amendment clarifies that the recording of situations in which an entity receives services or products from its employees in exchange for financial considerations paid by the parent company or another group company is processed in accordance with this standard. As a result of this amendment, IFRIC 8 - "IFRS 2 Scope" and IFRIC 11 - "IFRS 2 - Transactions of group shares and equity" were removed.
- IFRS 3 (Revised) - Concentrations of business activities. This revision brought significant changes in terms of measuring and recognizing concentrations of business activities conducted during financial years that begin on or after 1 July 2009, namely with regard to:

(a) measurement of non-controlled interests (previously referred to as minority interest);

- (b) recognition and subsequent measuring of contingent payments;
- (c) processing of direct costs related to concentration.

- IAS 27 (Amendment) - Consolidated and individual financial statements. The most significant changes are as follows:
 - transactions that result in changes in percentage of holdings that do not result in loss of control are recorded as total equity, and do not have any impact on goodwill, or on gains and losses; when control of a subsidiary is lost:
 - all amounts recognized in the comprehensive income for that subsidiary are fully transferred to gains and losses; the retained holdings are revalued to reflect fair value and this will be taken into account in the gain or loss recorded with its sale.
 - the partial reimbursement of a net investment in a foreign subsidiary ceases to result in the reclassification of the transfer of differences in total equity to gains and losses; the losses of a subsidiary are now distributed among the non-controlled interests (formerly known as minority interest) even if they exceed the holdings in the subsidiary. As a result of this amendment, the diluted earnings per share due to a loss will likely be equal to the basic earnings per share.
- IAS 39 (Amendment) - Financial instruments: recognition and measurement - eligible items covered.
- IFRIC 12 - Service concession agreements.
- IFRIC 15 - Building construction agreements.
- IFRIC 17 - Distributions of non-cash assets to owners.
- IFRIC 18 - Transfers of assets from customers.
- Other amendments to the IFRS - Year 2009. The annual IFRS improvement process seeks to deal with the resolution of situations that need to be improved in order to increase their general understanding, but are not classified as priorities. The IASB approved 15 amendments to 12 standards, some of which are the result of changes in accounting methods, while others are related to issues of terminology and consistency between standards, with minimum impacts. The European Union endorsed these amendments in March 2010. In terms of the process for improvements in 2008, the amendment to IFRS 5 (clarification regarding the treatment of a subsidiary held for sale) only came into force on 1 January 2010.

Finally, the provisions of the standards and interpretations that are obligatory only in the future were not adopted, and are as follows:

Already endorsed by the EU:

- IFRS 1 (Amendment) - Exceptions to disclosure of comparatives required by IFRS 7 upon adopting IFRS for the first time;
- IFRS 24 (Revised) - Transactions with related parties;
- IAS 32 (Amendment) - Clarification of issue rights;
- IFRIC 14 (Amendment) - Advances related to minimum financing requirements.
- IFRIC 19 - Extinction of financial liabilities with Total Equity instruments.

Not yet endorsed by the EU:

- IFRS 9 - Financial instruments (introduce new classification requirements and measurement of financial assets). This issue is part of a phased project of revision and gradual replacement of IAS 39 in order to reduce the complexity of its application; The main changes are the following in terms of classification and measurement:
 - the number of categories of financial assets has been reduced; the requirements for separating embedded derivatives have been eliminated;
 - reclassification restrictions have been eliminated; classification of assets is to follow the business model in which the assets are incorporated, also taking into account the characteristics of the instruments;
 - the differences in fair value in total equity instruments considered strategic are to be recorded under reserves without being included in results, even in situations of impairment or sale;

- Other IFRS amendments - 2010 improvements. The IASB approved 11 amendments to six standards. The European Union has not yet endorsed these amendments.

None of the standards described above (not adopted, and only mandatory in the future) are expected to have any relevant impact on the financial statements of AdP SGPS, S.A..

2.2 Financial holdings in subsidiaries and associated companies

Financial holdings are recognized on the AdP balance sheet on the date on which control or significant influence was obtained, or the date of negotiation or contracting, which is the date on which AdP agrees to acquire or sell the asset. During the transition, the financial holdings were recognized in accordance with the presumed cost or considered cost (paragraph 31, IFRS 1), i.e. at the value that was transposed from the financial statements prepared in accordance with the previous standards on that date, as an alternative to the acquisition cost.

Initially, financial holdings are recorded at acquisition cost accrued by directly attributable transaction costs.

These assets are written off when: **(i)** AdP's contractual rights expire upon reception of its cash flow; **(ii)** AdP has substantially transferred all risks and benefits associated with holding them; or **(iii)** notwithstanding holding part, but not substantially all risks and benefits associated with holding the assets, AdP has transferred control of the assets.

Dividends are recorded in results on the date on which they are declared.

The following are subsidiary companies:

| | Head Quarter | % Capital Holdings | Currency | Share Capital | Shareholder Equity | Net income of the year |
|--|--------------------------|--------------------|----------|---------------|--------------------|------------------------|
| UNA-PD | | | | | | |
| Águas do Algarve, S.A. | Faro | 54.44% | EUR | 29,230,875 | 36,753,404 | 5,134,632 |
| Águas do Centro Alentejo, S.A. | Évora | 51.00% | EUR | 5,000,000 | 1,839,104 | (837,823) |
| Águas do Centro, S.A. | Castelo Branco | 70.00% | EUR | 24,000,000 | 16,376,815 | (2,666,878) |
| Águas do Douro e Paiva, S.A. | Porto | 51.00% | EUR | 19,402,500 | 22,945,236 | 2,176,370 |
| Águas do Mondego, S.A. | Taveiro | 51.00% | EUR | 18,262,743 | 19,398,742 | 962,747 |
| Águas do Norte Alentejano, S.A. | Portalegre | 51.00% | EUR | 7,500,000 | (2,969,696) | (1,383,830) |
| Águas do Noroeste, S.A. | Barcelos | 56.66% | EUR | 52,428,327 | 41,268,134 | 1,048,096 |
| Águas do Oeste, S.A. | Óbidos | 51.00% | EUR | 29,733,970 | 23,161,142 | (780,624) |
| Águas de Santoto André, S.A. | Vila Nova de Santo André | 100.00% | EUR | 1,000,000 | 2,453,750 | 1,500,328 |
| Águas de Trás-os-Montes e Alto Douro, S.A. | Vila Real | 70.54% | EUR | 26,966,250 | 2,062,856 | (735,805) |
| Águas do Zêzere e Côa, S.A. | Guarda | 87.46% | EUR | 26,607,560 | 11,252,735 | 54,531 |
| AgdA - Águas Públicas do Alentejo, S.A. | Beja | 51.00% | EUR | 500,000 | 528,271 | 25,693 |
| Sanest, S.A. | Cascais | 51.00% | EUR | 11,000,000 | 33,116,954 | 1,180,827 |
| Simarsul, S.A. | Setúbal | 51.00% | EUR | 25,000,000 | 25,372,433 | (37,170) |
| Simdouro, S.A. | Vila Nova de Gaia | 51.00% | EUR | 5,596,579 | 5,552,072 | (44,507) |
| Simlis, S.A. | Leiria | 70.16% | EUR | 5,000,000 | (3,101,488) | (1,996,995) |
| Simria, S.A. | Aveiro | 67.72% | EUR | 16,258,219 | 15,162,462 | 3,337,954 |
| Simtejo, S.A. | Lisboa | 50.50% | EUR | 38,700,000 | 58,920,622 | 5,738,571 |
| UNR | | | | | | |
| Algar, S.A. | Faro | 56.00% | EUR | 7,500,000 | 9,712,645 | 136,014 |
| Amarsul, S.A. | Palmela | 51.00% | EUR | 7,750,000 | 11,225,547 | 30,150 |
| Empresa Geral do Fomento, S.A. | Lisboa | 100.00% | EUR | 56,000,000 | 85,734,653 | 3,493,593 |
| Ersuc, S.A. | Coimbra | 51.46% | EUR | 4,075,000 | 14,641,697 | 1,182,741 |
| Resiestrela, S.A. | Fundão | 62.95% | EUR | 3,532,835 | 4,696,674 | 630,202 |
| Resinorte, S.A. | Coimbra | 67.58% | EUR | 8,000,000 | 8,949,583 | (493,168) |
| Resulima, S.A. | Viana do Castelo | 51.00% | EUR | 2,500,000 | 2,876,316 | 535,325 |
| Suldouro, S.A. | Sermonde | 60.00% | EUR | 3,400,000 | 6,517,575 | 167,380 |
| Valnor, S.A. | Avis | 53.33% | EUR | 8,912,321 | 12,698,516 | 1,535,636 |
| Valorlis, S.A. | Leiria | 51.00% | EUR | 2,000,000 | 3,612,892 | 552,799 |
| Valorminho, S.A. | Valença | 51.00% | EUR | 900,000 | 1,366,264 | 179,324 |
| Valorsul, S.A. | S. João da Talha | 56.17% | EUR | 25,200,000 | 53,334,883 | 6,027,785 |
| UNA-DR | | | | | | |
| AdRA - Águas da Região de Aveiro, S.A. | Aveiro | 51.00% | EUR | 15,000,000 | 16,368,126 | 1,136,024 |
| EPAL | | | | | | |
| EPAL, S.A. | Lisboa | 100.00% | EUR | 150,000,000 | 506,107,841 | 45,887,092 |
| Internacional | | | | | | |
| AdP Internacional, S.A. | Lisboa | 100.00% | EUR | 175,000 | 5,532,574 | 8,501,365 |
| Águas do Brasil, S.A. | Rio de Janeiro - Brazil | 100.00% | BRL | 2,050,100 | (1,331,794) | |
| Águas de Moçambique, S.A.R.L. | Maputo - Mozambique | 73.00% | MZM | 31,200,000 | (522,652,964) | 33,798,747 |
| Aquatec, Lda. | Maputo - Mozambique | 100.00% | MZM | 2,476,580 | (35,827,467) | (2,567,665) |
| Corporative | | | | | | |
| AdP Serviços, S.A. | Lisboa | 100.00% | EUR | 50,000 | 2,594,745 | 647,602 |
| Aquasis, S.A. | Lisboa | 55.00% | EUR | 50,000 | 451,789 | 32,280 |
| Reciclamas, S.A. | Lisboa | 100.00% | EUR | 250,000 | 2,752,027 | (382,997) |

AdP, SGPS, S.A. holds entities that are classified as associated companies.

The following are associated companies:

| Companies | Head Quarter | % Capital Holdings | Share Capital |
|---|--------------|--------------------|---------------|
| Trevo Oeste, S.A. | Alcobaça | 35.00% | 1,236,085 |
| Clube de Golf das Amoreiras, S.A. (not operating) | Lisbon | 100.00% | 350,000 |
| Miese | Vila Real | 40.00% | 200,000 |
| Águas de Timor, S.A. (not operating) | Timor | 100.00% | 5,000 |

2.3 Foreign exchange

2.3.1 Functional and accounting currency

The items included in the AdP financial statements are measured in the currency of the economic environment in which the entity operates (functional currency). The AdP financial statements and respective notes are stated in euros, barring any explicit indication to the contrary.

2.3.2 Transactions and balances

Transactions in currencies other than the euro are converted in the functional currency at the exchange rates in force at the transaction dates. Foreign exchange gains or losses resulting from payment of transactions and conversion, at the rate applicable at the balance sheet date, of the monetary assets and liabilities stated in foreign currency are stated in the income statement, except when they relate to an extension of the investment in a foreign operation, in which case they will be deferred to total equity in accordance with IAS 21. Non-monetary elements valued at fair value are updated at the exchange rate as at the date when the fair value is determined, and the foreign exchange difference effect shall be recorded together with the change recorded in the fair value of said elements. The calculated foreign exchange differences are therefore recorded under income/loss of the year or under "Other reserves," according to the appropriate manner for recognizing gains or losses for the non-monetary element in question. Conversion of non-monetary elements valued at historic cost into the AdP functional currency is obtained by applying the foreign exchange rate in force at the transaction date.

2.3.3 Fixings used

The foreign exchange fixings used to convert transactions expressed in currency other than the euro or to update balances expressed in foreign currency, are as follows:

| Country | Currency | 31.12.2010 | | 31.12.2009 | |
|------------|-------------|------------|--------|------------|--------|
| | | average | final | average | final |
| Brazil | Real | 2.32 | 2.22 | 2.76 | 2.51 |
| Cape Verde | C.V. Escudo | 110.27 | 110.27 | 110.27 | 110.27 |
| Mozambique | Metical | 45.44 | 43.65 | 38.95 | 44.15 |
| Japan | Yen | 115.26 | 108.65 | 129.65 | 133.16 |
| U.S.A. | USD | 1.22 | 1.34 | 1.40 | 1.44 |

2.4 Tangible Fixed Assets

Tangible fixed assets are valued at cost, less all impairment losses, and depreciated in accordance with their estimated useful life. Expenses directly attributable to acquisition of the assets and their preparation for operation are considered at their balance sheet value.

Subsequent costs are included in the book value of the asset or recognized as separate assets, whatever the case may be, only when it is probable that economic benefits will ensue for the Company and the cost can be reliably measured. Depreciation of the assets shall be conducted over the course of the remaining useful life of the asset or until their next repair, whichever occurs first. The replaced component of the asset is identified and recorded under income/loss.

Financial charges related to loans obtained for financing the investment in progress are fully capitalized until they are made available for use.

All other expenses related to repairs and maintenance are recorded as cost for the period in which they are incurred.

Depreciation of operational fixed assets is based on the estimated useful life as of the time they are ready to become operational. The depreciable value is obtained by deducting the expected residual value at the end of the estimated useful life.

Below the percentages of the estimated useful lives for tangible fixed assets:

| Nature | Maximum annual rate |
|-----------------------------------|---------------------|
| Buildings and other constructions | 4.00% |
| Basic equipment | 12.50% |
| Transportation equipment | 25.00% |
| Tools and utensils | 14.28% |
| Office equipment | 14.28% |

Land is not depreciated.

Depreciation of assets that are earmarked for sale shall be suspended and they shall become classified as held for sale.

Whenever there are indications of a loss of value in tangible fixed assets, impairment tests are conducted in order to estimate the recoverable value of the asset and, when necessary, record a loss due to impairment. The recoverable value is calculated as the higher value between the net sale price and the use value of the asset, the latter being calculated on the basis of the current value of future estimated cash flow, resulting from continued use and from the sale of the asset at the end of its useful life.

At the end of each financial year, the Board of Directors shall review the depreciation methods and the estimated useful lives of each asset in order to accurately reflect the patterns of consumption of the benefits of the assets during the years they are used by AdP. Any changes in these criteria shall be considered an accounting estimate change and subject to prospective application.

Gains or losses ensuing from the write-off or sale shall be calculated on the basis of the difference between the revenue from the sale and the book value of the asset, and shall be recorded as income or cost in the income statement.

2.4.1 Leasing

Leasing of assets, over which AdP substantially holds all risks and benefits related to ownership of the asset, are classified as financial leasing. Agreements in which the analysis of one or more particular situations of the contract points to this type of situation are also classified as financial leasing, this classification being made in accordance with the substance and not the form of the contract. Financial leasing is capitalized at the start of the lease at the lower value between the fair value of the leased asset and the present value of the minimum leasing payments - the responsibility recorded under Other long-term liabilities, net of financial charges. Assets acquired through financial leasing are depreciated by the lesser of either the useful life period of the asset or the term of the leasing agreement.

All other leases shall be classified as operational leases. Underlying payments are recorded as costs on a straight line basis during the lease period.

2.5 Intangible Assets

2.5.1 Other Intangible Assets

All other intangible assets (software development costs, intellectual property costs and other rights) are stated at their net cost of accumulated depreciation. These items are normally depreciated on a straight line basis for a period of three to ten years. Investments that increase the performance of software programs beyond their original specifications are added to the original cost of the software. Software implementation costs recognized as assets are depreciated on a straight line basis over their useful lives, namely 3 to 6 years. The corporate and trading systems of most of the group developed using SAP platforms are depreciated on a straight line basis over their useful lives of 10 years.

2.6 Investment properties

AdP investment properties include buildings owned for the purpose of receiving rental income, earning capital gains or both. Investment properties are initially valued at cost, including directly attributable transaction costs. After initial recognition, investment properties are valued at depreciated cost. Investment properties are written off when sold or when they are permanently removed from usage and no economic benefits are expected from their sale. Costs related to investment properties in use, namely maintenance, repair, insurance and taxes, are recognized as costs incurred during the year they pertain to. Improvements that are expected to generate additional future economic benefits are capitalized under the Investment property item.

2.7 Financial assets and liabilities

2.7.1 Classification of financial assets

AdP financial assets are classified under the categories identified below. Classification depends on the objective of acquisition of the investment and is determined at the time of initial recognition (trade date) of the investments and revalued at each subsequent reporting date. The Board of Directors classifies its investments at the acquisition date and reevaluates this classification on a regular basis. AdP classifies its financial assets under the following categories: **i)** loans and accounts receivable; **ii)** investments held until maturity; **iii)** investments valued at fair value under results (held for trading); **iv)** financial assets available for sale.

2.7.1.1 Loans and accounts receivable

These include non-derivative financial assets with fixed or definable receivables, for which there is no active market for quotes. These assets break down into two types: **(i)** assets originating from the normal course of operating activities and other associated services with no underlying intention to trade them; and **(ii)** investments made in companies with multi-municipal concessions, which according to the individual conditions of the underlying concession contracts, qualifies them as a granted loan that earns interest at a contracted rate.

Loans and accounts receivable are initially recorded at fair value and subsequently at amortized cost on the basis of the effective interest rate, less any impairment losses. Impairment losses are recorded on the basis of the estimate and assessment of the losses associated with doubtful debt at the balance sheet date, so that they reflect their net realizable value.

Impairment adjustments are recorded when there are objective indicators that AdP will not receive all amounts that are owed to it under the original terms of the established contracts. The following indicators are used to identify impairment situations: analysis of default; default for more than 6 months; financial difficulties of the debtor; probability of debtor bankruptcy.

When overdue amounts receivable from clients or other debtors have their terms renegotiated, they cease to be considered overdue and are considered new credits.

2.7.1.2 Investments held until maturity

Investments held until maturity are classified as non-current investments, except if their maturity is less than 12 months from the balance sheet date. This item includes investments with defined maturity, which AdP intends to and is capable of maintaining until this date. Investments held until maturity are recorded at amortized cost, less any impairment losses.

2.7.1.3 Financial assets valued at fair value under results

This category includes: **(i)** financial assets for trading that are acquired for the main purpose of short-term trading; **(ii)** financial assets identified at the time of their initial recognition at fair value with changes recognized under results.

This category includes derivatives that do not qualify for the purpose of calculating hedging.

Changes in fair value are directly recorded under results of the year under financial income. These assets are classified as current assets if they are held for sale or if they are expected to be realized within a period of 12 months after the balance sheet date.

2.7.1.4 Financial assets available for sale

Assets available for sale are non-derivative assets that: **(i)** the company intends to maintain for an indeterminate amount of time; **(ii)** are identified as available for sale when they are initially recognized; or **(iii)** do not fit into the aforementioned categories. They are stated as non-current assets, unless there is an intention to sell them during the 12 twelve months that follow the balance sheet date.

After individual recognition, the assets available for sale are recorded at fair value on the basis of their market value at the balance sheet date, without any deduction related to transaction costs that may occur up until their sale. The respective changes in fair value are recognized directly as shareholder capital under "Fair value reserve" until the assets are written off or an impairment loss is identified, when the accumulated amount of potential gains and losses recorded under reserves is transferred to results. In the case of capital instruments, a significant or prolonged decrease in fair value below cost is crucial to determine the existence of impairment.

Capital instruments that are not holdings in affiliate companies, joint undertakings or associated companies are classified as financial assets available for sale, in accordance with IAS 39. If there is no market value these assets are maintained at acquisition cost, subject to impairment tests.

2.7.2 Financial liabilities

Financial liabilities are classified according to terms of their contract, regardless of the legal form they take on. IAS 39 - Financial instruments: recognition and valuation provides for classification of financial liabilities into two categories: **(i)** financial liabilities at fair value under results; **(ii)** other financial liabilities. Other financial liabilities include loans obtained, suppliers and other accounts payable.

2.7.2.1 Financial liabilities valued at fair value under results

Financial liabilities at fair value under results include non-derivative liabilities with the aim of selling in the short term and derivative financial instruments that do not qualify for hedging purposes and classified as such during their initial recognition.

Gains and losses resulting from a change in the fair value of liabilities valued at fair value under results are recognized under results for the period.

2.7.2.2 Bank loans

Loans are initially recognized at fair value less transaction costs and then valued at amortized cost. Any difference between the issue value (net of transaction costs) and the nominal value is recognized under results during the period in which the loans exist, in accordance with the effective interest method. Loans obtained are classified under current liabilities, except if AdP possesses an unconditional right to defer payment of liabilities by at least 12 months after the balance sheet date, and in such cases it is classified under non-current liabilities.

2.7.2.3 Suppliers and other accounts payable

Balances of suppliers and of the accounts payable are initially recorded at their nominal value, which is understood to be their fair value, and subsequently recorded at amortized cost, in accordance with the effective interest rate. Financial liabilities are written off when the underlying obligations are extinguished following payment, are cancelled or expire.

2.8 Fair value hierarchy

Financial assets and liabilities of AdP valued at fair value are classified according to the following fair value hierarchy levels stipulated in IFRS 7:

Level 1: fair value of financial instruments is based on the quotes of the liquid markets active at the balance sheet date. This level essentially includes capital instruments, debt (e.g. NYSE Euronext) and futures quoted on active markets;

Level 2: the fair value of financial instruments is not based on active markets, but rather on the basis of valuation models. The main inputs of the models used can be observed on the market. This level includes, for instance, over-the-counter derivatives; and

Level 3: the fair value of financial instruments is not based on active market quotes, but rather on the basis of valuation models whose main inputs are not observable on the market.

The table listing financial assets and liabilities at fair value classified according to level is included in Note 6.2.

2.9 Derivatives and hedging

AdP Group, through its holding company, uses derivatives with the sole purpose of managing the financial risks it is exposed to. In accordance with its financial policies, AdP does not use derivatives for speculation purposes. Even though the derivatives used by AdP are effective instruments for hedging risks, not all of them qualify as hedging instruments under the rules and requirements of IAS 39. Instruments that do not qualify as hedging instruments are recorded in the balance sheet at fair value and its changes are recorded under financial results. Whenever available, the fair value of derivatives is estimated on the basis of quoted instruments. In the absence of market prices, the fair value of derivatives is estimated using the discounted cash flow method and options valuation models, in accordance with generally accepted market principles. Derivatives are recognized on their trade date at fair value. Subsequently, the fair value of derivatives is revalued on a regular basis, and the ensuing gains or losses of this revaluation are recorded directly under results for the period, except with respect to hedging derivatives. Recognition of changes in the fair value of hedging derivatives depends on the nature of the hedged risk and the hedging model used.

Hedging

Hedging is used whenever there is a relationship between the hedged element and the hedging instrument whenever the following conditions exist:

- i) at the date of the start of the hedging relationship, the latter is identified and formally documented;
- ii) it is expected that the hedging relationship will be highly effective, at the date of the start of the transaction (prospectively) and over the course of the operation (retrospectively);
- iii) for cash flow hedging operations, it must be highly probable that they will occur;
- iv) hedging is valued on an ongoing basis and considered to have been highly effective during the entire financial reporting period for which the hedging was used.

At 31 December 2009 and 2010 although hedging derivatives existed, the bureaucratic requirements under IAS 39 that allow them to be classified as hedging instruments are not present.

2.10 Customers and other accounts receivable

The balances of customers and other accounts receivable are values that are to be received from the sale of goods or services rendered to the Group during the normal course of its activities. They are initially recorded at fair value and are subsequently valued at amortized cost, in accordance with the effective interest rate method, less impairment losses.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits, other short-term investments with high liquidity and initial maturities of up to three months and bank overdrafts, without significant risk of changing in value. Bank overdrafts are stated in the balance sheet under current liabilities in the Loans item, and are also considered in when drafting the cash flow statements.

2.12 Impairment

2.12.1 Impairment of financial assets

At each balance sheet date, AdP SGPS analyzes whether there is objective evidence that a financial asset or group of financial assets has been impaired.

Financial assets available for sale

In the case of financial assets classified as available for sale, a prolonged or significant decline in the fair value of the instrument below its cost value is considered to be an indicator that the instruments have been impaired. If there is similar evidence in relation to financial assets classified as available for sale, the accumulated loss - measured as the difference between acquisition cost and current fair value, less impairment losses for the financial asset that have already been recognized under results - it is removed from total equity and recognized in the income statement. Impairment losses on capital instruments recognized under results are not reversed through the income statements.

Customers, debtors and other financial assets

Impairment loss adjustments are recorded when there are objective indicators that AdP SGPS will not receive all amounts that it was entitled to under the original terms of the established contracts. When identifying impairment situations, various indicators are used, such as the following: **(i)** analysis of default; **(ii)** default for more than 3 months; **(iii)** financial difficulties of the debtor; **(iv)** probability of debtor bankruptcy.

The adjustment for impairment losses is determined by the difference between the recoverable value and the balance sheet value of the financial asset and is recorded under results of the year. The balance sheet value of these assets is reduced to the recoverable value via an adjustments account. When an amount receivable from customers and debtors is considered unrecoverable, it is written off using the adjustments account for accumulated impairment losses. Subsequent recovery of amounts that have been written off are recorded under results. When overdue amounts receivable from customers or other debtors have their terms renegotiated, they cease to be considered overdue and are considered new credits.

2.12.2 Impairment of non-financial assets

AdP SGPS assets are analyzed at the date of each balance sheet in order to detect any impairment losses. If there is any indication of this, the recoverable value of the asset is assessed. For goodwill and other intangible assets with undefined useful life, the recoverable value is assessed annually at the balance sheet date. The recoverable value is determined for AdP SGPS assets for which there are indications of potential impairment losses. Whenever the book value of an asset or the unit that generates cash where the asset is inserted exceeds the recoverable amount, it is reduced up until the recoverable amount, and this impairment loss is recognized under results of the year.

AdP SGPS conducts an impairment analysis for cash generating units with a business activity that has begun less than a certain time ago (2 to 3 years). However, when the respective businesses have not yet attained sufficient maturity, impairment losses are recognized when there are unequivocal indicators that recoverability is considered remote.

Determination of the recoverable amount of assets

The recoverable amount of medium and long-term receivables is equal to the current value of future expected receivables, using the effective interest rate implicit in the original operation as a discount factor. For the remaining assets, the recoverable amount is the highest between the net sale price and its use value. In determining the use value of an asset, future estimated cash flow is discounted using a rate of discount before taxes that reflects current market valuations of the time value of money and the specific

risks of the asset in question. The recoverable amount of the assets that do not generate independent cash flows by themselves is determined in conjunction with the cash generating unit in which the assets are inserted.

Reversal of impairment losses

An impairment loss recognized in a medium and long-term receivable amount shall only be reversed if the justification for the increase in the respective recoverable amount pertains to an event that has occurred after the date on which the impairment loss was recognized. An impairment loss recognized in relation to goodwill shall not be reversed. Impairment losses related to other assets are reversed whenever there are changes in the estimates used to determine the respective recoverable amount. Impairment losses are reversed up until the value, net of amortizations, that the asset would have had if the impairment loss had not been recognized.

2.13 Equity

Ordinary shares are classified as total equity. Costs directly attributable to the issue of new shares or options are stated in total equity as a deduction, net of taxes, at the issued amount.

2.14 Dividends payable

Dividends are recognized as liabilities when declared.

2.15 Investment grants

Investment grants are recognized when there is reasonable certainty that the subsidy will be received and that AdP will comply with obligations related to receiving it. Investment grants related to acquiring and/or constructing tangible and/or intangible assets are included in non-current liabilities and are credited in the income statement using the same method that is used to amortize the underlying assets.

The other grants are deferred and recognized in the income statement during the same period of the costs they are supposed to offset.

2.16 Provisions, assets and contingent liabilities

Provisions are only recognized when there is an underlying obligation, resulting from past events, which may require allocation of internal resources to pay, and whose amount can be estimated reliably. Whenever any of the criteria is not met, or the existence of the obligation is conditional upon the occurrence (or non-occurrence) of certain future event, AdP shall state such fact as a contingent liability, unless the assessment of the requirement for outflow of resources for payment of this obligation is considered remote. When there is a high number of similar obligations, the probability of generating an outflow of internal resources is determined jointly. The provision is recognized even if the probability of outflow of internal resources regarding an element included in the same class of obligations is low.

Underlying obligations that result from onerous contracts and valued as provisions. An encumbered contract exists when the Company is an integral part of the provision of an agreement contract whose compliance has associated costs that unavoidably exceed the future economic benefits derived from them.

Provisions are measured at present value, at the balance sheet date, on the basis of the best estimate of the Board of Directors regarding the expense necessary to fulfil the obligation. The discount rate used to determine the present value reflects the current market expectation for the discount period and for the provision risk in question.

There are no provisions recognized for future operational losses.

Contingent assets and liabilities

Contingent assets and liabilities are not recognized in the financial statements, but are disclosed in the attached notes. In cases where the possibility of an outflow of resources that incorporate economic benefits is remote, or if the influx of economic benefits is not likely, the respective contingent liabilities or contingent assets are not disclosed.

2.17 Taxation

Income tax for the period includes current taxes and deferred taxes. Income tax is recorded in the income statement, except when related to items that are recognized directly under shareholder equity. The amount of current tax payable is determined on the basis of income before taxes, adjusted according to tax regulations.

Deferred taxes are recognized using the balance sheet liability method, considering the temporary differences resulting from the difference between the tax base of assets and liabilities and their values in the financial statements. Deferred taxes that result from initial recognition of an asset or liability during a transaction that is not a business concentration, which at the transaction date does not affect the accounting or tax result, are not recorded. Deferred taxes are recognized to the extent that it is likely that future taxable profits will be available for use of the temporary difference, or when reversal of a deferred tax is expected for the same time period for the same tax authority.

Deferred taxes are calculated on the basis of the applicable tax rate or the already officially communicated rate, at the balance sheet date which is expected to be applicable on the date of realization of the deferred taxes or on the payment date of the deferred tax liabilities. The differences that may ensue from expected changes in the rates that will be applied to the taxable temporary differences are recognized in the income statement.

Deferred taxes are recognized in terms of temporary differences originated by investments in subsidiaries and associated companies, except when AdP is able to control the time of reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the near future.

Deferred taxes are recorded under net income or "Other reserves" according to the recording of the transaction or event that was at their origin.

2.18 Yield

Yield includes the fair value of the sale of goods and the supply of services, net of taxes and deductions.

2.18.1 Interest

Interest yield is recognized on the basis of the effective tax rate and is recorded during the respective period, on an accruals basis of accounting.

When a receivable is adjusted due to impairment, AdP reduces its accounting value to its recoverable value; however, future estimated cash flow continues to be discounted at the initial effective interest rate (before impairment) and the settlement of the discount continues to be considered interest income.

2.18.2 Dividends receivable

Dividends shall be recognized when the shareholder's right is recognized, which generally occurs by decision of the General Shareholders Meeting of the subsidiary or the associated company.

2.19 Own works

The cost of resources directly attributable to intangible and tangible assets are recognized during their development/construction phase when it has been concluded that they will be recovered via realization of those assets. Capitalized financial costs and some staff costs may be significant. They are measured at cost, and therefore recognized without any margin on the basis of internal information especially prepared for that purpose (internal costs) or on the basis of the respective purchase costs accrued by other underlying costs. Capitalized costs are directly recorded in the balance sheet and not in the income statement, and are stated in the notes to the accounts whenever applicable.

2.20 Costs and losses

Costs and losses are recorded during their respective year, regardless of when they are paid or received, in accordance with the accruals framework (accruals basis of accounting).

2.21 Subsequent events

Events occurring after the balance sheet date that offer additional information on the conditions that existed at the balance sheet date are reflected in the financial statements. Events occurring after the balance sheet date that offer additional information on the conditions that will occur after the balance sheet date, if material, are reflected in the notes to the financial statements.

3 Financial risk management policy

3.1 Risk factors

AdP activities are exposed to a variety of financial risk factors: credit risk, liquidity risk and cash flow risk associated with interest rates. AdP Group has developed and implemented a risk management program that, together with the ongoing monitoring of the financial markets, seeks to minimize the potentially adverse effects on the financial performance of AdP and its affiliates. Risk is managed by the central treasury department on the basis of policies approved by the Administration. The treasury identifies, assesses and executes operations in view of minimizing financial risks in strict cooperation with the operating units of AdP Group. The Board of Directors provides principles for managing risk as a whole and policies that cover specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivatives, other non-structured instruments and the investment of excess liquidity. The Board of Directors is responsible for defining general principles for managing risk and exposure limits. All operations conducted with derivatives require prior approval from the Board of Directors, which defines the parameters of each operation and approves the formal documents that describe their objectives.

3.2 Credit risk

Credit risk is essentially related to the risk of one of the counterparties failing to fulfil its contractual obligations, resulting in a financial loss for AdP. AdP is subject to credit risk in its operating, investment and treasury activities.

Credit risk related to operations is essentially related to credits from services rendered to clients. This risk is low given the characteristics of the service rendered, with no significant credit risk from one particular client, because receivables come from a high number of clients.

Impairment adjustments for accounts receivable are calculated taking into account the following: **i)** the client risk profile, depending on whether we are dealing with residential or corporate clients; **ii)** the average reception time period, which differs from business to business; and **iii)** the financial condition of the client. Because of the dispersion of clients, it is not necessary to consider an additional credit risk adjustment, other than the impairment already recorded in accounts receivable - customers.

The following table illustrates the maximum exposure of AdP to credit risk (not including client balances and other debtor balances) at 31 December 2010, without taking into account any held collateral or other credit improvements. For balance sheet assets, the defined exposure is based on its book value, as reported on the face of the balance sheet.

| Bank financial assets | 31.12.2010 |
|------------------------------|--------------------|
| Demand deposits | 1,533,538 |
| Term deposits | 142,970,000 |
| | 144,503,538 |

| Rating | 31.12.2010 |
|---------------|--------------------|
| A2 | 244,226 |
| Aa2 | 1,148,719 |
| Aa3 | 4,703 |
| A3 | 51,608,242 |
| Aa2 | 68,657 |
| A1 | 9,047,345 |
| Baa3 | 17,631,647 |
| A2 | 64,750,000 |
| | 144,503,538 |

Note: rating obtained from the websites of financial institutions in February 2011.

3.3 Foreign exchange risk

AdP's exposure to foreign exchange risk is not relevant. Even so, and taking into account investment in Mozambique, AdP is somewhat exposed to foreign exchange risk. This risk is based on future commercial transactions, recognized assets and liabilities, as well as liquid investments in foreign operations that did not take place or were not expressed in AdP's functional currency. AdP Group's

Treasury is responsible for managing AdP Group's net exposure in each foreign currency, centrally conducting swaps in view of minimizing recognized commercial risks, assets and liabilities. AdP holds investments expressed in foreign currency whose net assets are exposed to foreign exchange risk due to conversion, as well as financing in foreign currency exposed to foreign exchange risk. The foreign exchange risk related to net assets in foreign currency is managed by obtaining loans in the same currency and via swap loans that hedge against foreign exchange risk.

3.4 Liquidity Risk

Management of liquidity risk implies maintaining deposits at a reasonable level, the feasibility of consolidating floating debt through a suitable amount of credit and the ability to liquidate market positions. Because of the underlying business dynamic, the AdP treasury seeks to ensure the flexibility of floating debt, by maintaining the lines of credit available for this. AdP manages liquidity risk by obtaining and maintaining lines of credit and financing arrangements underwritten by national and financial institutions with high credit ratings that allow immediate access to funds.

The table below lists AdP's responsibilities according to contractual residual maturity periods. The amounts listed in the table are contractual cash flows, not discounted and payable in the future (without the interest that these liabilities are earning).

| 31.12.2010 | < 1 year | 1 to 5 years | > 5 years |
|---------------------------------|--------------------|---------------------|---------------------|
| Financing | 4,581,657 | - | 600,000,000 |
| Suppliers and other liabilities | 9,337,998 | - | - |

3.5 Cash flow and fair value risk associated with interest rates

AdP interest rate risk essentially ensues from contracting long-term loans. As such, loans obtained with interest calculated at variable rates expose AdP to cash flow risks, and loans obtained with fixed interest rates expose AdP to the fair value risk associated with the interest rate. AdP manages cash flow risk associated with interest rates via swaps that allow conversion of loans with interest calculated at a variable rate to loans with interest calculated at a fixed rate. The guaranteed yield from concession contracts is also associated with the volatility of interest rates and consequently the tariff deficit.

3.6 Capital risk

AdP's goal in terms of managing capital, which is a broader concept than the capital stated on the face of the balance sheet, is to maintain an optimized capital structure via prudent use of debt that will allow it to reduce the cost of capital.

The goal of capital risk management is to safeguard the continuity of group operations with adequate shareholder earnings and generating benefits for all interested third parties.

| | 31.12.2010 | 31.12.2009 |
|---------------------------|--------------------|--------------------|
| Non-current loans | 597,772,414 | 599,017,132 |
| Current loans | 4,581,657 | 290,771 |
| Deposits | (144,744,618) | (143,233,353) |
| Debt total | 457,609,452 | 456,074,550 |
| Total equity | 518,607,244 | 515,878,730 |
| Capital | 976,216,697 | 971,953,280 |
| Debt/total capital | 0.47 | 0.47 |

4 Estimates and judgements

Estimates and judgements that have an impact on the financial statements of AdP are continually assessed, representing the Administration's best estimate at the date of each report, taking into account the historical performance, accumulated experience and expectations regarding future events that, under the circumstances in question, are believed to be reasonable. The intrinsic nature of the estimates can cause the real effect of the situations that had been the target of the estimate to differ from the estimated amounts for the purpose of the financial report. Estimates and judgements that pose a significant risk of causing material adjustment in the book value of assets and liabilities over the course of the financial year are as follows:

4.1 Provisions and adjustments

AdP periodically analyzes all obligations that result from past events and which should be recognized or disclosed. AdP is a party to various court cases currently underway, and on the basis of its lawyers' opinions conducts a judgement regarding whether a provision should be established for these contingencies (note 18). Adjustments to accounts receivable are calculated essentially on the basis of the age of the accounts receivable, the risk profile of the customers and their financial situation. Estimates related to adjustments to accounts receivable differ from business to business.

The subjectivity involved in determining the probability and amount of outflow of internal resources necessary to fulfil obligations may lead to significant adjustments, whether by changes in these criteria or by future recognition of provisions previously disclosed as contingent liabilities.

4.2 Tangible and intangible assets

Determination of useful lives of the assets and the depreciation method are essential to ascertain the amount of depreciation and amortization to be recognized in the income statement.

These two parameters were defined in accordance with the Administration's best estimate for the assets and businesses in question; however, they may be changed if international practice in the sector for identical situations points to a different benchmark.

4.3 Impairment

Determination of a possible loss due to impairment can be sparked by the occurrence of various events, many of which are outside AdP's sphere of influence, such as the future availability of financing, the cost of capital or maintaining the current regulatory structure of the market, as well as other changes inside and outside AdP. Identification of impairment indicators, estimated future cash flow and the determination of the fair value of assets (or group of assets) imply a high level of judgement by the Administration as regards identifying and assessing various impairment indicators, expected cash flow, applicable discount rates, useful lives and residual values. In the specific case of AdP, the impairment indicators change with the growth in the infrastructure network, expected tariff changes or current strategies of AdP stakeholders, which together with the other factors may lead to changes in the standard or amount of future cash flows.

At the balance sheet date, it is our opinion that there is no likely occurrence of any situation of impairment in the reported assets. If subsequent to the assessment currently underway there should be evidence of any impairment, the respective balance sheet value of the asset shall be adjusted under results of the year. In addition to the aforementioned uncertainties, there are also some judgement areas whose impact is reflected in the financial statements. Although we do not expect that they will cause a material change in the following year, they may still change the criteria or the assessment undertaken by AdP's Administration.

4.4 Fair value of derivatives

The fair value of financial instruments that not have an active market is determined on the basis of valuations that reflect the mark-to-market valuation of these instruments. AdP uses its own judgement to select the valuation techniques and criteria to use for valuation of the contracted derivatives at the date of financial reporting.

5 First time adoption of the IFRS

Under its articles of association, AdP, SGPS prepared its financial statements in accordance with the Official Plan of Accounts (OPA), which was eliminated in 31 December 2009. As of 1 January 2010, AdP, SGPS has adopted the IFRS as the standards for preparing and reporting its financial information. Below, reconciliations between total equity and income for the comparative period, prepared in accordance with the OPA, along with an explanation of the more significant changes.

| | | 31.12.2009 | 01.01.2009 |
|---|-------------|---------------------|---------------------|
| Total equity | OPA | 534,758,177 | 497,540,813 |
| Presumed cost - cancellation of the equity method | | (44,808,302) | - |
| Presumed cost - adjustment of the dividends value | | 31,238,347 | - |
| Presumed cost - other adjustments | | 1,040,597 | - |
| Fair value of derivatives | | (5,929,623) | (13,163,823) |
| Foreign exchange updating of debts | | (1,494,447) | (7,142,860) |
| Cancellation of provisions | | 1,073,975 | 1,073,975 |
| Total adjustments | | (18,879,453) | (19,232,708) |
| Total equity | IFRS | 515,878,725 | 478,308,105 |

| | | 31.12.2009 |
|---|-------------|-------------------|
| Net income | OPA | 45,911,366 |
| Presumed cost - cancellation of the equity method | | (44,808,302) |
| Presumed cost - adjustment of the dividends value | | 31,238,347 |
| Presumed cost - other adjustments | | 1,040,597 |
| Fair value of derivatives | | 7,234,200 |
| Foreign exchange updating of debts | | 5,648,414 |
| Cancellation of provisions | | - |
| Total adjustments | | 353,256 |
| Net income | IFRS | 46,264,622 |

Adjustments

a) Presumed cost - cancellation of the equity method

Capital holdings held by AdP, under IFRS 1 and IAS 27, are now valued at presumed cost, i.e. at the book value of the previous standard (OPA) at the date of the transition (1 January 2009). As such, the effect of the equity method used in 2009 was cancelled.

b) Presumed cost - adjustment of the dividends value

Capital holdings held by AdP, under IFRS 1 and IAS 27, are now valued at presumed cost, i.e. at the book value of the previous standard (OPA) at the date of the transition (1 January 2009). As such, the effect of the dividends received in 2009 was cancelled, recorded under results.

c) Presumed cost - other adjustments

Financial holdings held by AdP, under IFRS 1 and IAS 27, are now valued at presumed cost, i.e. at the book value of the previous standard (OPA) at the date of the transition (1 January 2009). As such, other adjustments made to financial holdings in 2009 were cancelled.

d) Fair value of derivatives

AdP uses swaps to mitigate foreign exchange and interest rate risk. In accordance with the previous standard, these swaps were not relevant to the accounts, and were only stated in the notes to the accounts. Under the IFRS, these swaps are recorded on the balance sheet at fair value under results.

e) Foreign exchange updating

Under the IFRS, it was determined that one of the financing operations was obtained in a currency different from the one that AdP uses. Accordingly, a foreign exchange update was made to this responsibility. It should be pointed out that AdP has used an exchange rate swap operation to offset the foreign exchange effect.

f) Cancellation of provisions

One of the provisions created in the previous standard did not consider all of the requirements stipulated in IFRS 37 and thus for the purposes of IFRS was reversed on the transition date.

Reclassifications

a) Reclassification of Corporate Income Tax (IRC)

Under IAS 1, the value of IRC receivable or payable must be stated on the face of the balance sheet. As such, the amounts that used to be included under items related to the State and other public entities were separated and stated on a separate line.

b) Extraordinary income

Extraordinary income of 2009 was reclassified for the respective natures in the income statement and respective notes to the accounts.

6. Financial instruments (IFRS 7)

6.1 Per IAS 39 category

| | Loans and accounts receivable (assets) | Assets at fair value under results | Liabilities at amortized cost | Liabilities at fair value under results | Total | Others not classified as financial instruments | Balance sheet total 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 | - | 731,291,204 |
| Loans to group companies | 224,551,800 | - | - | - | 224,551,800 | - | 224,551,800 |
| Other accounts receivable | 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 | - | 2,227,586 | - | - | 2,227,586 | (2,227,586) | - |
| Tax of the year | - | - | - | - | - | - | - |
| Cash and cash equivalents | 144,744,618 | - | - | - | 144,744,618 | - | 144,744,618 |
| Total assets | 1,154,950,204 | 2,227,586 | - | - | 1,157,177,790 | (690,250) | 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 of the 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 |

| | Loans and accounts receivable (assets) | Assets at fair value under results | Liabilities at amortized cost | Liabilities at fair value under results | Total | Others not classified as financial instruments | Balance sheet total at 31.12.2009 |
|---------------------------|--|------------------------------------|-------------------------------|---|----------------------|--|-----------------------------------|
| Intangible assets | - | - | - | - | - | 1,509,318 | 1,509,318 |
| Tangible fixed assets | - | - | - | - | - | 44,999 | 44,999 |
| Financial investments | 708,163,888 | - | - | - | 708,163,888 | - | 708,163,888 |
| Loans to group companies | 179,821,330 | - | - | - | 179,821,330 | - | 179,821,330 |
| Other accounts receivable | 60,759,134 | - | - | - | 60,759,134 | - | 60,759,134 |
| Customers | 7,435,040 | - | - | - | 7,435,040 | - | 7,435,040 |
| Group companies | 38,246,119 | - | - | - | 38,246,119 | - | 38,246,119 |
| Derivatives | - | 2,477,311 | - | - | 2,477,311 | (2,477,311) | - |
| Tax of the year | - | - | - | - | - | 2,485,491 | 2,485,491 |
| Cash and cash equivalents | 143,233,353 | - | - | - | 143,233,353 | - | 143,233,353 |
| Total assets | 1,137,658,864 | 2,477,311 | - | - | 1,140,136,175 | 1,562,497 | 1,141,698,672 |
| Provisions | - | - | - | - | - | 7,818,454 | 7,818,454 |
| Bank loans | - | - | 599,307,903 | - | 599,307,903 | - | 599,307,903 |
| Derivatives | - | - | - | 9,334,823 | 9,334,823 | - | 9,334,823 |
| Suppliers | - | - | 1,149,254 | - | 1,149,254 | - | 1,149,254 |
| Other creditors | - | - | 8,209,512 | - | 8,209,512 | - | 8,209,512 |
| Total liabilities | - | - | 608,666,669 | 9,334,823 | 618,001,492 | 7,818,454 | 625,819,946 |

6.2 Fair value hierarchy

AdP, SGPS, S.A. assets and liabilities valued at fair value are classified according to the following fair value hierarchy levels stipulated in IFRS 7:

Level 1: fair value of financial instruments is based on the quotes of the liquid markets active at the balance sheet date. This level essentially includes capital instruments, debt (e.g. NYSE Euronext) and futures quoted on active markets;

Level 2: the fair value of financial instruments is not based on active markets, but rather on the basis of valuation models. The main inputs of the models used can be observed on the market. This level includes, for instance, over-the-counter derivatives; and

Level 3: the fair value of financial instruments is not based on active market quotes, but rather on the basis of valuation models whose main inputs are not observable on the market.

| | 31 December 2010 | | | 31 December 2009 | | |
|---|------------------|------------|---------|------------------|-----------|---------|
| | level 1 | level 2 | level 3 | level 1 | level 2 | level 3 |
| Financial assets at fair value under results | | | | | | |
| Derivatives | - | 2,227,586 | - | - | 2,477,311 | - |
| Financial assets at fair value under comprehensive income | | | | | | |
| Derivatives | - | - | - | - | - | - |
| Financial liabilities at fair value under results | | | | | | |
| Derivatives | - | 14,914,691 | - | - | 9,334,823 | - |
| Financial liabilities at fair value under comprehensive income | | | | | | |
| Derivatives | - | - | - | - | - | - |

7. Intangible assets

| | 31.12.2010 | 31.12.2009 |
|--------------------------------------|------------------|------------------|
| Intangible assets under construction | 1,509,319 | 1,509,319 |
| | 1,509,319 | 1,509,319 |

There were no changes in intangible assets in 2010.

8. Tangible fixed assets

| | 31.12.2010 | 31.12.2009 |
|--------------------------|---------------|---------------|
| Transportation equipment | - | - |
| Office equipment | 28,017 | 44,999 |
| Other tangible assets | - | - |
| | 28,017 | 44,999 |

| Gross Assets | 31.12.2009 | Additions | Sales and write-offs | Transf. | 31.12.2010 |
|--------------------------|----------------|-----------|----------------------|----------|----------------|
| Transportation 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 |

In 2010, the Company ceded the contractual position of three vehicles.

| Amortizations and Adjustments | 31.12.2009 | Appropriations | Cancellation/ Reversal | 31.12.2010 |
|-------------------------------|------------------|-----------------|------------------------|------------------|
| Transportation 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) |

| Gross Assets | 31.12.2008 | Additions | Sales and write-offs | Transf. | 31.12.2009 |
|--------------------------|----------------|-----------|----------------------|---------|----------------|
| Transportation equipment | 170,338 | - | (68,266) | - | 102,072 |
| Office equipment | 305,789 | - | - | - | 305,789 |
| Other tangible assets | 1,058 | - | - | - | 1,058 |
| | 477,185 | - | (68,266) | - | 408,919 |

| Amortizations and Adjustments | 31.12.2008 | Appropriations | Cancellation/ Reversal | 31.12.2009 |
|-------------------------------|------------------|-----------------|---------------------------|------------------|
| Transportation equipment | (170,338) | - | 68,266 | (102,072) |
| Office equipment | (240,761) | (20,029) | - | (260,790) |
| Other tangible assets | (1,058) | - | - | (1,058) |
| | (412,157) | (20,029) | 68,266 | (363,920) |

9. Financial investments

| | 31.12.2010 | 31.12.2009 |
|---|--------------------|--------------------|
| Financial investments in subsidiaries | 730,718,213 | 707,590,897 |
| Financial investments in associated companies | 572,991 | 572,991 |
| | 731,291,204 | 708,163,888 |

9.1 Changes during the period

| | 31.12.2010 | 31.12.2009 |
|--------------------------------|--------------------|--------------------|
| Initial balance | 708,163,888 | 691,250,052 |
| Capital increase | i) 18,443,180 | 1,855,400 |
| Establishment of new companies | ii) 3,442,500 | 6,630,000 |
| Share of losses | iii) 1,241,636 | 3,928,436 |
| Additional increases | - | 4,500,000 |
| Final balance | 731,291,204 | 708,163,888 |

i) In the 2010 financial year, AdP SGPS, S.A. conducted the following increases in capital:

| | 31.12.2010 |
|--|-------------------|
| Águas de Santo André, S.A. | 500,000 |
| Águas do Zêzere e Côa, S.A. | 13,000,000 |
| Simria, S.A. | 149,180 |
| AdRA - Águas da Região de Aveiro, S.A. | 1,275,000 |
| Simdouro, S.A. | 3,519,000 |
| | 18,443,180 |

ii) 2010 finally saw the end of the process to merge Águas do Ave, Águas do Minho e Lima and Águas do Cávado. This merger was conducted by creating a new Company known as Águas do Noroeste, with share capital totalling 52,428,326.50 euros. AdP SGPS, S.A.'s holding corresponds to the sum of the holdings that it had in the former companies, accrued by 3,442,500 euros, which was fully paid up in 2010, bringing AdP's stake to 56.66%.

iii) The amount of 1,241,636 euros corresponds to AdP SGPS, S.A.'s share of AdP Internacional's net loss in 2009.

9.2 Individual value of the holdings

| | 31.12.2010 | 31.12.2009 |
|--|--------------------|--------------------|
| EPAL, S.A. | 366,116,761 | 366,116,761 |
| EGF, S.A. | 60,651,531 | 60,651,530 |
| Águas de Trás-os-Montes e Alto Douro, S.A. | 28,284,126 | 28,284,126 |
| Águas do Centro, S.A. | 26,360,773 | 26,360,773 |
| Águas do Algarve, S.A. | 25,834,640 | 25,834,640 |
| Simtejo, S.A. | 24,636,148 | 24,636,148 |
| Águas do Minho e Lima, S.A. (a) | - | 20,796,047 |
| Simria, S.A. | 19,058,555 | 18,909,376 |
| Águas do Oeste, S.A. | 18,772,261 | 18,772,261 |
| Simarsul, S.A. | 16,792,440 | 16,792,440 |
| Águas do Zêzere e Côa, S.A. | 29,451,416 | 16,451,416 |
| Águas do Cávado, S.A. (a) | - | 13,661,963 |
| Águas do Mondego, S.A. | 11,170,388 | 11,170,388 |
| Águas do Douro e Paiva, S.A. | 10,891,901 | 10,891,901 |
| Águas do Ave, S.A. (a) | - | 10,368,265 |
| AdRA - Águas da Região de Aveiro, S.A. | 7,650,000 | 6,375,000 |
| Águas do Norte Alentejano, S.A. | 6,062,066 | 6,062,066 |
| Sanest, S.A. | 5,915,483 | 5,915,483 |
| Simlis, S.A. | 5,877,947 | 5,877,947 |
| AdP Energias, S.A. | 4,733,226 | 4,733,226 |
| Águas do Centro Alentejo, S.A. | 3,180,419 | 3,180,419 |
| AdP Internacional, S.A. | 4,349,381 | 3,107,745 |
| Águas de Santo André, S.A. | 2,298,412 | 1,798,412 |
| AdP Serviços, S.A. | 587,465 | 587,465 |
| AgdA - Águas Públicas do Alentejo, S.A. | 255,000 | 255,000 |
| Aquasis, S.A. | 100 | 100 |
| Simdouro, S.A. | 3,519,000 | - |
| Águas do Noroeste, S.A. (b) | 48,268,775 | - |
| Affiliates | 730,718,213 | 707,590,897 |
| Trevo Oeste, S.A. | 572,991 | 572,991 |
| Associate companies | 572,991 | 572,991 |
| | 731,291,204 | 708,163,888 |

(a) - Companies that merged in 2010, resulting in Águas do Noroeste, S.A. (b)

10. Loans to group companies

| | 31.12.2010 | 31.12.2009 |
|--|--------------------|--------------------|
| Simtejo, S.A. | 30,000,000 | 30,000,000 |
| Águas do Zêzere e Côa, S.A. | 20,000,000 | 29,812,530 |
| Águas do Cávado, S.A. | 20,000,000 | 20,000,000 |
| Águas do Minho e Lima, S.A. | 10,000,000 | 25,000,000 |
| Águas de Trás-os-Montes e Alto Douro, S.A. | 40,000,000 | 40,000,000 |
| Águas do Ave, S.A. | - | 35,000,000 |
| Águas do Algarve, S.A. | 50,000,000 | - |
| Simria, S.A. | 25,000,000 | - |
| Empresa Geral do Fomento, S.A. | 8,500,000 | - |
| AdRA - Águas da Região de Aveiro, S.A. | 21,000,000 | - |
| Águas do Brasil, S.A. | 51,800 | 8,800 |
| | 224,551,800 | 179,821,330 |

10.1 Changes during the period

| | 31.12.2010 | 31.12.2009 |
|---|--------------------|--------------------|
| Initial balance | 179,821,330 | 35,342,890 |
| Additional capital paid in (Águas do Cávado) | - | 20,000,000 |
| Additional capital paid in (Águas do Minho e Lima) | (15,000,000) | 25,000,000 |
| Additional capital paid in (Águas do Zêzere e Côa) | - | 29,812,530 |
| Reimbursement (Águas do Zêzere e Côa) | (9,812,530) | (5,342,890) |
| Additional capital paid in (Águas de Trás-os-Montes e Alto Douro) | - | 40,000,000 |
| Additional capital paid in (Águas do Ave) | (35,000,000) | 35,000,000 |
| Additional capital paid in (Águas do Algarve) | 50,000,000 | - |
| Additional capital paid in (Simria) | 25,000,000 | - |
| Additional capital paid in (AdRA - Águas da Região de Aveiro) | 30,000,000 | - |
| Additional capital paid in (AdRA - Águas da Região de Aveiro) | (9,000,000) | - |
| Additional capital paid in (Empresa Geral do Fomento) | 8,500,000 | - |
| Additional capital paid in (Águas do Brasil) | 43,000 | 8,800 |
| Final balance | 224,551,800 | 179,821,330 |

11. Other accounts receivable - non-current

| | 31.12.2010 | 31.12.2009 |
|--|-------------------|-------------------|
| Agrupamento DST/Criar Vantagens/Investhome | - | 6,187,852 |
| Águas de Guariroba | - | 25,947,510 |
| | - | 32,135,362 |

Other medium and long-term debtors and creditors in 2009 includes accounts receivable from Agrupamento DST/Criar Vantagens/Investhome due to the sale of Grupo Aquapor (amount to be paid in three instalments of 6,187,852 euros/year until 2011; at the end of 2009 and 2010, the corresponding instalments were paid, with the last one reclassified as short-term), as well as the outstanding amount from Águas de Guariroba from the sale of Prolagos in the amount of 26,785,868 euros (86,882,642 real), to be paid in four instalments of 21,720,661 real from 2010 to 2013 (at the start of 2010 the first instalment of 21,720,661 real was paid). At the start of 2010, AdP SGPS sold all of its accounts receivable from Águas de Guariroba to the bank and therefore received the amounts in advance.

12. Customers

| | 31.12.2010 | 31.12.2009 |
|--|-------------------|-------------------|
| Simtejo, S.A. | 37 | 549,008 |
| Águas do Noroeste, S.A. | 1,620,505 | 473,787 |
| EPAL, S.A. | 223,759 | 209,204 |
| Águas do Zêzere e Côa, S.A. | 577,615 | 1,000,930 |
| EGF, S.A. | 521,828 | 733,346 |
| Águas do Algarve, S.A. | 1,282,790 | 865,367 |
| Aquapor | 498,950 | 712,058 |
| Águas de Trás-os-Montes e Alto Douro, S.A. | 964,376 | 1,812,078 |
| Sanest, S.A. | 186,323 | 89,746 |
| Águas do Centro, S.A. | 44,636 | 266,150 |
| Águas do Mondego, S.A. | 261,308 | 42,048 |
| Águas do Centro Alentejo, S.A. | 225,153 | 22,970 |
| AgdA - Águas Públicas do Alentejo, S.A. | 304,592 | - |
| Simarsul, S.A. | 30,846 | 257,173 |
| Other client balances < 150,000 Eur | 336,109 | 401,174 |
| | 7,078,827 | 7,435,040 |

13. Group companies

| | 31.12.2010 | 31.12.2009 |
|--|-------------------|-------------------|
| AdP Serviços, S.A. | 4,587,464 | 5,000,000 |
| Águas do Noroeste, S.A. | - | 800,000 |
| Águas de Trás-os-Montes e Alto Douro, S.A. | - | 5,000,000 |
| Simria, S.A. | - | 5,000,000 |
| Águas do Oeste, S.A. | 5,000,000 | - |
| AgdA - Águas Públicas do Alentejo, S.A. | 5,000,000 | - |
| Águas do Algarve, S.A. | - | 10,000,000 |
| AdP Energias, S.A. | 1,200,000 | - |
| AdRA - Águas da Região de Aveiro, S.A. | 1,000,000 | 500,000 |
| Empresa Geral do Fomento, S.A. | 6,200,000 | 9,342,890 |
| Valorsul, S.A. | 4,500,000 | 1,500,000 |
| Águas de Santo André, S.A. | 2,567,532 | 1,103,228 |
| EPAL, S.A. | 6,139,852 | - |
| | 36,194,848 | 38,246,118 |

Group companies include various treasury supports.

In 2010, AdP SGPS began applying the Special Taxation Regime. This tax consolidation perimeter included the following companies: AdP SGPS, S.A., AdP Serviços, EPAL, EGF, AdP Internacional, Águas de Santo André, AdP Energias and AdP Imobiliária. Under this regime, the tax is paid by the parent company and the associated companies that are part of the tax consolidation are debtors or creditors of the amount of tax in proportion to their participation. Below, the accounts receivable of AdP SGPS at year end:

| | 31.12.2010 |
|----------------------|-------------------|
| AdP Serviços | 587,464 |
| Águas de Santo André | 1,557,035 |
| EPAL | 6,139,852 |
| | 8,284,351 |

14. Other accounts receivable - current

| | | 31.12.2010 | 31.12.2009 |
|---|------|-------------------|-------------------|
| Interest receivable | i) | 1,762,421 | 9,027,298 |
| Interest on term deposits | ii) | 537,505 | 246,895 |
| Bank charges | | 956,680 | 1,072,258 |
| Deferral of EIB financing charges | | 191,962 | 401,586 |
| Requested reimbursement - Cohesion Fund | | 726,207 | 726,207 |
| Participation in Management Boards | iii) | 506,439 | 351,983 |
| Other balances from other debtors | iv) | 6,407,694 | 16,797,545 |
| | | 11,088,908 | 28,623,772 |

- i) In 2009 this item included interest receivable from Águas de Guariroba (a company that acquired Prolagos) and interest receivable from Agrupamento DST/Criar Vantagens/Investhome from the sale of the Aquapor Group;
- ii) The increase in the deferral of interest from term deposits is due to the fact that the Company had made various deposits at end 2010, in contrast with 2009 when it made them over the course of the year;
- iii) The increase in deferral of the participation in management boards is strictly due to the fact that the wage committee minutes of the associated company Simdouro were drafted at the end of 2010, and the invoicing was not done until 2011, in the approximate amount of 159,000 euros;

iv) In 2009, Other debtors essentially included short-term amounts from debts from Águas de Guariroba (8,649,170 euros) and Agrupamento DST/CriarVantagens/Investhome (6,188,122 euros). 2010 includes only the last instalment owed by Agrupamento DST/CriarVantagens/Investhome.

15. Income tax of the year

| | 31.12.2010 | 31.12.2009 |
|---|--------------------|-------------------|
| Income before taxes | 27,569,190 | 46,583,531 |
| Dividends received | (30,116,770) | (31,238,347) |
| Other adjustments | 8,265,426 | 1,810,147 |
| Taxable amount (tax loss/profit) | 5,717,846 | 17,155,331 |
| Corporate income tax (IRC) 25% | - | - |
| Municipal surtax 1.5% | 178,714 | 257,330 |
| Normal charge | - | - |
| Itemized deductions | (5,717,846) | (17,155,331) |
| Collection of IRC and Municipal surtax (recoverable/payable) | 178,714 | 257,330 |
| Independent taxation | 46,925 | 61,579 |
| Current taxes | 225,638 | 318,909 |
| Payments on account | 948,574 | 58,013 |
| Withholding tax | 1,408,623 | 2,746,387 |
| Tax perimeter current tax | (6,001,991) | - |
| | (3,870,432) | 2,485,491 |

15.1 Deferred tax

| Item | Rate | 31.12.2009 | Contribution/ Correction | Use/ Reduction | 31.12.2010 |
|---------------------------------|--------|-------------------|-----------------------------|--------------------|-------------------|
| Deferred tax assets | | | | | |
| Provisions | | 5,365,582 | 2,452,872 | - | 7,818,454 |
| Losses carried forward | | 46,312,380 | (10,439,730) | (5,717,846) | 30,154,804 |
| Taxable amount | | 51,677,962 | (7,986,858) | (5,717,846) | 37,973,258 |
| Tax rate: | | | | | |
| Corporate income tax (IRC)... | 25.00% | 12,919,490 | (1,996,715) | (1,429,462) | 9,493,314 |
| Municipal surtax... | 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 assets | | - | - | - | - |
| Deferred tax liabilities | | | | | |
| Revaluations | | - | - | - | - |
| Capital gains reinvestment | | - | - | - | - |
| Other | | - | - | - | - |
| Taxable amount... | | - | - | - | - |
| Tax rate: | | | | | |
| Corporate income tax (IRC)... | 25.00% | - | - | - | - |
| Municipal surtax... | 1.50% | - | - | - | - |
| Deferred tax liabilities | | - | - | - | - |

| Item | Rate | 31.12.2008 | Contribution/ Correction | Use/ Reduction | 31.12.2009 |
|---------------------------------|--------------------|---------------------|-----------------------------|-------------------|------------|
| Deferred tax assets | | | | | |
| Provisions | - | 5,365,582 | - | 5,365,582 | |
| Losses carried forward | 114,524,055 | (51,056,344) | (17,155,331) | 46,312,380 | |
| Taxable amount... | 114,524,055 | (45,690,762) | (17,155,331) | 51,677,962 | |
| Tax rate: | | | | | |
| Corporate income tax (IRC)... | 25.00% | 28,631,014 | (11,422,691) | (4,288,833) | 12,919,490 |
| Municipal surtax... | 1.50% | - | 80,484 | - | 80,484 |
| Tax... | 28,631,014 | (11,342,207) | (4,288,833) | 12,999,974 | |
| Impairment... | 28,631,014 | 11,342,207 | 4,288,833 | 12,999,974 | |
| Deferred tax assets | - | - | - | - | |
| Deferred tax liabilities | | | | | |
| Revaluations | | - | - | - | - |
| Capital gains reinvestment | | - | - | - | - |
| Other | | - | - | - | - |
| Taxable amount... | - | - | - | - | - |
| Tax rate: | | | | | |
| Corporate income tax (IRC)... | 25.00% | - | - | - | - |
| Municipal surtax... | 1.50% | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | |

15.2 Tax losses

As stated in the table of the above note, there are temporary deductible differences (unused tax losses and unused tax credits) for which no deferred tax assets were recognized on the balance sheet because there was no certainty as to their recovery.

| Recoverable tax losses | 31.12.2010 | 31.12.2009 |
|------------------------|-------------------|-------------------|
| 2006 financial year | 3,055,370 | 19,212,947 |
| 2007 financial year | 27,099,433 | 27,099,433 |
| Total | 30,154,804 | 46,312,380 |

16. Cash and cash equivalents

| | 31.12.2010 | 31.12.2009 |
|-----------------------------|--------------------|--------------------|
| Demand deposits | 1,533,538 | 348,289 |
| Term deposits | 142,970,000 | 142,200,000 |
| Cash | 241,080 | 685,064 |
| | 144,744,618 | 143,233,353 |
| Bank overdrafts and similar | (4,581,657) | (290,771) |
| | 140,162,962 | 142,942,582 |

17. Total equity

17.1 Shareholders - Holders of share capital

| Shareholders at 31.12.2010 | % Capital | Subscribed Amount | N.º 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 |
| Direcção Geral do Tesouro (National Treasury) | 8.82% | 38,331,410 | 7,666,282 | Nominal |
| | 100.00% | 434,500,000 | 86,900,000 | |

At 31 December 2010, capital was fully subscribed and paid up, represented by 86,900,000 shares with a nominal value of 5 euros each.

There were no changes in shareholders and respective capital holdings from 2009 to 2010.

17.2 Earnings per share

| | 31.12.2010 | 31.12.2009 |
|---------------------------|-------------------|-------------|
| Net income of the year | 27,343,552 | 46,264,622 |
| Number of shares | 86,900,000 | 86,900,000 |
| Earnings per share | 0.31 | 0.53 |

18. Provisions

| | 31.12.2010 | 31.12.2009 |
|---|-------------------|------------------|
| Studies and projects (multi-municipal systems) | 1,218,799 | 1,218,799 |
| Responsibilities to subsidiaries and associated companies | 1,599,655 | 1,599,655 |
| Other responsibilities | 5,000,000 | 5,000,000 |
| | 7,818,454 | 7,818,454 |

18.1 Changes during the period

| | Studies and projects | Affiliates and associated companies | Other responsibilities | Total |
|------------------------------------|----------------------|-------------------------------------|------------------------|------------------|
| Balance at 31 December 2008 | 940,523 | 3,789,675 | 39,207 | 4,769,405 |
| Increases via operational income | 278,276 | 87,306 | 5,000,000 | 5,365,582 |
| Increases via financial income | - | 1,186,901 | - | 1,186,901 |
| Decrease via financial income | - | - | - | - |
| Provision reductions | - | (3,464,226) | (39,207) | (3,503,433) |
| Use of provision | - | - | - | - |
| Balance at 31 December 2009 | 1,218,799 | 1,599,655 | 5,000,000 | 7,818,454 |
| Increases via operational income | - | - | - | - |
| Provision reductions | - | - | - | - |
| Use of provision | - | - | - | - |
| Balance at 31 December 2010 | 1,218,799 | 1,599,655 | 5,000,000 | 7,818,454 |

19. Loans

| | 31.12.2010 | 31.12.2009 |
|-------------------------------------|--------------------|--------------------|
| Loans in foreign currency - JPY | 100,000,000 | 100,000,000 |
| Bond loans | 500,000,000 | 500,000,000 |
| Foreign exchange adjustment for JPY | 8,675,386 | 1,494,443 |
| Foreign exchange swap | (10,902,972) | (2,477,311) |
| Non-current loans | 597,772,414 | 599,017,132 |
| Short-term loans | - | - |
| Bank overdrafts | 4,581,657 | 290,771 |
| Current loans | 4,581,657 | 290,771 |
| Total loans | 602,354,071 | 599,307,903 |

19.1 Loan breakdown according to maturity

| | 31.12.2010 | 31.12.2009 |
|-------------------|--------------------|--------------------|
| Up to 1 year | 4,581,657 | 290,771 |
| 1 to 2 years | - | - |
| 2 to 3 years | - | - |
| 3 to 4 years | - | - |
| 4 to 5 years | - | - |
| More than 5 years | 600,000,000 | 600,000,000 |
| | 604,581,657 | 600,290,771 |

19.2 Loan breakdown according to interest rate

| Variable interest rate | 31.12.2010 | 31.12.2009 |
|-------------------------------|--------------------|--------------------|
| Up to 1 year | 4,581,657 | 290,771 |
| 1 to 2 years | - | - |
| 2 to 3 years | - | - |
| More than 3 years | 600,000,000 | 600,000,000 |
| | 604,581,657 | 600,290,771 |

| Fixed interest rate | 31.12.2010 | 31.12.2009 |
|----------------------------|--------------------|--------------------|
| Up to 1 year | - | - |
| 1 to 2 years | - | - |
| 2 to 3 years | - | - |
| More than 3 years | - | - |
| | 604,581,657 | 600,290,771 |

19.3 Lines of credit negotiated but not used

There are no lines of credit that have been negotiated but not used

19.4 Fair value of financing

| | Book value 31.12.2010 | Book value 31.12.2009 | Fair value 31.12.2010 | Fair value 31.12.2009 |
|--------------------|----------------------------------|--------------------------|----------------------------------|--------------------------|
| | 600,000,000 | 600,000,000 | 404,176,736 | 395,150,006 |
| Non-current | 600,000,000 | 600,000,000 | 404,176,736 | 395,150,006 |

The rates used in stating the fair value were 8.42% of 2010 and 7.21% for 2009.

20. Derivatives

| Swaps | Notional | 31.12.2010 | | 31.12.2009 | |
|---------------|-------------|-------------------|---------------------|------------------|--------------------|
| | | Assets | Liabilities | Assets | Liabilities |
| Exchange rate | 100,000,000 | 10,902,972 | | 2,477,311 | - |
| Interest rate | 100,000,000 | - | - | - | (2,072,199) |
| Interest rate | 150,000,000 | - | - | - | (2,395,328) |
| Interest rate | 50,000,000 | - | (7,487,000) | - | (4,250,000) |
| Interest rate | 75,000,000 | - | (6,031,461) | - | (617,296) |
| Interest rate | 50,000,000 | - | (1,132,470) | - | - |
| Interest rate | 50,000,000 | - | (263,760) | - | - |
| Total | | 10,902,972 | (14,914,691) | 2,477,311 | (9,334,823) |

Note: the foreign exchange swap operation is stated under non-current loans

The Group uses derivatives with the sole purpose of managing the financial risks it is exposed to. In accordance with its financial policies, AdP Group does not use derivatives for speculation purposes. Even though the derivatives used by AdP are effective instruments for hedging risks, not all of them qualify as hedging instruments under the rules and requirements of IAS 39. Instruments that do not qualify as hedging instruments are recorded in the balance sheet at fair value, and its changes are recorded under financial results.

Whenever available, the fair value of derivatives is estimated on the basis of quoted instruments. In the absence of market prices, the fair value of derivatives is estimated using the discounted cash flow method and determined by external entities, in accordance with valuation principles accepted by the market.

Derivatives are recognized on their trade date at fair value. Subsequently, the fair value of derivatives is revalued on a regular basis, and the ensuing gains or losses of this revaluation are recorded directly under results for the period, except with respect to hedging derivatives. Recognition of changes in the fair value of hedging derivatives depends on the nature of the hedged risk and the hedging model used.

21. Suppliers

| | 31.12.2010 | 31.12.2009 |
|---------------------------------|-------------------|-------------------|
| Suppliers c/a - domestic | 292,194 | 618,265 |
| Suppliers c/a - other countries | - | 8,653 |
| Suppliers c/a - Group companies | 542,443 | 518,466 |
| Fixed assets suppliers c/a | - | 3,870 |
| | 834,637 | 1,149,254 |

22. Other current liabilities

| | | 31.12.2010 | 31.12.2009 |
|---|------|-------------------|-------------------|
| Interest payable | i) | 2,749,360 | 2,434,345 |
| State and other public entities | ii) | 867,280 | 926,661 |
| Holidays and holiday pay | iii) | 531,566 | 743,878 |
| Bonuses | iv) | - | 491,022 |
| General charges and costs of AdP Serviços | | 416,602 | 316,832 |
| Receivable grants - Cohesion Fund | | 1,166,178 | 1,174,794 |
| Group companies | v) | 2,282,360 | 2,118,520 |
| Other creditors | | 74,666 | 3,460 |
| | | 8,088,011 | 8,209,512 |

i) The increase in interest payable is directly linked to the increase in market interest rates.

ii) The following are included under State payable:

| | 31.12.2010 | 31.12.2009 |
|--|-------------------|-------------------|
| Personal income tax withholding and other income | 72,731 | 87,100 |
| VAT | 721,786 | 752,384 |
| Social security | 71,700 | 85,662 |
| Other taxes | 1,063 | 1,515 |
| | 867,280 | 926,661 |

iii) The reduction of responsibilities related to holidays and holiday pay is explained by the fact that this responsibility is not considered for the Governing Bodies

iv) The change that occurred in this item stems from the fact that, because of legal requirements, bonuses will not be paid in 2011 pertaining to 2010; as such, no accrual was made;

v) The amount recorded under Group companies refers to the amount of tax that some Group companies will recover as a result of the tax consolidation process (Special Taxation Regime). Namely:

| | 31.12.2010 |
|-------------------------|-------------------|
| EGF, S.A. | 195,687 |
| AdP Internacional, S.A. | 1,965,484 |
| AdP Energias, S.A. | 121,189 |
| | 2,282,360 |

23. Sales and supply of services

| | 31.12.2010 | 31.12.2009 |
|--|-------------------|-------------------|
| EPAL, S.A. | 2,580,458 | 2,608,695 |
| Águas do Douro e Paiva, S.A. | 533,768 | 533,930 |
| Simtejo, S.A. | 650,736 | 616,548 |
| EGF, S.A. | 814,234 | 536,584 |
| Águas do Algarve, S.A. | 796,432 | 746,761 |
| Sanest, S.A. | 245,164 | 239,797 |
| Águas de Santo André, S.A. | 289,712 | 253,001 |
| Águas do Oeste, S.A. | 393,401 | 339,974 |
| Simria, S.A. | 242,580 | 186,045 |
| Águas do Zêzere e Côa, S.A. | 294,340 | 226,057 |
| AdP Serviços, S.A. | 239,594 | 12,579 |
| Águas do Mondego, S.A. | 232,100 | 210,264 |
| Águas do Centro, S.A. | 200,712 | 197,525 |
| Águas de Trás-os-Montes e Alto Douro, S.A. | 337,056 | 266,598 |
| Simarsul, S.A. | 200,024 | 149,910 |
| Águas do Centro Alentejo, S.A. | 129,539 | 111,412 |
| Simlis, S.A. | 82,458 | 82,533 |
| Águas do Norte Alentejano, S.A. | 101,318 | 90,240 |
| Águas do Noroeste, S.A. | 636,331 | 653,813 |
| AdRA - Águas da Região de Aveiro, S.A. | 412,536 | - |
| | 9,412,493 | 8,062,266 |

24. External supplies and services

| | 31.12.2010 | 31.12.2009 |
|--------------------------------------|-------------------|-------------------|
| Specialized work | 4,779,854 | 5,735,626 |
| Advertising and publicity | 929,096 | 1,097,446 |
| Rental and leasing | 270,230 | 269,793 |
| Travel and accommodation | 136,772 | 132,618 |
| Other external supplies and services | 276,996 | 357,417 |
| | 6,392,949 | 7,592,901 |

The 16% reduction in external supplies and services is essentially due to the 16% drop in specialized work. Specialized work includes costs related to usage of space (includes the cost of the space, rental of equipment, etc.) with a total cost of 2,192,433 euros (2,150,084 euros in 2009). This item also includes the various services performed by the affiliate company AdP Serviços in the amount of 1,742,289 euros (2,029,108 euros in 2009) and legal services in the amount of 77,821 euros (235,714 euros in 2009).

25. Staff costs

| | | 31.12.2010 | 31.12.2009 |
|-------------------------------|------|-------------------|-------------------|
| Governing bodies remuneration | i) | 839,270 | 1,112,370 |
| Staff remuneration | ii) | 2,884,733 | 4,168,814 |
| Remuneration charges | | 696,888 | 854,762 |
| Other staff costs | | 407,463 | 437,851 |
| Correction of previous years | iii) | (366,439) | - |
| | | 4,461,916 | 6,573,797 |

i) The drop in Governing Bodies remuneration is due to the 5% drop in their wages during the second half of 2010, and due to the fact that in 2009 bonuses payable in 2010 were estimated in the amount of 255.860 euros (cancelled in 2010), which could not be paid for legal reasons.

ii) The change in staff costs is explained by the fact that the bonuses payable in 2010 were accrued in 2009, and in 2010 no accrual was made because the bonuses could not be paid for legal reasons, it should also be mentioned that in 2009 holidays and holiday pay charges were overestimated.

iii) The amount of 366,439 euros contra natura refers to cancellation of the bonuses estimated in point i) and the correction between the bonuses paid in 2010 and the estimate made in 2009 for staff.

25.1 Governing Bodies

| | 31.12.2010 | 31.12.2009 |
|----------------------|-------------------|-------------------|
| Board of Directors | 754,566 | 1,112,370 |
| Statutory Accountant | 84,704 | 80,000 |
| | 839,270 | 1,192,370 |

The amount recorded in 2010 includes 4,704 euros in VAT due to the fact that the company uses the pro rata method. We would also like to point out that the Chartered Accountant's fees in 2009 are recorded under ESS, while in 2010 they have been included in staff costs - Governing Bodies.

25.2 Staff

| Nature | Average number | | Year end | |
|----------------------------|----------------|-------------|-------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Board of Directors | 5 | 5 | 5 | 5 |
| Audit Committee | 4 | 4 | 4 | 4 |
| Permanent/future employees | 63 | 65 | 64 | 66 |
| | 72 | 74 | 73 | 75 |

| Debt | 31.12.2010 | | 31.12.2009 | |
|------------------|---------------|--------------|---------------|--------------|
| | Assets | Liabilities | Assets | Liabilities |
| Governing Bodies | 3,125 | - | 369 | - |
| Staff | 9,861 | (682) | 19,274 | (679) |
| | 12,987 | (682) | 19,643 | (679) |

26. Depreciation of the year

| | 31.12.2010 | 31.12.2009 |
|---------------------------------------|-------------------|-------------------|
| Depreciation of tangible fixed assets | 16,981 | 20,029 |
| Depreciation of intangible assets | - | - |
| | 16,981 | 20,029 |

27. Other operational costs

| | 31.12.2010 | 31.12.2009 |
|--------------------------------------|-------------------|-------------------|
| Taxes and duties | 241,867 | 222,077 |
| Other operational costs | 48,105 | 106,859 |
| Fines and penalties | 500 | 1,025 |
| Donations | 88,604 | 68,350 |
| Corrections of previous years | 6,461 | 92,652 |
| Other extraordinary costs and losses | 917 | 40,000 |
| | 386,455 | 530,964 |

28. Other operational income and gains

| | 31.12.2010 | 31.12.2009 |
|--------------------------------------|-------------------|-------------------|
| Additional income | 1,839,356 | 2,930,329 |
| Provision reductions | - | 39,207 |
| Fixed assets gains | 1,966 | 6,738 |
| Other extraordinary income and gains | 331,289 | 112,851 |
| Corrections of previous years | (67,775) | 174,021 |
| | 2,104,835 | 3,263,146 |

Additional income refers to remuneration for the positions held by AdP SGPS staff in the Governing Bodies of companies in which the Company has a stake. In 2009, the invoicing estimate of various projects was also recorded in the amount of 1,240,420 euros, issued to various affiliate companies.

29. Financial costs

| | | 31.12.2010 | 31.12.2009 |
|-----------------------------------|------|-------------------|-------------------|
| Interest paid | i) | 17,337,113 | 22,367,217 |
| Foreign exchange differences paid | ii) | 7,478,991 | 1,469,893 |
| Other financial costs and losses | iii) | 1,352,930 | 1,757,547 |
| | | 26,169,035 | 25,594,657 |

i) The drop in interest paid essentially results from the fact that rates fell significantly.

ii) Costs related to foreign exchange differences are directly related to the Japan financing. These foreign exchange differences have been hedged.

iii) This item includes bank costs related to guarantees, sureties, etc.; the sureties are subsequently invoiced to the affiliated companies and costs associated with EIB financing are recognized.

30. Financial income

| | | 31.12.2010 | 31.12.2009 |
|---|------|-------------------|-------------------|
| Interest paid | i) | 20,426,321 | 26,975,931 |
| Dividends received | 30.1 | 30,116,770 | 31,238,347 |
| Gains from financial and collateral instruments | ii) | 2,845,794 | 12,882,614 |
| Favourable foreign exchange differences | iii) | - | 8,798,441 |
| Other financial income | iv) | 90,313 | 1,040,716 |
| | | 53,479,198 | 80,936,049 |

i) The table below lists the main generators of interest for AdP SGPS:

| | 31.12.2010 | 31.12.2009 |
|---|-------------------|-------------------|
| Interest on treasury grants and Group loans | 8,726,048 | 10,581,804 |
| Interest on term deposits | 1,918,027 | 3,240,063 |
| Commissions | 9,391,171 | 8,067,912 |
| Interest from Águas de Guariroba | - | 4,584,062 |
| Other interest | 391,075 | 502,090 |
| | 20,426,321 | 26,975,931 |

Despite the increase in loans granted to Group companies, the amount of interest paid fell due to the fact that the interest rates applied were lower than those of the previous year:

The fall in interest on term deposits is due to the fact that the amount applied was more or less consistent over the course of 2009; in 2010, a significant amount was only applied at the end of the year:

ii) See note 20;

iii) Almost all foreign exchange differences recorded in 2009 involved the updating of the foreign exchange differences of the amount owed by Águas de Guariroba for the sale of Prolagos, which in 2009 generated positive foreign exchange differences;

iv) The other financial income item includes debits by AdP SGPS from affiliate companies due to the costs of sureties, financing commissions, guarantee commissions, etc. The increase is due to rising debt by its affiliates because these amounts are debited in accordance with the respective usages.

30.1 Dividends received/attributed per company

| | 31.12.2010 | 31.12.2009 |
|------------------------------|-------------------|-------------------|
| Águas do Cávado, S.A. | 1,112,016 | 659,467 |
| Águas do Douro e Paiva, S.A. | 762,129 | 488,461 |
| Sanest, S.A. | 448,800 | 465,630 |
| Simtejo, S.A. | 1,447,336 | 4,563,314 |
| Águas do Mondego, S.A. | 344,789 | 541,000 |
| Águas do Algarve, S.A. | 1,977,518 | 4,744,501 |
| EPAL, S.A. | 24,024,062 | 18,672,746 |
| Aquasis, S.A. | 120 | - |
| Águas de Santo André, S.A. | - | 1,103,228 |
| | 30,116,770 | 31,238,347 |

31. Transactions with related entities

| Year 2010 | Subsidiaries | Shareholders | Management Bodies |
|-------------------------------|---------------------|---------------------|--------------------------|
| Income | | | |
| Yield | 9,412,493 | | |
| Dividends received/attributed | 30,116,770 | | |
| Costs | | | |
| Staff costs | | | 754,566 |
| Assets | | | |
| Customers | 7,078,827 | | |
| Loans | 224,551,800 | | |
| Other debtors | 36,194,848 | | |
| Liabilities | | | |
| Suppliers | 542,443 | | |
| Other creditors | 2,282,360 | | |
| Cash flow | | | |
| Dividends paid/payable | | 24,615,034 | |

| Year 2009 | Subsidiaries | Shareholders | Management Bodies |
|-------------------------------|---------------------|---------------------|--------------------------|
| Income | | | |
| Yield | 8,062,266 | | |
| Dividends received/attributed | 31,238,347 | | |
| Costs | | | |
| Staff costs | | | 1,112,370 |
| Assets | | | |
| Customers | 7,435,040 | | |
| Loans | 179,821,330 | | |
| Other debtors | 38,246,118 | | 369 |
| Liabilities | | | |
| Suppliers | 518,466 | | |
| Other creditors | 2,118,520 | | |
| Cash flow | | | |
| Dividends paid/payable | | 11,000,000 | |

32. Assets and contingent liabilities

The Company's financial commitments and responsibilities that are not reflected on the balance sheet are stated as follows:

| 2010 | Domestic banks | Foreign banks | Total |
|-----------------------|-----------------------|----------------------|--------------------|
| Guarantees | 64,152,168 | 1,122,586 | 65,274,754 |
| Comfort letters | 66,878,120 | - | 66,878,120 |
| Surety | 232,243,989 | - | 232,243,989 |
| Commitments | 25,000,000 | - | 25,000,000 |
| Collateral securities | 5,600,000 | - | 5,600,000 |
| | 393,874,277 | 1,122,586 | 394,996,864 |

| 2009 | Domestic banks | Foreign banks | Total |
|-----------------------|--------------------|------------------|--------------------|
| Guarantees | 87,069,812 | 1,071,429 | 88,141,241 |
| Comfort letters | 67,719,742 | | 67,719,742 |
| Surety | 112,993,990 | | 112,993,990 |
| Commitments | 99,000,000 | | 99,000,000 |
| Collateral securities | 5,600,000 | | 5,600,000 |
| | 372,383,544 | 1,071,429 | 373,454,973 |

33. Legally required information

As regards information legally required under other legislation, namely Articles 66, 324, 397, 447 and 448 of the Companies Code (CSC) and the provisions of Decree-Law 328/95 of 9 December, in addition to those of Decree-Law no. 411/91 of 17 October, it should be pointed out that:

- a) In accordance with no. 2 of Article 324 of the CSC, the Company hereby reports that it does not hold any own shares and, to date, has not undertaken any business dealing that involves these types of securities;
- b) Pursuant to no. 4 of Article 397 of the CSC, the Company hereby reports that no business dealings were conducted between the Company and the members of its Governing Bodies in 2010;
- c) Under Article 21 of Decree-Law no. 411/91 of 17 September, we hereby report that the Company does not owe any outstanding amounts to any social security entities. The amounts calculated at 31 December 2010 were the result of withholding of deductions and contributions at the source pertaining to the month of December, which were paid in January 2011 within the legal deadlines.

34. Legal Disputes and Contingencies

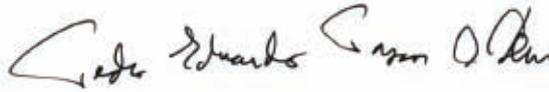
At the date of drafting the present financial statements, there were no pending legal disputes and/or contingencies involving the Company.

35. Subsequent events

In February 2011, AdP SGPS, SA received from the Grantor (Ministry of the Environment and Territorial Planning) a letter requesting that AdP - Águas de Portugal, SGPS, S.A., in the capacity of majority shareholder of the entities that manage the multi-municipal systems of supply, sanitation, and recovery and treatment of waste, promote the necessary studies and submit to the Grantor a proposal to revise the concessions contracts in relation to which changes have been made that have a relevant impact on the financial balance of the concessionaires.

Lisbon, 15 March 2011

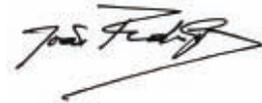
The Board of Directors



Pedro Eduardo Passos da Cunha Serra
(Chairman)



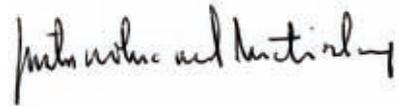
António Manuel da Silva Branco
(Member)



João Manuel Lopes Fidalgo
(Member)



José Maria Martins Soares
(Member)



Justino Manuel Matias Carlos
(Member)

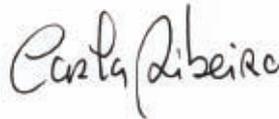


Joaquim José de Oliveira Reis
(Non-Executive Member)



José Fernando Maia de Araújo e Silva
(Non-Executive Member)

The Statutory Accountant



Carla Isabel Costa Pinto Ribeiro

[blank page]



Report and Opinion of the Audit Committee

Águas de Portugal

Report and Opinion of the Audit Committee on the Individual Accounting Documents

1. In fulfilment of applicable legal and statutory provisions, the Audit Committee issues this Report and Opinion on the Annual Report and other individual accounting documents of the company AdP - Águas de Portugal, SGPS, S.A., submitted by the Board of Directors for the year of 2010.
2. The Audit Committee monitored the management of AdP - Águas de Portugal, SGPS, S.A., and the development of its business, namely through contact with the primary individuals in charge of the company, by attending meetings of the Board of Directors, and by reading the minutes of this board's other meetings. It held regular meetings which, as a rule, were attended by the Director in charge of financial matters and the Statutory Auditor. It obtained all of the clarifications requested and the documentation considered necessary to carry out its oversight duties.
3. The Audit Committee also verified the fulfilment of applicable legal and statutory provisions, having found no situations of non-fulfilment, and exercised its powers in accordance with the provisions of Article 420 of the Commercial Companies Code, having assessed the accounting policies and valuation criteria used to prepare the financial information, which it considers adequate, and having monitored the efficiency of the risk management system, internal control system and internal auditing system.
4. Under the powers vested in it by article 13 I e) of Decree Law no. 558/99 of 17 December, pursuant to the wording of Decree Law no. 300/2007 of 23 August and by Order no. 14,277/2008 of the Minister of State and Finance, published in the Official Gazette (Diário da República) Series II, no. 99 of 23 May, the Audit Committee has verified the company's fulfilment of the obligations established therein, having issued the Quarterly Reports, which have been sent to the competent authorities.
5. The 2010 Annual Report and Accounts contain a separate chapter concerning proper governance principles, organized according to the circular letter on this matter of the Directorate General for the Treasury and Finance (DGTF), thereby fulfilling the principles of proper governance laid out in Cabinet Resolution (RCM) no. 49/2007 of 28 March.
6. The Audit Committee has been made aware of the External Auditors' Report on the individual accounts, and disputes none of its content.
7. The Audit Committee has assessed the Legal Certification of the Accounts, issued by the Statutory Auditor pursuant to legislation in force, with which it agrees, and has been made aware of the respective annual report of the Statutory Auditor on the oversight carried out.
8. As a result of the work carried out, the Audit Committee believes that the Board of Directors' Report and the Individual Financial Statements (Financial Position Statement on 31 December 2010, Income Statement by Nature, Comprehensive Income Statement, Changes in Total Equity Statement, Cash Flow Statement for the period ending on this date and Notes to the Financial Statements) give a true and fair view of the financial position of the company at year end, how the results were obtained and how its business developed.

9. The Audit Committee wishes to point out the cooperation and support received from the Board of Directors, Statutory Auditor and Departments.

Opinion

In view of the above, it is the Audit Committee's opinion that all requirements have been met for the General Meeting of Shareholders of AdP - Águas de Portugal, SGPS, S.A. to approve:

- a) The Board of Directors' Annual Report and Individual Accounts for the year 2010;
- b) The Board of Directors' proposal for the distribution of income in this report.

Lisbon, 08 April 2011

The Audit Committee

Paulo Alexandre dos Santos Ferreira (Chairman)

Pedro António Martins Mendes (Member)

Célia Maria Marques Rocha Lino (Member)

Legal Certification of Individual Accounts

Alves da Cunha, A. Dias & Associados
Statutory Auditors

Legal Certification of Individual Accounts

Introduction

1. We have audited the individual financial statements of AdP - Águas de Portugal, SGPS, S.A., which include the Financial Position Statement on 31 December 2010 (with a total of 1,156,488 thousand euros, total shareholder equity of 518,607 thousand euros, and a net income of 27,344 thousand euros), the Income Statement by Nature and Comprehensive Income Statement, the Changes in Total Equity Statement, the Cash Flow Statement for the period ending on this date and the Notes to the Financial Statements.

Responsibilities

2. It is the Board of Directors' responsibility to prepare financial statements that truly and adequately represent the financial position of the company, the result of its operations and cash flow, as well as the adoption of appropriate accounting policies and criteria and the maintenance of an appropriate internal control system.
3. Our responsibility is to express a professional and independent opinion based on our audit of these financial statements.

Scope

4. The audit we carried out was performed according to the Technical Standards and Revision/Audit Guidelines of the Ordem dos Revisores Oficiais de Contas (Portuguese Institute of Statutory Auditors), which require that audits be planned and performed for the purpose of determining, with an acceptable degree of safety, whether the financial statements are free of material misstatements. To this end, the aforementioned audit included:

- verifying the support, through sampling, for the amounts and disclosures contained in the financial statements and assessing the estimates used in their preparation, as based on judgements and criteria defined by the Board of Directors;
- evaluating whether the adopted accounting policies and their disclosure are appropriate under the circumstances;
- verifying the applicability of the going concern principle; and
- evaluating whether the presentation of the financial statements is appropriate, in overall terms.

5. Our audit also included a verification of the consistency between the financial information in the annual report and in the financial statements.

6. We believe that the audit we performed provides an acceptable basis for expressing our opinion.

Civil Society registered with the List of Statutory Auditors under no. 74 / Registered in the Securities Commission (CMVM) Auditors' Registry under no. 2699
Rua Américo Durão, 6 - 8º Esq. - 1900-064 Lisbon, Portugal - Email: acad.sroc@netcabo.pt
Telephone: 21 840 84 32 - 21 840 32 34 - Fax: 21 847 07 80 - Taxpayer ID (NIPC): PT 502 289 740

Opinion

7. In our opinion, the above-mentioned financial statements truly and adequately represent, in every material aspect, the financial position of AdP - Águas de Portugal, SGPS, S.A. on 31 December 2010, the results of its operations and cash flow for the year ending on this date, in accordance with international accounting standards used in the European Union.

Other Legal Requirements

8. It is also our opinion that the information contained in the annual report is consistent with the financial statements for the year.

Remarks

9. Without prejudice to our opinion expressed in (7) and (8) above, we wish to add the following:

9.1 As explained in point 5 of the Notes to the Financial Statements, beginning on 01 January 2010, AdP – Águas de Portugal, SGPS, S.A. began using the international accounting standards adopted by the European Union to prepare and report its financial information. The re-expression on this date, for comparative purposes, shows that total equity was affected negatively by 18,879 thousand euros, and the 2009 net income was affected positively 353 thousand euros.

9.2 Due to the measurement basis explained in point 2.2 of the Notes to the Financial Statements, the balance of the item “Financial investments” in the of Financial Position Statement includes 80,775 thousand euros for differences between tariffs and the prices practiced, and those that would correspond to the recovery of costs incurred plus return on equity in concession contracts of production and purification (water) and waste recovery and management companies.

9.3 The grantor has yet to determine how it will rectify the economic and financial balance of the concession contracts where this is justified, under which circumstances it recently requested that AdP - Águas de Portugal, SGPS, S.A. conduct studies to submit a proposal to review the concession contracts with changes significantly impacting the concessionaires’ financial balance.

Lisbon, 08 April 2011

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

Auditors' Report (Individual 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 (Individual Financial Statements)

Introduction

1. We have audited the attached financial statements of AdP - Águas de Portugal, SGPS, S.A., which include the Financial Position Statement on 31 December 2010 (with a total of 1,156,487,540 euros, total shareholder equity of 518,607,244 euros, and a net income of 27,343,552 euros), the Income Statement, the Comprehensive Income Statement, the Changes in Total Equity Statement and the Cash Flow Statement for the period ending on this date, together with the corresponding Notes.

Responsibilities

2. It is the Board of Directors' responsibility to prepare financial statements that truly and adequately represent the financial position of the company, the result and comprehensive income of its operations, changes in shareholder equity and cash flow, as well as the adoption of appropriate accounting policies and criteria and the maintenance of an appropriate internal control system.
3. Our responsibility is to express a professional and independent opinion based on our audit of these financial statements.

Scope

4. The audit we carried out was performed according to the Technical Standards and Revision/Audit Guidelines of the Ordem dos Revisores Oficiais de Contas (Portuguese Institute of Statutory Auditors), which require that audits be planned and performed for the purpose of determining, with an acceptable degree of safety, whether the financial statements are free of material misstatements. To this end, the aforementioned audit included:

- verifying the support, through sampling, for the amounts and disclosures contained in the Financial statements and assessing the estimates used in their preparation, as based on judgements and criteria defined by the Board of Directors;
- evaluating whether the adopted accounting policies and their disclosure are appropriate under the circumstances;
- verifying the applicability of the going concern principle; and
- evaluating whether the presentation of the financial statements is appropriate, in overall terms.

Limited liability company / Share capital: 1,105,000 euros / Registry no. 178 in the Statutory Auditors' Association / Registry no. 9011 with the Securities Market Commission
Taxpayer ID 505 988 286 / Registered under the same number in the Lisbon Commercial Companies Registry / A member firm of Ernst & Young Global Limited

5. We believe that the audit we performed provides an acceptable basis for expressing our opinion.

Opinion

6. In our opinion, the above-mentioned financial statements truly and adequately represent, in every material aspect, the financial position of AdP - Águas de Portugal, SGPS, S.A. on 31 December 2010, the results and comprehensive income of its operations, the changes to its total equity and its cash flow for the year ending on this date, in accordance with the international financial reporting standards adopted by the European Union.

Remarks

7. Without prejudice to our opinion expressed in the above paragraph, we wish to add that, for the first time, this year the company prepared its financial statements in accordance with international accounting standards, as adopted by the European Union. The impacts of the transition compared to prior rules are described in Note 5 to the Financial Statements.

Lisbon, 08 April 2011

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

Rui Abel Serra Martins (Statutory Auditor no. 1119)

[blank page]





Consolidated Financial Statements

for the year ended 31 December 2010

Contents

| | |
|--|------------|
| Consolidated statement of financial position | 172 |
| Consolidated income statement by nature | 173 |
| Consolidated statement of comprehensive income | 174 |
| Consolidated statement of changes in total equity | 175 |
| Consolidated statement of cash flow | 176 |
| Notes to the consolidated financial statements | 177 |
| 1. General information | 177 |
| 1.1. Introduction | 177 |
| 1.2. Economic activity | 177 |
| 1.3. Strategy | 178 |
| 1.4. Mission and future orientations | 178 |
| 1.5. Organization | 179 |
| 1.6. Approval of the financial statements | 179 |
| 2. Accounting policies | 179 |
| 2.1. Basis of presentation | 179 |
| 2.2. Consolidation | 181 |
| 2.3. Information according to business area | 184 |
| 2.4. Foreign exchange conversion | 185 |
| 2.5. Regulated activity - recognition of regulatory assets and liabilities | 185 |
| 2.6. Concessioned activity - IFRIC 12 | 187 |
| 2.7. Tangible fixed assets | 189 |
| 2.8. Intangible assets | 190 |
| 2.9. Investment properties | 190 |
| 2.10. Financial assets and liabilities | 190 |
| 2.11. Derivatives and hedging | 191 |
| 2.12. Fair value hierarchy | 192 |
| 2.13. Customers and other accounts receivable | 192 |
| 2.14. Inventory | 192 |
| 2.15. Cash and cash equivalents | 192 |
| 2.16. Impairment | 192 |
| 2.17. Capital | 193 |
| 2.18. Dividends payable | 194 |
| 2.19. Investment grants | 194 |
| 2.20. Provisions, assets and contingent liabilities | 194 |
| 2.21. Employee benefits | 194 |
| 2.22. Taxation | 195 |
| 2.23. Yield | 195 |
| 2.24. Own works | 196 |
| 2.25. Costs and losses | 196 |
| 2.26. Subsequent events | 196 |
| 3. Financial risk management policy | 197 |
| 3.1. Risk factors | 197 |
| 3.2. Credit risk | 197 |
| 3.3. Foreign exchange risk | 198 |
| 3.4. Liquidity risk | 198 |
| 3.5. Cash flow and fair value risk associated with interest rates | 198 |
| 3.6. Capital risk | 198 |
| 3.7. Regulatory risk | 199 |
| 4. Estimates and judgements | 199 |
| 4.1. Provisions and adjustments | 199 |
| 4.2. Tangible and intangible assets | 199 |
| 4.3. Impairment | 200 |
| 4.4. Fair value of derivatives | 200 |
| 5. First time adoption of the IFRS | 200 |
| 6. Information according to business area | 202 |

| | |
|--|------------|
| 7. Derivatives | 203 |
| 7.1 Classification of financial assets and liabilities in accordance with IAS 39 | 203 |
| 7.2 Fair value hierarchy | 203 |
| 8. Intangible assets | 204 |
| 8.1 Changes during the period | 204 |
| 8.2 Infrastructure usage rights and intangible assets under construction | 204 |
| 8.3 Goodwill | 206 |
| 9. Tangible fixed assets | 206 |
| 9.1 Changes during the period | 206 |
| 9.2 Financial leasing | 207 |
| 10. Investment properties | 207 |
| 11. Financial investments | 207 |
| 11.1 Losses from accumulated impairment on financial investments | 208 |
| 12. Financial investments in associated companies | 209 |
| 13. Deferred tax | 209 |
| 13.1 Changes during the period | 210 |
| 14. Derivatives | 211 |
| 15. Tariff deficit | 211 |
| 16. Customers and other non-current assets | 212 |
| 16.1 Customers | 213 |
| 17. Inventory | 213 |
| 17.1 Accumulated inventory losses due to impairment | 213 |
| 18. Customers | 213 |
| 18.1 Customers | 213 |
| 18.2 Customers - municipalities | 214 |
| 18.3 Losses due to impairment of customers | 215 |
| 19. State and other public entities | 216 |
| 20. Other current assets | 216 |
| 20.1 Losses due to impairment of other current assets | 217 |
| 21. Cash and cash equivalents | 217 |
| 22. Capital | 217 |
| 22.1 Shareholders | 217 |
| 22.2 Earnings per share | 217 |
| 23. Reserves and other adjustments | 217 |
| 24. Retained earnings | 218 |
| 25. Non-controlled interests | 218 |
| 26. Provisions | 219 |
| 26.1 Changes during the period | 219 |
| 27. Pensions responsibilities | 219 |
| 27.1 Defined benefit | 220 |
| 27.2 Defined contribution | 221 |
| 28. Loans | 222 |
| 28.1 Loan breakdown according to maturity | 222 |
| 28.2 Loan breakdown according to interest rate | 222 |
| 28.3 Financial leasing | 223 |
| 29. Suppliers and other non-current liabilities | 223 |
| 30. Accrued contractual investment costs | 224 |
| 31. Investment grants | 224 |
| 31.1 Changes during the period | 224 |
| 31.2 Amounts accrued to results for the period | 225 |
| 32. Suppliers | 225 |
| 33. Other current liabilities | 225 |
| 34. Income tax | 226 |
| 35. Sales and supply of services per business unit | 226 |
| 36. Sales and supply of services per market | 227 |
| 37. Cost of sales | 227 |
| 38. External supplies and services | 227 |
| 39. Staff costs | 228 |
| 39.1 Governing bodies remuneration | 228 |
| 39.2 Average number of shares | 228 |
| 40. Amortizations, provisions and reversals of the year | 229 |
| 41. Provisions and reversals of the year | 229 |
| 42. Losses due to impairment and reversals of the year | 229 |
| 43. Other operational costs and losses | 230 |

| | | |
|------|---|-----|
| 44. | Other operational income and gains | 230 |
| 45. | Financial costs | 231 |
| 46. | Financial income | 231 |
| 46.1 | Fair value of financial instruments | 231 |
| 47. | Gains/(losses) from financial investments | 232 |
| 48. | Tax of the year - current and deferred | 232 |
| 49. | Transactions with related entities | 232 |
| 50. | Contractual investment | 233 |
| 51. | Assets and contingent liabilities | 233 |
| 51.1 | Assets and contingent liabilities | 233 |
| 51.2 | Guarantees | 237 |
| 52. | Subsequent events | 238 |

Consolidated statement of financial position

Unit: euros

| | Notes | IFRS 31.12.2010 | IFRS 31.12.2009 |
|---|-------|----------------------|----------------------|
| Non-current assets | | | |
| Intangible assets | 8 | 4,573,734,850 | 4,014,488,838 |
| Tangible fixed assets | 9 | 831,267,198 | 850,602,453 |
| Investment properties | 10 | 1,261,033 | 1,262,136 |
| Financial investments | 11 | 105,668,629 | 130,767,203 |
| Financial investments in associated companies | 12 | 1,077,064 | 8,954,969 |
| Deferred tax assets | 13 | 239,211,070 | 75,910,713 |
| Derivatives | 14 | 2,227,586 | 2,477,311 |
| Tariff deficit assets | 15 | 310,762,868 | 262,487,519 |
| Customers and other non-current assets | 16 | 124,610,736 | 169,154,387 |
| Total non-current assets | | 6,189,821,034 | 5,516,105,529 |
| Current assets | | | |
| Inventory | 17 | 8,100,566 | 7,925,192 |
| Customers | 18 | 296,433,690 | 244,908,335 |
| State and other public entities | 19 | 12,385,344 | 13,366,328 |
| Other current assets | 20 | 227,815,360 | 365,026,732 |
| Cash and cash equivalents | 21 | 478,840,367 | 299,236,062 |
| Total current assets | | 1,023,575,327 | 930,462,649 |
| Total assets | | 7,213,396,361 | 6,446,568,178 |
| Total equity of majority shareholders | | | |
| Share capital | 22 | 434,500,000 | 434,500,000 |
| Reserves and other adjustments | 23 | 29,253,475 | 11,617,070 |
| Retained earnings | 24 | 151,060,893 | 134,400,154 |
| Net income of the year | | 79,459,018 | 65,325,489 |
| | | 694,273,385 | 645,842,712 |
| Non-controlled interests | 25 | 234,196,760 | 214,167,440 |
| Total Equity | | 928,470,145 | 860,010,152 |
| Non-current liabilities | | | |
| Provisions | 26 | 13,411,726 | 27,066,228 |
| Pensions responsibilities | 27 | 12,640,738 | 15,712,477 |
| Loans | 28 | 2,416,057,836 | 2,030,125,828 |
| Suppliers and other non-current liabilities | 29 | 170,811,987 | 110,890,613 |
| Deferred tax liabilities | 13 | 248,662,999 | 116,687,924 |
| Accrued contractual investment costs | 30 | 571,054,561 | 531,764,934 |
| Investment grants | 31 | 1,842,471,849 | 1,761,573,162 |
| Tariff deficit liabilities | 15 | 135,317,264 | 124,876,302 |
| Derivatives | 14 | 14,914,691 | 9,334,823 |
| Total non-current assets | | 5,425,343,651 | 4,728,032,291 |
| Current liabilities | | | |
| Loans | 28 | 509,375,118 | 551,802,186 |
| Suppliers | 32 | 158,784,662 | 168,148,146 |
| Other current liabilities | 33 | 119,158,242 | 105,909,939 |
| Income tax of the year | 34 | 43,219,244 | 6,208,330 |
| State and other public entities | 19 | 29,045,299 | 26,457,133 |
| Total current liabilities | | 859,582,565 | 858,525,733 |
| Total Liabilities | | 6,284,926,216 | 5,586,558,024 |
| Total Liabilities and Total Equity | | 7,213,396,361 | 6,446,568,178 |

Lisbon, 15 March 2011

The Board of Directors

Pedro Eduardo Passos da Cunha Serra (Chairman)
 António Manuel da Silva Branco (Member)
 João Manuel Lopes Fidalgo (Member)
 José Maria Martins Soares (Member)
 Justino Manuel Matias Carlos (Member)
 Joaquim José de Oliveira Reis (Non-Executive Member)
 José Fernando Maia de Araújo e Silva (Non-Executive Member)

The Statutory Accountant

Carla Isabel Costa Pinto Ribeiro

Consolidated income statement by nature

Unit: euros

| | Notes | IFRS 31.12.2010 | IFRS 31.12.2009 |
|--|-------|---------------------|---------------------|
| Sales | 35/36 | 396,213,724 | 364,275,146 |
| Supply of services | 35/36 | 290,929,601 | 261,140,398 |
| Tariff deficit | 15/35 | 37,336,274 | 32,460,465 |
| Turnover | | 724,479,599 | 657,876,009 |
| Cost of sales/change in inventory | 37 | (30,281,249) | (25,931,031) |
| Gross margin | | 694,198,350 | 631,944,978 |
| External supplies and services | 38 | (224,716,644) | (194,924,300) |
| Staff costs | 39 | (146,586,559) | (149,465,028) |
| Amortizations, depreciations and reversals of the year | 40 | (225,048,112) | (214,834,523) |
| Provisions and reversals of the year | 41 | 25,171,766 | (9,190,138) |
| Losses due to impairment and reversals of the year | 42 | (5,131,849) | (4,222,190) |
| Fair value gains/(losses) | | 4,116 | |
| Investment grants | 31 | 67,137,886 | 67,021,282 |
| Other operational costs and losses | 43 | (26,404,585) | (17,360,538) |
| Other operational income and gains | 44 | 17,938,553 | 13,730,474 |
| Operational income | | 176,562,922 | 122,700,017 |
| Financial costs | 45 | (72,136,023) | (60,314,998) |
| Financial income | 46 | 20,464,765 | 41,152,553 |
| Gains/(losses) from financial investments | 47 | 1,125,186 | 261,598 |
| Financial income | | (50,546,072) | (18,900,847) |
| Income before taxes | | 126,016,850 | 103,799,170 |
| Current taxes | 48 | (62,112,366) | (23,094,766) |
| Deferred tax | 48 | 32,829,732 | (1,792,129) |
| Net income of the year | | 96,734,216 | 78,912,275 |
| Net income attributable to AdP SGPS shareholders | | 79,459,018 | 65,325,489 |
| Net income attributable to non-controlled interests | | 17,275,198 | 13,586,787 |
| Net income of the year | | 96,734,216 | 78,912,275 |
| Earnings per share (attributable to majority shareholders) | 22 | 0.91 | 0.75 |

Lisbon, 15 March 2011

The Board of Directors

Pedro Eduardo Passos da Cunha Serra (Chairman)
 António Manuel da Silva Branco (Member)
 João Manuel Lopes Fidalgo (Member)
 José Maria Martins Soares (Member)
 Justino Manuel Matias Carlos (Member)
 Joaquim José de Oliveira Reis (Non-Executive Member)
 José Fernando Maia de Araújo e Silva (Non-Executive Member)

The Statutory Accountant

Carla Isabel Costa Pinto Ribeiro

Consolidated statement of comprehensive income

Unit: euros

| | IFRS 31.12.2010 | IFRS 31.12.2009 |
|---|------------------------|------------------------|
| Net income of the year | 96,734,216 | 78,912,275 |
| Gains/losses from foreign exchange conversion | (81,092) | 2,305,999 |
| Other gains and losses | (6,331,554) | 15,052 |
| Comprehensive income | 90,321,570 | 81,233,326 |
| Net income attributable to AdP SGPS shareholders | 72,782,455 | 67,646,540 |
| Net income attributable to non-controlled interests | 17,539,115 | 13,586,787 |
| | 90,321,570 | 81,233,327 |
| Earning per share | 1.14 | 0.91 |

Lisbon, 15 March 2011

The Board of Directors

Pedro Eduardo Passos da Cunha Serra (Chairman)
António Manuel da Silva Branco (Member)
João Manuel Lopes Fidalgo (Member)
José Maria Martins Soares (Member)
Justino Manuel Matias Carlos (Member)
Joaquim José de Oliveira Reis (Non-Executive Member)
José Fernando Maia de Araújo e Silva (Non-Executive Member)

The Statutory Accountant

Carla Isabel Costa Pinto Ribeiro

Consolidated statement of changes in total equity

Unit: euros

| | Capital | Consolidation diff. | For. ex. conv. Reserve | Revaluation reserve | Legal reserve | Free. reserve | Retained earnings | Income for the year | Total | Non-controlled interest | Total equity |
|-----------------------------------|--------------------|---------------------|------------------------|---------------------|-------------------|-------------------|---------------------|---------------------|--------------------|-------------------------|--------------------|
| 1 January 2009 | 434,500,000 | 7,053,471 | 1,443,356 | 6,482,671 | 4,718,934 | - | (19,633,233) | 62,975,614 | 497,540,813 | - | 497,540,813 |
| IFRS adjustments | - | - | - | - | - | - | - | - | - | - | - |
| Reclass. min. int. | - | - | - | - | - | - | - | - | - | 213,974,367 | 213,974,367 |
| Reclassification | - | (7,053,471) | - | (6,482,671) | - | - | 13,536,142 | - | - | - | - |
| Transition adjustments | - | - | - | - | - | - | 91,655,359 | - | 91,655,359 | (3,439,392) | 88,215,967 |
| 1 January 2009 | 434,500,000 | - | 1,443,356 | - | 4,718,934 | - | 85,558,268 | 62,975,614 | 589,196,172 | 210,534,975 | 799,731,147 |
| OPA distribution of income 2008 | - | - | - | - | 3,148,780 | - | 59,826,834 | (62,975,614) | - | - | - |
| Reserve realization | - | - | - | - | - | - | - | - | - | - | - |
| Foreign exchange conversion 2009 | - | - | 2,305,999 | - | - | - | - | - | 2,305,999 | 834,473 | 3,140,472 |
| Other adjustments | - | - | - | - | - | - | 15,052 | - | 15,052 | 1,310,583 | 1,325,635 |
| Dividend distribution | - | - | - | - | - | - | (11,000,000) | - | (11,000,000) | (12,099,377) | (23,099,377) |
| Net income of 2009 | - | - | - | - | - | - | - | 65,325,489 | 65,325,489 | 13,586,787 | 78,912,275 |
| Balance at 31.12.2009 IFRS | 434,500,000 | - | 3,749,355 | - | 7,867,714 | - | 134,400,154 | 65,325,489 | 645,842,712 | 214,167,440 | 860,010,152 |
| Distribution of income 2009 | - | - | - | - | 2,295,568 | 19,000,764 | 44,029,157 | (65,325,489) | - | - | - |
| Foreign exchange conversion | - | - | (3,659,926) | - | - | - | 3,578,834 | - | (81,092) | - | (81,092) |
| Dividend distribution | - | - | - | - | - | - | (24,615,034) | - | (24,615,034) | (8,403,767) | (33,018,801) |
| Changes in capital holdings | - | - | - | - | - | - | 263,254 | - | 263,254 | 10,893,972 | 11,157,226 |
| Other adjustments | - | - | - | - | - | - | (6,595,473) | - | (6,595,473) | 263,919 | (6,331,554) |
| Non-controlled interests | - | - | - | - | - | - | - | - | - | - | - |
| Net income of 2010 | - | - | - | - | - | - | - | 79,459,018 | 79,459,018 | 17,275,196 | 96,734,216 |
| Balance at 31.12.2010 IFRS | 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 |

Lisbon, 15 March 2011

The Board of Directors

Pedro Eduardo Passos da Cunha Serra (Chairman)

António Manuel da Silva Branco (Member)

João Manuel Lopes Fidalgo (Member)

José Maria Martins Soares (Member)

Justino Manuel Matias Carlos (Member)

Joaquim José de Oliveira Reis (Non-Executive Member)

José Fernando Maia de Araújo e Silva (Non-Executive Member)

The Statutory Accountant

Carla Isabel Costa Pinto Ribeiro

Consolidated statement of cash flow

Unit: euros

| | 31.12.2010 | 31.12.2009 |
|---|----------------------|----------------------|
| Operating activities | | |
| Flows generated by operations | | |
| Accounts receivable - customers | 743,822,379 | 667,673,799 |
| Payments to suppliers | (283,067,560) | (272,624,582) |
| Payments to staff | (121,984,009) | (124,786,258) |
| Flows generated by operations | 338,770,810 | 270,262,959 |
| Other operational flows | | |
| (Payable)/receivable corporate income tax (IRC) | (27,832,708) | (22,362,252) |
| Other receivables/(payments) related to operating act. | (99,973,770) | (41,367,988) |
| Other operational flows | (127,806,478) | (63,730,240) |
| Total operating activities (1) | 210,964,332 | 206,532,719 |
| Investment activities | | |
| Income from: | | |
| Financial investments | 63,096,292 | 2,423,036 |
| Tangible fixed assets | 152,334 | 2,384,720 |
| Intangible assets | 258,826 | 1,220 |
| Investment grants | 174,994,628 | 189,199,256 |
| Interest and similar income | 11,541,505 | 11,845,192 |
| Dividends | 24,793 | 3,721 |
| Subtotal | 250,068,378 | 205,857,145 |
| Payments related to: | | |
| Financial investments | (48,126,221) | (20,865,624) |
| Tangible fixed assets | (62,124,427) | (34,753,863) |
| Intangible assets | (422,712,871) | (525,228,261) |
| Subtotal | (532,963,519) | (580,847,748) |
| Total investment activities (2) | (282,895,141) | (374,990,603) |
| Financing activities | | |
| Income from: | | |
| Loans obtained | 877,044,789 | 769,122,554 |
| Paid up capital, additional payments | 7,203,218 | 331,365 |
| Subtotal | 884,248,007 | 769,453,919 |
| Payments related to: | | |
| Loans obtained | (552,888,828) | (426,857,913) |
| Interest and similar gains | (71,165,986) | (87,814,275) |
| Dividends (36,203,510) | (19,568,372) | - |
| Capital decrease additional payments | - | 1,500,000 |
| Subtotal | (660,258,324) | (532,740,560) |
| Total financing activities (3) | 223,989,683 | 236,713,359 |
| Changes in cash and cash equivalents (1 + 2 + 3) | 152,058,874 | 68,255,475 |
| Effects of foreign exchange differences | 8,907 | 27,624 |
| Cash and cash equivalents at the start of the period | 148,952,995 | 77,759,616 |
| Perimeter changes | 5,394 | 2,910,280 |
| Cash and cash equivalents at the end of the period | 301,026,170 | 148,952,995 |
| | 31.12.2010 | 31.12.2009 |
| Cash and banks | 478,840,367 | 299,236,062 |
| Bank overdrafts | (177,814,198) | (150,283,067) |
| | 301,026,170 | 148,952,995 |

Lisbon, 15 March 2011

The Board of Directors

Pedro Eduardo Passos da Cunha Serra (Chairman)
 António Manuel da Silva Branco (Member)
 João Manuel Lopes Fidalgo (Member)
 José Maria Martins Soares (Member)
 Justino Manuel Matias Carlos (Member)
 Joaquim José de Oliveira Reis (Non-Executive Member)
 José Fernando Maia de Araújo e Silva (Non-Executive Member)

The Statutory 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. (henceforth also referred to as AdP Group) was established on 29 September 1993, head quarter at Rua Visconde Seabra nº3 in Lisbon. AdP, SGPS, S.A.'s shareholders are Parpública, SGPS, S.A. (72.18% of share capital), Parcaixa, SGPS, S.A. (19.00%) and the Direcção Geral do Tesouro (National Treasury) (8.82%).

AdP, SGPS, S.A. was given the responsibility for developing in Portugal of multi-municipal systems for the collection, treatment and distribution of water for public consumption, and the collection, treatment and disposal of urban waste water and the treatment of municipal solid waste. In 1998, the Company's mission became broader, initiating a diversification process in terms of business segments and geographically broadening its work to the segment of water distribution and wastewater collection from the populations served in the domestic and international markets.

I.2. Economic activity

I.2.1 Regulated and conceded activity

The concession contracts model created for the multi-municipal systems has the following characteristics: **(i)** concession infrastructure and equipment are constructed or acquired by the concessionaire company; **(ii)** the financing of these acquisitions/constructions is partially conducted with EU grants and long-term financing conducted by the European Investment Bank; **(iii)** the concessionaire is obliged to create a capital replenishment fund (in order to cover the return of the invested capital at the end of the concession); **(iv)** the sale prices (tariff) practiced are set by the Awarding Authority and approved by the regulating entity (ERSAR) and include a portion of capital return corresponding to a base rate of Treasury Bill issues (TBA). The six month Euribor rate or the Treasury Bonds (TB) rate accrued by three percentage points as a risk premium. AdP Group has ensured its remuneration through re-balancing clauses of the concession contract. These concessions generally have a duration of 30 years.

I.2.1.1 UNA-PD (Water Production and Purification)

The companies that make up this segment have a concession attributed by the State under an exclusivity regime to supply water and wastewater sanitation services. The concession contracts include high level of investment to be conducted by the concessionaire company. Financing is obtained via European Community funds, bank loans, total equity and internally generated resources, while the municipalities to whom the company supplies services are also shareholders. The service supplied is paid via the tariff established by the Awarding Authority, approved by the regulator (ERSAR) and invoiced to the municipalities that are served by each concession, and one of the characteristics of the concession contract is guaranteeing the return of invested capital.

I.2.1.2 UNR (Waste Business Unit)

In 2000, within the scope of the strategic guidelines for consolidating the main business group within the area of environment, AdP, SGPS, S.A began to fully own Empresa Geral do Fomento, S.A (henceforth also known as EGF) and via this company controlled its affiliates, which were given the responsibility of developing multi-municipal systems for collecting and treating municipal solid waste. The companies that make up this segment have a concession attributed by the State under an exclusivity regime to manage and improve solid waste (Waste area). Concession contracts include high levels of investment to be made by the concessionaire company and financing is obtained via European Community funds, bank loans, shareholder equity and internally generated resources, while the municipalities to whom the company supplies services are also total. The service supplied is paid via the tariff established by the Awarding Authority, approved by the regulator (ERSAR) and invoiced to the municipalities that are served by each concession, and one of the characteristics of the concession contract is guaranteeing the return of invested capital.

I.2.1.3 Partnerships

The companies that make up this segment are the result of a contract between the Portuguese State and the municipalities that make up the Partnership, and via the Partnership they have decided to group together the respective systems into a territorial system of water, also consisting of infrastructure and equipment constructed by the Partnership, according to a general technical solution and have delegated to the State, under a public partnership regime, operation and management of water services. As such, the Partnership has exclusive rights over water for public consumption and, when applicable, collection and treatment of water for this purpose, as well as exclusivity over collection of urban wastewater and, when applicable, the respective treatment and rejection in the areas covered by the System. They also include construction, renovation, repair, maintenance and improvement of infrastructure,

equipment and installations that make up the Partnership, essentially financed by loans, grants and total equity. The Partnership agrees to pay rent to the municipalities, indexed to turnover. The service supplied is paid via the fixed tariff invoiced to the customers (municipalities) that are served by each partnership, and one of the characteristics of the Partnership contract is guaranteeing return on invested capital and infrastructure.

1.2.2 Unregulated activity

1.2.2.1 EPAL

EPAL is responsible for abstraction, transport, treatment and distribution of water for human consumption with the aim of supplying a quality service, respecting essential social and environmental aspects. It includes distribution to the city of Lisbon (domestic distribution) and "up stream" distribution to 33 municipalities on the north bank of the Tagus River. EPAL has a concession mandate, which never resulted in a concession contract. The mandate attributed has no time limit, investment obligation or remuneration. The tariffs practiced are regulated administratively.

1.2.2.2 International

This segment seeks to develop international business and includes the following foreign operations: **(i)**- Águas de Moçambique, S.A.R.L. - water supply: two management/operation contracts which do not entail any financing risk for investments; **(ii)** Angola - technical assistance contract. Affiliate Águas de Moçambique was sold at the end of 2010.

1.2.2.3 Corporate services

This includes shared services supplied by holding company, namely AdP Serviços, Aquasis and AdP Energias (ex Reciclamas), within the scope of optimization of resources and obtaining group synergies.

1.3 Strategy

Cabinet Resolution no. 72/2004 of 16 June, which defined the broad strokes for a model to restructure the water sector in Portugal, redefining the strategic positioning of AdP Group, focused on conclusion of the basic sanitation infrastructures cycle and instrumental in the aforementioned corporate restructuring of the sector. The AdP Group was thus instructed to undertake its business activity in core areas and dispose of or autonomize other areas. In March 2005, the Program of the 17th Constitutional Government emphasized the contribution of the AdP Group to the national challenge involved in improving the environmental infrastructures and their respective management in order to attain service levels similar to those of developed countries, ahead of a strategy for the corporate water and water sector alternative to that which results from Cabinet Resolution no. 72/2004. The formulated guidelines point to a consolidation of this corporate group, equipped with the conditions to ensure development of environmental public policy for the sector in areas such as water supply, sanitation and waste treatment, notwithstanding establishment of strategic partnerships that help improve its response capacity, develop national capacities and structure investments, taking into account the targets of the Water Supply and Wastewater Sanitation Strategic Plan (PEAASAR) and the Urban Solid Waste Strategic Plan (PERSU).

1.4 Mission and future orientations

Joint Order no. 169/2006 and 300/2007 from the Ministers of Finance, Public Administration, the Environment and Territorial Planning and Regional Development approved the recommendation to the AdP - Águas de Portugal, SGPS, S.A. Board of Directors regarding the company's mission during the current term in which the respective missions and guidelines are defined according to Business Unit. The prevalent business model at AdP Group is based on concession contracts established between the Portuguese State and each of the affiliate companies of the AdP Group, establishing the rules for operating and managing the respective multi-municipal systems within an exclusivity framework for a period of twenty-five to thirty years. These concessions establish the criteria for setting and approving the rates to be applied by the companies for each year, in order to ensure a suitable financial balance between the concessions, according to the following criteria: **a)** Ensure, within the concession period, amortization of the real initial investment amount that is the responsibility of the concessionaire, net of contributions and non-recoverable grants; **b)** Guarantee proper functioning, conservation and safety of all assets allocated to the concession and the scheduled replacement of these assets; **c)** Meet the amount of costs necessary for efficient management of the system and take into account the existence of income not coming from tariffs; **d)** Ensure payment of the operating expenses of the Follow-up Committee, current regulating entity ERSAR – Entidade Reguladora dos Serviços de Águas e Resíduos (Regulating Entity for Water and Waste Services), as well as ensure adequate return on the capital invested by the concessionaire, based on the date that capital is paid up.

Vision and objectives for the 2008-2010 three year period:

- a) AdP shall move ahead with execution of public policies and contribute to attaining the national objectives for the sector by implementing the measures defined and stipulated in the PEAASAR, PERSU and ENEAPAI in order attain the results stated therein;
- b) ensure compliance with the contracts that bind it and supply services under the best conditions of quality and price, and as such promote improvement of the economic, environmental and energetic efficiency of the affiliated companies;
- c) ensure economic-financial sustainability of the operations it is involved in, promoting correction of inadequate contractual situations.

1.5 Organization

The corporate structuring and organizational model adopted by the central administration of AdP Group is based on three fundamental pillars: **(i)** classification of the companies into five Business Units, which are normally given autonomous management and resources suited to the specificity of each activity, supported by resources available at the corporate centre and shared services; **(ii)** legal benchmark in relationships; **(iii)** integrated information system platform that is scalable to the entire group.

1.6 Approval of the financial statements

These consolidated financial statements were approved and authorized for publication by the Board of Directors on 15 March 2011.

2. Accounting policies

The present financial statements were 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 by the previous Standing Interpretations Committee (SIC), adopted by the EU and in force for financial years beginning 1 January 2010.

During the year ended 31 December 2009, AdP Group also published, for the last time, financial statements made in accordance with accounting principles generally accepted in Portugal (See note 5). As such, the values stated in relation to 2009 are re-stated amounts.

The most significant accounting policies used to prepare these financial statements are described below. These policies were applied consistently within the comparative periods, except when stated to the contrary.

2.1 Basis of presentation

The amounts stated, except when indicated to the contrary, are expressed in euros (EUR). AdP's consolidated financial statements were prepared on a historical cost basis, except with regard to land, buildings and basic equipment included in tangible fixed assets, which are stated at revalued cost, derivatives, financial investments held for trading and financial investments available for sale, which are recorded at the respective fair value (market value). The preparation of financial statements requires use of estimates and assumptions that affect the reported amounts of assets and liabilities, along with the amounts of income and costs reported during the reporting period. Although these estimates are based on a better understanding of management in relation to events and current actions, the results may ultimately differ from these estimates. However, management believes that the estimates and assumptions adopted do not incorporate the significant risks that may cause material adjustments in the amounts of the assets and liabilities during the course of the next financial year.

2.1.1 New Norms and Policy Changes

As a result of European Union (EU) endorsement, the following standards and interpretations were adopted to come into force as of 1 January 2010:

- IFRS 1 (Amendment) - First adoption of the IFRS. Establishes additional exceptions when adopting the IFRS for the first time; see note 5.
- IFRS 2 (Amendment) - Recording of payments based on shares, paid in cash in intragroup transactions. This amendment clarifies that the recording of situations in which an entity receives services or products from its employees in exchange for financial considerations paid by the parent company or another group company is processed in accordance with this standard. As a result of this amendment, IFRIC 8 – "IFRS 2 Scope" and IFRIC 11 – "IFRS 2 -- Transactions of Group Shares and Equity" were removed.

- IFRS 3 (Revised) - Concentrations of business activities. This revision brought significant changes to the level of measuring and recognizing concentrations of business activities conducted during financial years that begin on or after 1 July 2009, namely with regard to:

- (a) measurement of non-controlled interests (previously referred to as minority interests);
- (b) recognition and subsequent measuring of contingent payments;
- (c) processing of direct costs related to concentration.

- IAS 27 (Amendment) - Consolidated and Individual Financial Statements. Below the main changes:

- transactions that result in changes in percentage of holdings that do not result in loss of control are recorded as total equity, and do not have any impact on goodwill, or on gains and losses;
- when control of a subsidiary is lost:
 - all the amounts recognized in the Comprehensive Income regarding that subsidiary are fully transferred to gains and losses;
 - the retained interests are revalued to fair value and this effect will be taken into account in determining the gain or loss recorded with the sale;
- partial reimbursement of net investment in a foreign subsidiary no longer results in reclassification of the transposition differences of total equity to gains and losses,
- the losses of a subsidiary are now distributed among the non-controlled interests (formerly known as minority interest) even if they exceed interests in the subsidiary. As a result of this amendment, the diluted earnings per share due to a loss will likely be equal to the basic earnings per share.

- IAS 39 (Amendment) - Financial instruments: recognition and measurement - eligible items covered.

- IFRIC 12 - Service concession agreements.

- IFRIC 15 - Building construction agreements.

- IFRIC 17 - Distributions of non-cash assets to owners.

- IFRIC 18 - Transfers of assets from customers.

- Other amendments to the IFRS - Year 2009. The annual IFRS improvement process seeks to deal with the resolution of situations that need to be improved in order to increase their general understanding, but are not classified as priorities. The IASB approved 15 amendments to 12 standards, some of which are the result of changes in accounting methods, while others are related to issues of terminology and consistency between standards, with minimum impacts. The European Union endorsed these amendments in March 2010. In terms of the process for improvements in 2008, the amendment to IFRS 5 (clarification regarding the treatment of a subsidiary held for sale) only came into force on 1 January 2010.

Finally, the provisions of the standards and interpretations that are obligatory only in the future were not adopted, and are as follows:

Already endorsed by the EU:

- IFRS 1 (Amendment) - Exceptions to disclosure of comparatives required by IFRS 7 upon adopting IFRS for the first time;
- IAS 32 (Amendment) - Clarification of issue rights.
- IFRIC 14 (Amendment) - Advances related to minimum financing requirements.
- IFRIC 19 - Extinction of financial liabilities with Total Equity instruments.

Not yet endorsed by the EU:

- IFRS 9 - Financial instruments (introduce new classification requirements and measurement of financial assets). This issue is part of a phased project of revision and gradual replacement of IAS 39 in order to reduce the complexity of its application; Below the main changes:

- In terms of classification and measurement:
 - The categories of financial assets have been reduced,
 - requirements for separating embedded derivatives have been eliminated;
 - reclassification restrictions have been eliminated.
- The classification of assets now follows the business model in which assets are included, also taking into account the characteristics of the instruments;
- The differences of fair value of total equity instruments considered strategic are now recognized as reserves without being recognized as results, even in situations of impairment or sale.
- Other IFRS amendments - 2010 improvements. The IASB approved 11 amendments to six standards. The European Union has not yet endorsed these amendments.

None of the standards described above (standards that were not adopted and whose application is obligatory only in future financial years) are expected to have any relevant impact on the financial statements of AdP Group.

2.2 Consolidation

2.2.1 Dates

The consolidated financial statements reflect the assets, liabilities, results and cash flow of AdP, SGPS, S.A. and of subsidiary companies, as well as the result proportional to the financial holding in associated companies regarding the years ended at 31 December 2010 (and comparison with 31 December 2009).

2.2.2 Financial holdings in subsidiaries

Financial holdings in subsidiaries and companies in which the group directly or indirectly holds more than 50% of voting rights at the General Shareholders Meeting or has the power to govern financial and operating policies of the company were included in the consolidated financial statements via the full consolidation method. Subsidiaries are included in the consolidation from the date on which control is acquired until the date it ends.

The purchase method is used when calculating subsidiary purchases.

Acquisitions after 2010:

With the acquisition method the difference between: **(i)** the remuneration transferred jointly with the non-controlled interests (previously referred to as minority interest) and with the fair value of the total equity interest previously held and **(ii)** the net amount of identifiable assets acquired and accepted liabilities is recognized at the acquisition date as goodwill if positive or as gain if negative.

The remuneration transferred is measured at fair value calculated as being the aggregate value of the fair values at the date of acquisition of the transferred assets, incurred liabilities and total equity instruments issued by the group. In determining goodwill/concentration gains, transferred remuneration is removed of any part of remuneration that pertains to any other transaction (e.g. Remuneration for the supply of future services or for liquidating pre-existing relationships) whose margin is recognized separately under results.

Transferred remuneration includes fair value, at acquisition date, of any contingent remuneration. Subsequent changes to this value are recognized: **(i)** as total equity if the contingent remuneration has been classified as total equity **(ii)** costs or income under results or as another comprehensive income if the contingent remuneration has been classified as a financial asset or liability within the scope of IAS 39 and **(iii)** as costs under IAS 37 or other applicable standards in all other cases.

Costs related to acquisition are not part of transferred remuneration and as such do not affect determination of goodwill/acquisition gain, and are recognized as costs of the year in which they occur.

The classification and identification of all assets acquired and liabilities transferred are revaluated on the acquisition date in accordance with IFRS, with the exception of leasing and insurance contracts that are classified and identified on the basis of contractual terms and conditions at the date of the start of the contract.

Assets that result from contractual compensation by the seller in relation to the result of contingencies related, in whole or in part, to a specific liability of the concentrated entity have to become recognized and measured using the same principles and criteria of the related liabilities.

Determination of fair value of acquired assets and acquired liabilities takes into account the fair value of the contingent liabilities that result from a present obligation originated by a past event (if the fair value can be measured reliably), regardless if outflow is expected and likely.

For each acquisition the group can opt to measure "non-controlled interests" at the respective fair value or the respective share in the assets and liabilities transferred from the acquiree. The choice of one method over another influences the amount of goodwill that will be recognized. When the concentration of business activities is performed in phases, the fair value at the previous acquisition date of the interests held is revaluated at fair value at the date on which control is obtained, under results for the period when control is achieved, thereby affecting determination of goodwill.

Goodwill is considered to have an undefined useful life and is thus not amortizable and is subject to impairment annual tests regardless of whether or not there are indications of impairment.

Whenever a concentration is not concluded at the report date, it shall be adjusted retrospectively during a maximum period of one year from the date of acquisition, the temporary amounts being recognized at the acquisition date and/or additional recognized assets and liabilities if new information is obtained regarding facts and circumstances that existed at the date of acquisition and if they had been known would have resulted in the recognition of these assets and liabilities at that date.

Acquisitions prior to 2010:

Compared to the processing described above applicable as of 1 January 2010 the following differences exist:

- The cost of an acquisition includes the costs directly attributable to the acquisition and thus they affect goodwill ; Non-controlled interests of the acquiree (previously referred to as minority interest) were valued only in terms of the share in the identifiable net assets of the acquiree but they did not figure in determining goodwill/gain of the concentration;
- When the concentration of the business activities was conducted over various phases, the fair value at the previous acquisition date of the interests held was not revaluated at the date when control was obtained and as such previously recognized goodwill remained unaltered;
- Any contingent acquisition value was recognized only if the group had a present obligation, outflow was probable and the estimate was reliably determinable; subsequent changes to this amount were recognized as goodwill.

Intragroup balances and transactions and unrealized gains from transactions between group companies are eliminated. Unrealized losses are also eliminated except when the transaction shows evidence of impairment of a transferred good.

Accounting policies of the subsidiaries are changed whenever necessary, in order to guarantee consistency with policies adopted by the group.

In situations where the group substantially controls entities created for a specific purpose, even if it does not own capital holdings directly in these entities, these entities are consolidated via the full consolidation method.

Below, a breakdown of the companies consolidated using the full consolidation method:

| Business Unit/ Company | Head Quarter | % Capital Holdings | Currency | Shareholder Capital | Total Equity | Net income of the year |
|--|--------------------------|--------------------|----------|---------------------|--------------|------------------------|
| UNA-PD | | | | | | |
| Águas do Algarve, S.A. | Faro | 54% | EUR | 29,230,875 | 36,753,404 | 5,134,632 |
| Águas do Centro Alentejo, S.A. | Évora | 51% | EUR | 5,000,000 | 1,839,104 | (837,823) |
| Águas do Centro, S.A. | Castelo Branco | 70% | EUR | 24,000,000 | 16,376,815 | (2,666,878) |
| Águas do Douro e Paiva, S.A. | Porto | 51% | EUR | 19,402,500 | 22,945,236 | 2,176,370 |
| Águas do Mondego, S.A. | Taveiro | 51% | EUR | 18,262,743 | 19,398,742 | 962,747 |
| Águas do Norte Alentejano, S.A. | Portalegre | 51% | EUR | 7,500,000 | (2,969,696) | (1,383,830) |
| Águas do Noroeste, S.A. | Barcelos | 57% | EUR | 52,428,327 | 41,268,134 | 1,048,096 |
| Águas do Oeste, S.A. | Óbidos | 51% | EUR | 29,733,970 | 23,161,142 | (780,624) |
| Águas de Santo André, S.A. | Vila Nova de Santo André | 100% | EUR | 1,000,000 | 2,453,750 | 1,500,328 |
| Águas de Trás-os-Montes e Alto Douro, S.A. | Vila Real | 71% | EUR | 26,966,250 | 2,062,856 | (735,805) |
| Águas do Zêzere e Côa, S.A. | Guarda | 87% | EUR | 26,607,560 | 11,252,735 | 54,531 |
| AgdA - Águas Públicas Alentejo, S.A | Beja | 51% | EUR | 500,000 | 528,271 | 25,693 |
| Sanest, S.A. | Cascais | 51% | EUR | 11,000,000 | 33,116,954 | 1,180,827 |
| Simarsul, S.A. | Setúbal | 51% | EUR | 25,000,000 | 25,372,433 | (37,170) |
| Simdouro, S.A. | Vila Nova de Gaia | 51% | EUR | 5,596,579 | 5,552,072 | (44,507) |
| Simlis, S.A. | Leiria | 70% | EUR | 5,000,000 | (3,101,488) | (1,996,995) |
| Simria, S.A. | Aveiro | 68% | EUR | 16,258,219 | 15,162,462 | 3,337,954 |
| Simtejo, S.A. | Lisboa | 51% | EUR | 38,700,000 | 58,920,622 | 5,738,571 |
| EPAL | | | | | | |
| EPAL, S.A. | Lisboa | 100% | EUR | 150,000,000 | 506,107,841 | 45,887,092 |
| UNA-DR | | | | | | |
| AdRA - Águas da Região de Aveiro, S.A. | Aveiro | 51% | EUR | 15,000,000 | 16,368,130 | 1,136,027 |
| UNR | | | | | | |
| Algar, S.A. | Faro | 56% | EUR | 7,500,000 | 9,712,645 | 136,014 |
| Amarsul, S.A. | Palmela | 51% | EUR | 7,750,000 | 11,225,547 | 30,150 |
| Empresa Geral do Fomento, S.A. | Lisboa | 100% | EUR | 56,000,000 | 85,734,653 | 3,493,593 |
| Ersuc, S.A. | Coimbra | 51% | EUR | 4,075,000 | 14,641,697 | 1,182,741 |
| Resiestrela, S.A. | Fundão | 63% | EUR | 3,532,835 | 4,696,674 | 630,202 |
| Resinorte, S.A. | Coimbra | 68% | EUR | 8,000,000 | 8,949,583 | (493,168) |
| Resulima, S.A. | Viana do Castelo | 51% | EUR | 2,500,000 | 2,876,316 | 535,325 |
| Suldouro, S.A. | Sermonde | 60% | EUR | 3,400,000 | 6,517,575 | 167,380 |
| Valnor, S.A. | Avis | 53% | EUR | 8,912,321 | 12,698,516 | 1,535,636 |
| Valorlis, S.A. | Leiria | 51% | EUR | 2,000,000 | 3,612,892 | 552,799 |
| Valorminho, S.A. | Valença | 51% | EUR | 900,000 | 1,366,264 | 179,324 |
| Valorsul, S.A. | S. João da Talha | 56% | EUR | 25,200,000 | 53,334,883 | 6,027,785 |
| International | | | | | | |
| AdP Internacional, S.A. | Lisboa | 100% | EUR | 175,000 | 5,532,574 | 8,501,365 |
| Águas do Brasil, S.A. | Rio de Janeiro - Brazil | 100% | BRL | 2,050,100 | (1,331,794) | - |
| Aquatec, Lda. | Maputo - Mozambique | 100% | MZM | 2,476,580 | (35,827,467) | (2,567,665) |
| Corporativos | | | | | | |
| AdP Serviços, S.A. | Lisboa | 100% | EUR | 50,000 | 2,594,745 | 647,602 |
| Aquasis, S.A. | Lisboa | 55% | EUR | 50,000 | 451,789 | 32,280 |
| AdP Energias, S.A. | Lisboa | 100% | EUR | 250,000 | 2,752,027 | (382,997) |

2.2.3 Financial holdings in associated companies

Investments in associated companies are stated at the value resulting from application of the equity method. According to this method, consolidated financial statements shall include the group's share of total gains and losses recognized from the date that the significant influence begins until the date when it effectively ends. Associated companies are companies in which the group holds 20% to 50% of voting rights or over which the group has significant influence, but cannot exercise its control. Gains or losses not realized in transactions between the group and its associated companies are eliminated. Dividends distributed by the affiliate are considered reductions in the investment.

When the share of losses of an associated company exceeds the investment in the associated company the group recognizes additional losses in the future if the group is subject to obligations or has made payments benefiting the associated company.

Any excess cost in acquiring a financial investment over the group's holdings in the fair value of the assets, liabilities and contingent liabilities identified at the date of acquisition of the associated company is recognized as goodwill, which is included in the value of the financial holding and its recovery is valued annually as an integral part of the financial investment. If the acquisition cost is less than the fair value of the net value of the assets of the acquired associated company, the difference is recorded directly in the income statement.

Below, entities that are classified as associated companies.

| Companies | Headquarter | % Capital Holdings | Shareholder Capital | Assets | Liabilities | Shareholder Capital | Sales | Net Income |
|-----------------------------------|-------------|--------------------|---------------------|-----------|-------------|---------------------|--------|------------|
| Trevo Oeste, S.A. | Alcobaça | 35,00% | 1.236.085 | 3.277.313 | 852.006 | 2.425.307 | - | (81.139) |
| Netdouro, S.A. | Porto | 100,00% | 50.000 | 95.384 | 15.520 | 79.864 | 25.200 | 10.265 |
| Clube de Golf das Amoreiras, S.A. | Lisboa | 100,00% | 350.000 | 1.511.688 | 1.373.788 | 137.900 | - | (50.671) |
| Miese (i) | Vila Real | 40,00% | 200.000 | 201.003 | 82.608 | 118.395 | - | (81.605) |
| Águas de Timor, S.A. (ii) | Timor | 100,00% | 5.000 | - | - | - | - | - |

(i) Amounts as at 31 December 2009.

(ii) Company that is not operating

2.2.4 Financial holdings in foreign subsidiaries

In preparing consolidated financial statements, the value of assets and liabilities of subsidiaries domiciled abroad are recorded in euros at the official exchange rates in force at the balance sheet date. Subsidiary results are stated at their value in euros at the average monthly exchange rate of the year. Foreign exchange differences resulting from conversion of net worth into euros at the start of the year and of income of the year at the official exchange rate applicable at the balance sheet date are recorded under shareholder equity.

2.2.5 Goodwill

Goodwill is the excess acquisition cost over the fair value of the identifiable assets and liabilities attributable to the group at the date of acquisition or at the date of the first consolidation. If the acquisition cost is less than the fair value of the net assets of the acquired subsidiary, the difference is recorded directly under income of the year. Goodwill is not amortized, however the group looks for possible impairment on an annual basis or when there are any indications of impairment. If there is any indication of this, an assessment is conducted regarding the recoverability of the net value of goodwill, and an impairment loss is recognized whenever the book value of goodwill exceeds its recoverable value. For the purposes of conducting the impairment test, goodwill is attributed to the basic cash flow generating units (CGU) and compared with the present value of future cash flows generated by them. Gains or losses from the sale of an entity includes the book value of goodwill in relation to this entity, except when the business that goodwill is associated with keeps generating benefits for the group.

2.2.6 Balances and transactions

Intragroup transactions, dividend distributed between group companies, balances and unrealized gains from transactions between group companies are eliminated.

2.3 Information according to business area

A business area is a group of assets and operations involved in the supply of products or services subject to risks and benefits that are different from other business areas. A geographic segment involves the supply of products or services within a particular economic environment that is subject to risks and benefits different from those that influence segments that operate in other economic environments. AdP Group only reports according to business area because the transactions conducted by the group's international companies are presented as an isolated business area in the supply of production and/or water distribution services."

Below the identified business areas:

I - Regulated activities

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

II - Unregulated activities

- a. EPAL - production and distribution of water;
- b. International - includes the business of international companies: Águas de Moçambique and Aquatec;
- c. Corporate - includes the business of AdP SGPS, EGF, AdP Serviços and AdP Energias (ex Reciclamas).

2.4 Foreign exchange conversion

2.4.1 Functional and accounting currency

The items included in the AdP Group financial statements are measured in the currency of the economic environment in which the entity operates (functional currency). The AdP Group financial statements and respective notes are stated in euros, barring any explicit indication to the contrary.

2.4.2 Transactions and balances

Transactions in currencies other than the euro are converted to the functional currency at the exchange rates in force at the transaction dates. Foreign exchange gains or losses resulting from payment of transactions and conversion, at the rate applicable at the balance sheet date, of the monetary assets and liabilities stated in foreign currency are stated in the income statement, except when they relate to an extension of the investment in a foreign operation, in which case they will be deferred to total equity in accordance with IAS 21. Non-monetary elements valued at fair value are updated at the exchange rate as at the date when the fair value is determined, and the foreign exchange difference effect shall be recorded together with the change recorded in the fair value of said elements. The calculated foreign exchange differences are therefore recorded under income/loss of the year or under "Other reserves," according to the appropriate manner for recognizing gains or losses for the non-monetary element in question. Conversion of non-monetary elements valued at historic cost into the AdP Group functional currency is obtained by applying the foreign exchange rate in force at the transaction date.

2.4.3 Group companies

The results and financial position of all the AdP Group entities that use a functional currency different from the accounts currency, providing it is not the currency of a hyper-inflated economy, are converted to the accounts currency as follows: (i) the assets and liabilities of each balance sheet are converted at the exchange rate in effect at the consolidated balance sheet date; (ii) the income and gains 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 applied at the transaction dates, and in this case, income and costs are converted at the exchange rates in effect at the transaction dates); and (iii) the resulting exchange rate differences are recognized as a separate component under "Other reserves."

Under consolidation, foreign exchange differences resulting from the conversion of a monetary item that is part of the net investment in foreign entities are reclassified under total equity. When a foreign operation is sold, these foreign exchange differences are recognized in the consolidated income statement as part of the gains or losses from the sale.

Goodwill and adjustments to fair value resulting from the acquisition of a foreign entity are considered assets or liabilities of the affiliate and converted at the exchange rate in effect at the balance sheet date.

2.4.4 Fixings used

The foreign exchange fixings used to convert transactions expressed in currencies other than the euro or to update balances expressed in foreign currency, are as follows:

| Country | Currency | 31.12.2010 | | 31.12.2009 | |
|------------|-------------|------------|--------|------------|--------|
| | | average | final | average | final |
| Brazil | Real | 2.32 | 2.22 | 2.76 | 2.51 |
| Cape Verde | C.V. Escudo | 110.27 | 110.27 | 110.27 | 110.27 |
| Mozambique | Metical | 45.44 | 43.65 | 38.95 | 44.15 |
| Japan | Yen | 115.26 | 108.65 | 129.65 | 133.16 |
| USA | USD | 1.22 | 1.34 | 1.40 | 1.44 |

2.5 Regulated activity - recognition of regulatory assets and liabilities

2.5.1 Introduction

Companies that manage MMS (multi-municipal systems) operate within the scope of regulated activities. The most significant regulation effect on the activity of companies involves the monitoring that the regulating entity (ERSAR - DL 362/98 of 18 November; due to

the amendments introduced by DL 151/2002 of 23 May and DL 277/2009 of 2 October) conducts on the tariff to apply to the services rendered to users and the respective annual budget.

Under this monitoring, the tariffs to be applied by the companies require approval by the Awarding Body, subject to opinion from the Regulator regarding its suitability.

Taking into account the hierarchy defined in IAS 8 and the specific circumstances of the concession contracts in force, the group companies with regulated activities have adopted rules internationally applied to companies that operate in markets with these characteristics (namely FAS 71, issued by FASB and ED/2009/8 issued by IASB). As such, a series of criteria have been defined for recognizing assets and liabilities related to regulations. These rules state that a company must recognize the effects of its operating activity on the financial statements, providing it renders services whose prices are subject to regulation.

Regulatory assets and liabilities can only be recognized if, and only if: **(i)** an accredited body (e.g. the Regulator) determines the price that an entity should charge its customers for the goods or services that it provides and this price binds customers to accept it, and **(ii)** the price established by the regulation (the tariff) is determined so as to recover the specific costs incurred to supply the goods or services and obtain a particular remuneration.

The activity of multi-municipal companies from Águas de Portugal Group is regulated in so far as prices are established by a third party entity (Ministry of the Environment), subject to an opinion issued by the Regulator (ERSAR, I.P., Entidade Reguladora dos Serviços de Água e Resíduos, I.P.) and therefore included within the scope of this standard.

In short, a company is required to recognize regulatory assets or regulatory liabilities if the Regulator allows recovery of costs previously incurred or reimbursement of previously charged amounts and remuneration from the regulated activities, via adjustments to the price charged to its customers. That is to say, when there is a right to increase or the obligation to reduce tariffs in future periods as a result of the current or expected practice of the Regulator; **(i)** an entity should recognize a regulatory asset in view of recovering a previously incurred cost and obtaining a certain remuneration; or **(ii)** an entity should recognize a regulatory liability in order to reimburse amounts previously collected and pay a particular 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 recognized under results as cost (or income).

The Board of Directors believes that this category includes both tariff deficit and accrued costs for contractual investment. As such, in accordance with the rule for recognizing regulatory assets and liabilities, these assets (and/or liabilities) must be recognized in the balance sheet, seeing as the recovery of their cost (and/or reimbursement of the liability) is obligatorily eligible for the purpose of determining the tariff by the Regulator during subsequent periods.

2.5.2 Tariff deficit assets and liabilities

Legally speaking, affiliated companies obtain guaranteed return on the capital invested by the shareholder, as defined in the concession contracts, which establish the criteria for establishing tariffs or guaranteed values in annual terms, ensuring complete recovery of investment, operational and financial costs, and suitable return on the total equity of the concessionaires. Potentially speaking, this remuneration may be accrued by a remuneration related to productivity gains.

As such, on an annual basis, the difference between the result generated by the operations and the return guaranteed on invested shareholder capital is calculated, and the gross value is recorded under income – tariff gaps – and the tax ensuing from this is recorded in a deferred tax account in the balance sheet under regulatory assets and liabilities.

The amount of yield on the tariff deficit corresponds to the credit or debit to apply to the yield of the regulated activities, so that it reveals the income necessary for compliance with the contractual requirement regarding the full recovery of costs, including corporate income tax (IRC) and annual guaranteed remuneration.

If the difference is positive (tariff practiced > necessary tariff) a negative tariff deficit is generated, which must be debited from income. This recognition also leads to recognition of a deferred tax asset related to the correction of the tax associated with income debit. The net effect corresponds to the correction of net income for full recovery of costs and guaranteed annual shareholder remuneration.

If the difference is negative (tariff practiced > necessary tariff) a positive tariff deficit is generated, which must be debited from income. This recognition also leads to recognition of a deferred tax liability related to the correction of the tax associated with income credit. The net effect corresponds to the correction of net income for full recovery of costs and guaranteed annual shareholder remuneration.

2.5.3 Cost accruals for contractual investments and amortization policy

In accordance with the terms of the concession contracts and management of partnerships and the regulations and whenever applicable, the annual share of estimated costs is recorded to cover the contractual expenses related to investments that have not yet been realized (regulated) or investments to expand (regulated) the concession and the partnership.

For assets (which will result in infrastructure usage rights – IFRIC 12) with useful lives greater than the concession period, initial investment amortization, that which is subsequently approved or imposed by the Awarding Body and which results in expansion or modernization of initial obligations must normally be conducted in accordance with the concession time period. However, additional expansion or modernization investments whose useful life is extended beyond the concession time period and which have a residual value will result in a compensation equivalent to the not yet amortized value at the date of the end of the concession.

These amortizations are calculated taking into account initial not yet realized investments that are included in the economic and financial feasibility study, based on the invoiced effluent flows invoiced during that year and the effluents to be invoiced up until the end of the concession as stipulated in the feasibility study. They are recorded under results as accumulated amortizations and accrued costs for contractual investments recorded under liabilities.

In practice, these accruals correspond to future reimbursement of the tariff (translating into the amount charged, taking into account investments not yet undertaken) allowing a stabilizing level, imposed by the Awarding Body, as well as matching, during the validity period of the concession contracts with the State, of income (tariffs) and costs (paid and payable) as mentioned previously.

These accruals are recognized as costs under amortization of the year and under liabilities (non-current), and transferred to accumulated amortization when the underlying investment is executed.

2.6 Concessed activity - IFRIC 12

2.6.1 Framework

IFRIC 12 defines the rules to be followed when recognizing concession contracts in the accounts, taking into account the services rendered and the controlling power over concession assets. Under this standard the AdP Group companies supply two types of services: construction, modernization and renovation of infrastructures allocated to the system; and operation and management (operate and maintain) of the system consisting of the infrastructures necessary for supplying services to the users. As such, the company recognizes and measures yield (income) from the services that it supplies in accordance with IAS 11 – Construction contracts and IAS 18 - Yield.

If the company supplies more than one service (i.e. construction or modernization of services and operation) within the scope of a single concession contract, the amount receivable (prices or tariffs) must be distributed in accordance with its fair values when they are individually (separately) identifiable. The nature of the price and the tariff determines how they are stated in the accounts. The company should recognize yield and costs related to construction or modernization of infrastructure in accordance with IAS 11. The company should recognize yield and costs related to the operation in accordance with IAS 18. In addition, infrastructure mentioned in IFRIC 12 should not be recognized as the tangible fixed assets of the operator (or concessionaire) because the concession contract does not grant it the right to control the tangible fixed assets. The operator has access to and operates the infrastructure in order to provide a public service in the name of the Awarding Authority, in accordance with the terms of the contract. Under the concession contract, pursuant to this norm, the operator (or concessionaire) acts as a service provider. The operator (or concessionaire) constructs or modernizes the infrastructure (construction or modernization of services) used to supply public services and operates and maintains the infrastructure (operation) during a specific period of time. If the operator (or concessionaire) constructs or modernizes the infrastructures, the value (tariff) received or receivable by the operator must be recognized at its fair value, which corresponds to a value that materializes in a right that corresponds to: **(a)** a financial asset or **(b)** a tangible asset. The operator (or concessionaire) recognizes a financial asset in so far as it has a contractual right to receive money or another financial asset from the Awarding Body for the construction services; the Awarding Authority cannot avoid payment because the contract is enforceable under the law. The operator (or concessionaire) has the unconditional right to receive money if the Awarding Authority contractually guarantees this payment to the operator, which corresponds to **(a)** a specific amount or **(b)** the difference, if it exists, between the amounts received from the public service users and another specific amount, even if the

payment is contingent on the fact that the operator (or concessionaire) ensures that the infrastructure meets the quality and efficiency requirements. The operator (or concessionaire) must recognize an intangible asset in so far as it receives a right (licence) to charge users for public service. The right to charge users for a public service is not an unconditional collection right because the amounts are conditioned to the fact that the users use the service.

2.6.2 Infrastructure classification

Contractually speaking, the group companies are based on formats that tend to classify infrastructure as a financial asset because they do not pose a risk, are entitled to contractually guaranteed annual (minimum) remuneration that can be received as a deferral over time, but which is guaranteed.

However, the definition of the financial asset, established under IAS 32 is not associated with risk, but rather with the present and unconditional right to receive money or another financial asset. Among the various mechanisms for re-balancing the concession contracts of the AdP Group companies, namely increase in tariffs, direct compensation of the Awarding Body and/or extension of the term of the concession, extension of the term does not fulfil the requirements stipulated in that standard (IAS 32), seeing as it constitutes a future right to be collected from the users, making the option unfeasible due to recognition of the financial asset. As such, the AdP Group companies that are SMM concessionaires or managers of partnerships classify the infrastructures of the systems that they operate as intangible assets - Right to use the infrastructures.

Intangible assets are recorded at acquisition or production cost, including direct cost and income (net) and indirectly related to investment projects that are capitalized under fixed assets under construction. Costs that can be capitalized are related to realization of the investment. Operational costs are allocated to fixed assets under construction on the basis of a percentage calculated in accordance with the allocation of staff to the respective projects. Financial charges related to loans obtained for financing the investment in progress are fully capitalized until operation of the system begins.

Expenses that materialize in expansion or modernization of initial infrastructures, via economic regulation of concessions, are specifically remunerated to the extent that they contribute to forming the tariff (i.e. they are implicitly recovered upon acceptance of the amortization by the Regulator) and are thus calculated as part of the intangible asset. Current conservation and maintenance costs are recognized as costs during the respective financial years in which they occur.

2.6.3 Amortization

Intangible assets, right to use infrastructures, are amortized on a systematic basis in accordance with the standard for obtaining economic benefits associated with them. In the case of the AdP Group concessions, the economic benefits obtained from the rights of the concession are determined by economic regulation, i.e. by accepting amortization costs when the Regulator annually forms the tariffs.

2.6.4 Residual value

Additional expansion or modernization investments whose useful life is extended beyond the concession time period may have a residual value that will result in a compensation equivalent to the not yet amortized value at that date and as such these amounts are classified as financial assets (discounted amount receivable).

2.6.5 Yield - construction services

Under IFRIC 12 - Concession contracts, yield on construction services should be recognized in accordance with IAS 11 – Construction contracts. The regulatory model and the calculation rules for the tariffs do not permit AdP Group companies to eliminate the construction service or the operation service from the tariff or that the fair value of the respective yield be determined reliably.

It should be pointed out that AdP Group, during the infrastructure construction phase, acts as an “agent”/intermediary, transferring risks and returns to a third party (who constructs), without appropriating any margin doing the course of its operating activity.

As such, and taking into account the regulated activity of the AdP Group companies, the recognized yield is that which results strictly from application of the tariffs approved by the Awarding Body and monitored by the Regulator, plus or minus the underlying tariff deficit, as stipulated in the concession contracts and as such yield on construction services is not yet known..

2.7 Tangible fixed assets

Tangible fixed assets are valued at cost, less all impairment losses, and depreciated in accordance with estimated useful life. Expenses directly attributable to acquisition of the goods and their preparation for operation are considered at their balance sheet value.

A significant part of the tangible fixed assets of AdP Group (EPAL) acquired at 31 December 2008 are recorded at acquisition cost or deemed cost, which includes the effects of revaluations conducted in accordance with legal provisions, as well as the effects of free revaluations, on the basis of valuations conducted by an independent and specialized entity with reference to the transition date (1 January 2009).

Subsequent costs are included in the book value of the asset or recognized as separate assets, whatever the case may be, only when it is probable that economic benefits will ensue for the Company and the cost can be reliably measured. Depreciation of the assets shall be conducted over the course of the remaining useful life of the asset or until their next repair, whichever occurs first. The replaced component of the asset is identified and recorded under income/loss.

All other expenses related to repairs and maintenance are recorded as cost for the period in which they are incurred.

Depreciation of operational fixed assets is based on the estimated useful life as of the time they are ready to become operational. The depreciable value is obtained by deducting the expected residual value at the end of the estimated useful life.

Below the percentages of the estimated useful lives for tangible fixed assets:

| Nature | Maximum annual rate |
|-----------------------------------|---------------------|
| Buildings and other constructions | 2.00% |
| Basic equipment | 12.50% |
| Transportation equipment | 25.00% |
| Tools and utensils | 14.28% |
| Office equipment | 14.28% |

Land is not depreciated.

Depreciation of assets that are earmarked for sale shall be suspended and they shall become classified as held for sale.

Whenever there are indications of a loss of value in tangible fixed assets, impairment tests are conducted in order to estimate the recoverable value of the asset and, when necessary, record a loss due to impairment. The recoverable value is calculated as the higher value between the net sale price and the use value of the asset, the latter being calculated on the basis of the current value of future estimated cash flow, resulting from continued use and from the sale of the asset at the end of its useful life.

At the end of each financial year, the Board of Directors shall review the depreciation methods and the estimated useful lives of each asset in order to accurately reflect the patterns of consumption of the benefits of the assets during the years they are used by AdP Group. Any changes in these criteria shall be considered an accounting estimate change and subject to prospective application.

Gains or losses ensuing from the write-off or sale shall be calculated on the basis of the difference between the revenue from the sale and the book value of the asset and shall be recorded as income or cost in the income statement.

2.7.1 Financial leasing

Leasing of assets, over which AdP Group substantially holds all risks and benefits related to ownership of the asset, are classified as financial leasing. Agreements in which the analysis of one or more particular situations of the contract points to this type of situation shall also be classified as financial leasing. All other leases shall be classified as operating leases. Financial leasing is capitalized at the start of the lease at the lower value between the fair value of the leased asset and the present value of the minimum leasing payments - the responsibility recorded under other long-term liabilities, net of financial charges. Assets acquired through financial leasing are depreciated by the lesser of either the useful life period of the asset or the term of the leasing agreement.

2.8 Intangible Assets

2.8.1 Infrastructure usage rights

See note 2.6.2.

2.8.2 Goodwill

See note 2.2.5.

2.8.3 Other intangible assets

All other intangible assets (software development costs, intellectual property costs and other rights) are stated at their net cost of accumulated depreciation. These items are normally depreciated on a straight line basis for a period of three to ten years. Investments that increase the performance of software programs beyond their original specifications are added to the original cost of the software. Software implementation costs recognized as assets are depreciated on a straight line basis over their useful lives, namely 3 to 6 years. The corporate and trading systems of most of the group developed using SAP platforms are depreciated on a straight line basis over their useful lives of 10 years.

2.9 Investment properties

AdP Group investment properties include buildings owned for the purpose of receiving rental income, earning capital gains or both. Investment properties are initially valued at cost, including directly attributable transaction costs. After initial recognition, investment properties are valued at depreciated cost. Investment properties are written off when sold or when they are permanently removed from usage and no economic benefits are expected from their sale.

2.10 Financial assets and liabilities

2.10.1 Classification of financial assets (except investments in financial holdings)

AdP Group financial assets are classified under the categories identified below. Classification depends on the objective of acquisition of the investment and is determined at the time of initial recognition (trade date) of the investments and revalued at each subsequent reporting date. The Board of Directors classifies its investments at the acquisition date and reevaluates this classification on a regular basis. The Group classifies its financial assets under the following categories: **i)** loans and accounts receivable; **ii)** investments held until maturity; **iii)** investments valued at fair value via results (held for trading); **iv)** financial assets available for sale.

2.10.2 Loans and accounts receivable

Non-derivatives with fixed or determinable receivables for which there is no active quotes market. These assets break down into two types: **(i)** assets originating from the normal course of operating activities and other associated services with no underlying intention to trade them; and **(ii)** investments made in companies with multi-municipal concessions, which according to the individual conditions of the underlying concession contracts, qualifies them as a granted loan that earns interest at a contracted rate.

Loans and accounts receivable are initially recorded at fair value and subsequently at amortized cost on the basis of the effective interest rate, less any impairment losses. Impairment losses are recorded on the basis of the estimate and assessment of the losses associated with doubtful debt credits at the balance sheet date, so that they reflect their net realizable value.

Impairment adjustments are recorded when there are objective indicators that AdP Group will not receive all amounts that are owed to it in accordance with the original terms of the established contracts. The following indicators are used to identify impairment situations: analysis of default; default for more than six months; financial difficulties of the debtor; probability of debtor bankruptcy.

When overdue amounts receivable from customers or other debtors have their terms renegotiated, they cease to be considered overdue and are considered new credits.

2.10.3 Investments held until maturity

Investments held until maturity are classified as non-current investments, except if their maturity is less than 12 months from the balance sheet date. This item includes investments with defined maturity, which the group intends to and is capable of maintaining until this date. Investments held until maturity are recorded at amortized cost, less any impairment losses.

2.10.4 Financial assets valued at fair value under results

This category includes: **(i)** financial assets for trading that are acquired for the main purpose of short-term trading; **(ii)** financial assets identified at the time of their initial recognition at fair value with changes recognized under results.

This category includes derivatives that do not qualify for the purpose of calculating hedging.

Changes in fair value are directly recorded under results for the period. These assets are classified as current assets if they are held for sale or if they are expected to be realized within a period of 12 months after the balance sheet date.

2.10.5 Financial assets available for sale

Assets available for sale are non-derivative assets that: **(i)** the company intends to maintain for an indeterminate amount of time; **(ii)** are identified as available for sale when they are initially recognized; or **(iii)** do not fit into the aforementioned categories. They are stated as non-current assets, unless there is an intention to sell them during the 12 twelve months that follow the balance sheet date.

After initial recognition, the assets available for sale are recorded at fair value on the basis of their market value at the balance sheet date, without any deduction related to transaction costs that may occur up until their sale. The respective changes in fair value are recognized directly as shareholder capital under "Fair value reserve" until the assets are written off or an impairment loss is identified, when the accumulated amount of potential gains and losses recorded under reserves is transferred to results. In the case of capital instruments, a significant or prolonged decrease in fair value below cost is crucial to determine the existence of impairment.

Capital instruments that are not holdings in affiliate companies, joint undertakings or associated companies are classified as financial assets available for sale, in accordance with IAS 39. If there is no market value these assets are maintained at acquisition cost, subject to impairment tests.

2.10.6 Financial liabilities

Financial liabilities are classified according to the terms of their contract, regardless of the legal form they take on. IAS 39 - Financial instruments: recognition and valuation provides for classification of financial liabilities into two categories: **(i)** financial liabilities at fair value under results; **(ii)** other financial liabilities. Other financial liabilities include loans obtained, suppliers and other accounts payable.

2.10.7 Financial liabilities valued at fair value under results

Financial liabilities at fair value under results include non-derivative liabilities with the aim of selling in the short term and derivative financial instruments that do not qualify for hedging purposes and classified as such during their initial recognition. Gains and losses resulting from a change in the fair value of liabilities valued at fair value under results are recognized under results for the period.

2.10.8 Bank loans

Loans are initially recognized at fair value less transaction costs and then valued at amortized cost. Any difference between the issue value (net of transaction costs) and the nominal value is recognized under results during the period in which the loans exist, in accordance with the effective interest method. Loans obtained are classified under current liabilities, except if AdP Group possesses an unconditional right to defer payment of liabilities by at least 12 months after the balance sheet date, and in such cases it is classified under non-current liabilities.

2.10.9 Suppliers and other accounts payable

Balances of suppliers and other accounts payable are initially recorded at their nominal value, which is understood to be their fair value, and subsequently recorded at amortized cost, in accordance with the effective interest rate. Financial liabilities are written off when the underlying obligations are extinguished following payment, are cancelled or expire.

2.10.10 Total equity instruments

Total equity instruments are classified according to the terms of their contract, regardless of the legal form they take on. Total equity instruments issued by group companies are recorded at received value, net of costs paid on their issue.

2.11 Derivatives and hedging

The group uses derivatives with the sole purpose of managing the financial risks it is exposed to. In accordance with its financial policies, the group does not use derivatives for speculation purposes. Even though the derivatives used by the group are effective instruments for hedging risks, not all of them qualify as hedging instruments under the rules and requirements of IAS 39. Instruments that do not qualify as hedging instruments are recorded in the balance sheet at fair value, and its changes are recorded under results. Whenever available, the fair value of derivatives is estimated on the basis of quoted instruments. In the absence of market prices, the fair value of derivatives is estimated using the discounted cash flow method and options valuation models, in accordance with generally accepted market principles. Derivatives are recognized on their trade date at fair value. Subsequently, the fair value of

derivatives is revalued on a regular basis, and the ensuing gains or losses of this revaluation are recorded directly under results for the period, except with respect to hedging derivatives. Recognition of changes in the fair value of hedging derivatives depends on the nature of the hedged risk and the hedging model used.

Hedging

Hedging is used whenever there is a relationship between the hedged element and the hedging instrument whenever the following conditions exist:

- i) at the date of the start of the hedging relationship, the latter is identified and formally documented;
- ii) it is expected that the hedging relationship will be highly effective, at the date of the start of the transaction (prospectively) and over the course of the operation (retrospectively);
- iii) for cash flow hedging operations, it must be highly probable that they will occur;
- iv) hedging is valued on an ongoing basis and considered to have been highly effective during the entire financial reporting period for which the hedging was used.

As at 31 December 2010 and 31 December 2009, although hedging derivatives existed, the bureaucratic requirements under IAS 39 that allow them to be classified as hedging instruments are not present.

2.12 Fair value hierarchy

Financial assets and liabilities of AdP Group valued at fair value are classified according to the following fair value hierarchy levels stipulated in IFRS 7:

Level 1: fair value of financial instruments is based on the quotes of the liquid markets active at the balance sheet date. This level essentially includes capital instruments, debt (e.g. NYSE Euronext) and futures quoted on active markets;

Level 2: the fair value of financial instruments is not based on active markets, but rather on the basis of valuation models. The main inputs of the models used can be observed on the market. This level includes, for instance, over-the-counter derivatives; and

Level 3: the fair value of financial instruments is not based on active market quotes, but rather on the basis of valuation models whose main inputs are not observable on the market.

The table listing financial assets and liabilities at fair value classified according to level is included in note 7.2.

2.13 Customers and other accounts receivable

The balances of customers and other accounts receivable are values that are to be received from the sale of goods or services rendered by the group during the normal course of its activities. They are initially recorded at fair value and are subsequently valued at amortized cost, in accordance with the effective interest rate method, less impairment losses.

2.14 Inventory

Inventories are valued at the lowest acquisition cost (including all expenses up until the time they enter the warehouse) and the net realizable value. The net realizable value results from the sale price estimated during the course of the company's normal activity, less the variable sales expenses. Average cost is the costing method adopted for valuing warehouse outflows.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits, and other short-term investments with high liquidity and initial maturities of up to three months and bank overdrafts, without significant risk of changing in value. Bank overdrafts are stated in the balance sheet under current liabilities in the "Amounts owed to credit institutions - short-term" item and are also considered in when drafting the cash flow statements.

2.16 Impairment

2.16.1 Impairment of financial assets

At each balance sheet date, the group analyzes whether there is objective evidence that a financial asset or group of financial assets has been impaired.

Financial assets available for sale

In the case of financial assets classified as available for sale, a prolonged or significant decline in the fair value of the instrument below its cost value is considered to be an indicator that the instruments have been impaired. If there is similar evidence in relation to financial assets classified as available for sale, the accumulated loss - measured as the difference between acquisition cost and current fair value, less impairment losses for the financial asset that have already been recognized under results - is removed from shareholder equity and recognized in the income statement. Impairment losses on capital instruments recognized under results are not reversed through the income statements.

Customers, debtors and other financial assets

Impairment loss adjustments are recorded when there are objective indicators that the group will not receive all amounts that it was entitled to under the original terms of the established contracts. When identifying impairment situations, various indicators are used, such as the following: **(i)** analysis of default; **(ii)** default for more than 3 months; **(iii)** financial difficulties of the debtor; **(iv)** probability of debtor bankruptcy.

The adjustment for impairment losses is determined by the difference between the recoverable value and the balance sheet value of the financial asset and is recorded under results for the period. The balance sheet value of these assets is reduced to the recoverable value via an adjustments account. When an amount receivable from customers and debtors is considered unrecoverable, it is written off using the adjustments account for accumulated impairment losses. Subsequent recovery of amounts that have been written off are recorded under results. When overdue amounts receivable from customers or other debtors have their terms renegotiated, they cease to be considered overdue and are considered new credits.

2.16.2 Impairment of non-financial assets

Group assets are analyzed at the date of each balance sheet in order to detect any impairment losses. If there is any indication of this, the recoverable value of the asset is assessed. For goodwill and other intangible assets with undefined useful life, the recoverable value is assessed annually at the balance sheet date. The recoverable value of group assets for which there are indications of potential impairment losses is determined. Whenever the book value of an asset or the unit that generates cash where the asset is inserted exceeds the recoverable amount, it is reduced up until the recoverable amount and this impairment loss is recognized under results of the year.

The group conducts an impairment analysis for cash generating units with a business activity that has begun less than a certain time ago (two to three years). However, when the respective businesses have not yet attained sufficient maturity, impairment losses are recognized when there are unequivocal indicators that recoverability is considered remote.

Determination of the recoverable amount of assets

The recoverable amount of medium and long-term receivables is equal to the current value of future expected receivables, using the effective interest rate implicit in the original operation as a discount factor. For the remaining assets, the recoverable amount is the highest between the net sale price and its use value. In determining the use value of an asset, future estimated cash flow is discounted using a rate of discount before taxes that reflects current market valuations of the time value of money and the specific risks of the asset in question. The recoverable amount of the assets that do not generate independent cash flows by themselves is determined in conjunction with the cash generating unit in which the assets are inserted.

Reversal of impairment losses

An impairment loss recognized in a medium and long-term receivable amount shall only be reversed if the justification for the increase in the respective recoverable amount pertains to an event that has occurred after the date on which the impairment loss was recognized.

An impairment loss recognized in relation to goodwill shall not be reversed. Impairment losses related to other assets are reversed whenever there are changes in the estimates used to determine the respective recoverable amount. Impairment losses are reversed up until the value, net of amortizations, that the asset would have had if the impairment loss had not been recognized.

2.17 Capital

Ordinary shares are classified as total equity. Costs directly attributable to the issue of new shares or options are stated in total equity as a deduction, net of taxes, at the issued amount.

2.18 Dividends payable

Dividends are recognized as liabilities when declared.

2.19 Investment grants

Investment grants are recognized when there is reasonable certainty that the subsidy will be received and that AdP Group will comply with obligations related to receiving it. Investment grants related to acquiring and/or constructing tangible and/or intangible assets are included in non-current liabilities and are credited in the income statement using the same method that is used to amortize the underlying assets.

The other grants are deferred and recognized in the consolidated income statement during the same period of the costs they are supposed to offset.

2.20 Provisions, assets and contingent liabilities

Provisions are only recognized when there is an underlying obligation, resulting from past events, which may require allocation of internal resources to pay, and whose amount can be estimated reliably. Whenever any of the criteria is not met, or the existence of the obligation is conditional upon the occurrence (or non-occurrence) of certain future event, AdP Group shall state such fact as a contingent liability, unless the assessment of the requirement for outflow of resources for payment of this obligation is considered remote. When there is a high number of similar obligations, the probability of generating an outflow of internal resources is determined jointly. The provision is recognized even if the probability of outflow of internal resources regarding an element included in the same class of obligations is low.

Provisions are measured at present value, at the balance sheet date, on the basis of the best estimate of the Board of Directors regarding the expense necessary to fulfil the obligation (note 26). The discount rate used to determine the present value reflects the current market expectation for the discount period and for the provision risk in question.

There are no provisions recognized for future operational losses.

Contingent assets and liabilities

Contingent assets and liabilities are not recognized in the financial statements, but are disclosed in the attached notes. In cases where the possibility of an outflow of resources that incorporate economic benefits is remote, or if the influx of economic benefits is not likely, the respective contingent liabilities or contingent assets are not disclosed.

2.21 Employee benefits

EPAL and EGF offer a system of social benefits for their workers that involves retirement pension supplements (old age or disability), additionally supporting the responsibilities ensuing from pre-retirement. The Company's pension benefits system is based on two types of pension plans with defined contribution and defined benefits.

Defined contribution

Under this pension plan, the Company's only monetary obligation is to make fixed contributions to a separate entity (fund). These contributions are recognized as an expense from the period they pertain to.

Defined benefit

A defined benefit plan is a pension plan that defines the pension benefit amount that an employee will receive upon retirement, normally depending on one or more factors, such as age, years of service and remuneration.

The obligation of the defined benefits plan is calculated annually by independent actuaries, using the projected unit credit method. The present value of the defined benefit obligation is determined by the deduction of the future benefits payments, applying the interest rate for high quality bonds in the same currency that the benefits will be paid and with maturities that are similar to the accepted responsibility.

The liability recognized in the balance sheet in relation to the defined benefits plan is the present value of the benefit obligation defined at the balance sheet date, deducted by the fair value of the assets of the plan, together with adjustments related to the cost of past services.

The costs of past services are immediately recorded under results, except when changes to the pension plan are conditional to the employees remaining employed for particular amount of time. In this case, the costs of past services are amortized on a straight line basis over the course of the period in question. Actuarial gains and losses are recognized according to the "corridor" method.

EPAL

The EPAL benefits plan is limited to the payment of a retirement pension supplement (old age or disability) granted by Social Security and to the payment of pre-retirement benefits. The responsibilities related to the retirement supplement are being financed via an independent fund and the responsibilities related to pre-retirement are paid directly by EPAL and independently managed by a financial institution. That is to say, it offers a retirement supplement plan to its employees, creating a defined benefits plan with an autonomous fund. On 22 March 2008 the Company change its defined benefit pensions plan to a defined benefit and defined contribution mixed plan.

EGF

The EGF benefits plan is limited to the payment of a retirement pension supplement (old age or disability) granted by Social Security. Responsibilities related to the retirement supplement are financed by the independent fund managed by BPI Pensões. At 31 December 2006 EGF changed the defined benefit plan to a defined contribution plan. This change had no impact on responsibilities, seeing as they were entirely covered.

2.22 Taxation

Income tax for the period includes current taxes and deferred taxes. Income tax is recorded in the consolidated income statement, except when related to items that are recognized directly under total equity. The amount of current tax payable is determined on the basis of income before taxes, adjusted according to tax regulations.

Deferred taxes are recognized using the balance sheet liability method, considering the temporary differences resulting from the difference between the tax base of assets and liabilities and their values in the consolidated financial statements. Deferred taxes that result from initial recognition of an asset or liability during a transaction that is not a business concentration, which at the transaction date does not affect the accounting or tax result, are not recorded. Deferred taxes are recognized to the extent that it is likely that future taxable profits will be available for use of the temporary difference, or when reversal of deferred tax is expected for the same time period for the same authority.

Deferred taxes are calculated on the basis of the applicable tax rate or the already officially communicated rate, at the balance sheet date which is expected to be applicable on the date of realization of the deferred taxes or on the payment date of the deferred tax liabilities. The differences that may ensue from expected changes in the rates that will be applied to the taxable temporary differences are recognized in the consolidated income statement.

Deferred taxes are recognized in terms of temporary differences originated by investments in subsidiaries and associated companies, except when AdP Group is able to control the time of reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the near future.

Deferred taxes are recorded under net income or "Other reserves" according to the recording of the transaction or event that was at their origin.

2.23 Yield

Yield includes the fair value of the sale of goods and the supply of services, net of taxes and deductions and after elimination of internal sales. As stated in note 2.6.5., the concessionaire and regulated companies only recognize yield that results from application of the tariffs approved by the Concessionaire and monitored by the Regulator. Yield is recognized as follows:

2.23.1 Supply of services

Regulated activity - "Upstream" services - Sanitation

Yield is recognized on the basis of (i) minimum guaranteed values; or (ii) consumption, i.e. yield is recorded at the product's value between the approved tariff and the measured and/or estimated consumptions.

Regulated activity - "Upstream" services - Treatment and recovery of undifferentiated waste

Yield is recognized on the basis of consumption, i.e. yield is recorded at the product's value between the approved tariff and the measured and/or estimated consumptions.

Unregulated activity

The availability tariff is based on a contract established with the customer under which the rental prices is defined. The value of the contract is recognized on a monthly basis during the month that pertains to the service.

2.23.2 Sale of assets

Regulated activity - "Upstream" services - Water supply

Yield is recognized on the basis of (i) minimum guaranteed values; or (ii) consumption, i.e. yield is recorded at the product's value between the approved tariff and the measured and/or estimated consumptions.

Regulated activity - "Upstream" services - Treatment and recovery of waste - product sales

Treatment and recovery of waste - products: the sale of products obtained with the recovery of waste is recorded at the time of the transaction.

Regulated activity - "Downstream" services - Partnerships

Yield consists of two components: one fixed and one variable. Yield is recorded at the product value between the approved tariff for each level and the measured and/or estimated consumption on that level (variable component). The fixed component corresponds to the availability of the service and is indexed to the meter's debit capacity. It is recognized in twelfths.

Unregulated activity

Water supply - end consumer: the sale of water to end consumers is conducted on the basis of m³ consumed and the tariff of each concession and non-concession are applied (EPAL). In some cases consumption estimates are made and settled when the individual meters of each customer are read.

2.23.3 Cost recovery tariff deficit and surplus

See note 2.5.2.

2.23.4 Interest

Interest yield is recognized on the basis of the effective tax rate and is recorded during the respective period, on an accruals basis of accounting.

When a receivable is adjusted due to impairment, the group reduces its book value to its recoverable value; however, future estimated cash flow continues to be discounted at the initial effective interest rate (before impairment) and the settlement of the discount continues to be considered interest income.

2.23.5 Dividends receivable

Dividends shall be recognized when the shareholder's right is recognized, which generally occurs by decision of the General Shareholders' Meeting of the subsidiary or the associated company.

2.24 Own works

The cost of resources directly attributable to intangible and tangible assets are recognized during their development/construction phase when it has been concluded that they will be recovered via realization of those assets. Capitalized financial costs and some staff costs may be significant. They are measured at cost, and therefore recognized without any margin on the basis of internal information especially prepared for that purpose (internal costs) or on the basis of the respective purchase costs accrued by other underlying costs. Capitalized costs are directly recorded in the balance sheet and not in the income statement, and are stated in the notes to the accounts whenever applicable.

2.25 Costs and losses

Costs and losses are recorded during their respective year, regardless of when they are paid or received, in accordance with the accruals framework (accruals basis of accounting).

2.26 Subsequent events

Events occurring after the balance sheet date that offer additional information on the conditions that existed at the balance sheet date are reflected in the consolidated financial statements. Events occurring after the balance sheet date that offer additional

information on the conditions that will occur after the balance sheet date, if material, are reflected in the notes to the consolidated financial statements.

3. Financial risk management policy

3.1 Risk factors

AdP Group activities are exposed to a variety of financial risk factors: credit risk, liquidity risk and cash flow risk associated with interest rates. It is common practice for AdP Group to use derivatives, among other instruments, to minimize some of the risks it is exposed to. AdP Group has developed and implemented a risk management program that, together with the ongoing monitoring of the financial markets, seeks to minimize potentially adverse effects on the financial performance of AdP and its affiliates. Risk is managed by the central treasury department on the basis of policies approved by the Administration. The treasury identifies, assesses and executes operations in view of minimizing financial risks in strict cooperation with the operating units of AdP Group. The Board of Directors provides principles for managing risk as a whole and policies that cover specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivatives, other non-structured instruments and the investment of excess liquidity. The Board of Directors is responsible for defining general principles for managing risk and exposure limits. All operations conducted with derivatives require prior approval from the Board of Directors, which defines the parameters of each operation and approves the formal documents that describe their objectives.

3.2 Credit risk

Credit risk is essentially related to the risk of one of the counterparties failing to fulfil its contractual obligations, resulting in a financial loss for AdP Group. The group is subject to credit risk in its operational, investment and treasury activities.

Credit risk related to operations is essentially related to credits from services rendered to customers (water supply). This risk is low given the characteristics of the service rendered, with no significant credit risk from one particular customers because receivables come from a high number of customers.

Impairment adjustments for accounts receivable are calculated taking into account the following: **i)** the customers risk profile, depending on whether we are dealing with residential or corporate customers; **ii)** the average reception time period, which differs from business to business; and **iii)** the financial condition of the customers. Because of the dispersion of customers, it is not necessary to consider an additional credit risk adjustment, other than the impairment already recorded in accounts receivable - customers.

The following table illustrates the maximum exposure of the group to credit risk (not including customers balances and other debtor balances) at 31 December 2010, without taking into account any held collateral or other credit improvements. For balance sheet assets, the defined exposure is based on its book value, as reported on the face of the balance sheet.

| Bank financial assets | 31.12.2010 |
|------------------------------|--------------------|
| Demand deposits | 51,773,491 |
| Term deposits | 425,673,152 |
| Derivatives | 2,227,586 |
| Equipment renewal fund | 7,979,862 |
| Capital replenishment fund | 96,909,657 |
| Other | 373,366 |
| | 584,937,114 |

| Rating | 31.12.2010 |
|-----------------|--------------------|
| A1 | 119,969,890 |
| A2 | 191,651,289 |
| A3 | 162,357,376 |
| Aa2 | 5,792,950 |
| Aa3 | 20,795,080 |
| Baa3 | 76,267,909 |
| No known rating | 8,102,620 |
| | 584,937,114 |

Note: rating obtained from the websites of financial institutions in February 2011.

3.3 Foreign exchange risk

The AdP Group's exposure to foreign exchange risk is not relevant. This risk is based on future commercial transactions, recognized assets and liabilities, as well as liquid investments in foreign operations that did not take place or were not expressed in AdP Group's functional currency. AdP Group's Central Treasury is responsible for managing AdP Group's net exposure in each foreign currency, centrally conducting swaps in view of minimizing recognized commercial risks, assets and liabilities. AdP Group holds investments expressed in foreign currency whose net assets are exposed to foreign exchange risk due to conversion, as well as financing in foreign currency exposed to foreign exchange risk. The foreign exchange risk related to net assets in foreign currency is managed by obtaining loans in the same currency and via swap loans that hedge against foreign exchange risk.

3.4 Liquidity risk

Management of liquidity risk implies maintaining deposits at a reasonable level, the feasibility of consolidating floating debt through a suitable amount of credit and the ability to liquidate market positions. Because of the underlying business dynamic AdP Group treasury seeks to ensure the flexibility of floating debt, by maintaining the lines of credit available for this. AdP Group manages liquidity risk by obtaining and maintaining lines of credit and financing arrangements underwritten by national and international financial institutions with high credit ratings that allow immediate access to funds.

The table below lists AdP Group's responsibilities according to contractual residual maturity periods. The amounts listed in the table are contractual cash flows, not discounted and payable in the future (without the interest that these liabilities are earning).

| | < 1 year | 1 to 5 years | > 5 years |
|---------------------------------|-------------|--------------|---------------|
| Financing | 509,375,118 | 273,998,185 | 2,142,059,652 |
| Suppliers and other liabilities | 277,942,909 | 170,471,515 | 340,472 |

We do not foresee any problem in paying short-term responsibilities.

3.5 Cash flow and fair value risk associated with interest rates

AdP Group interest rate risk essentially ensues from contracting long-term loans. As such, loans obtained with interest calculated at variable rates expose AdP Group to cash flow risks, and loans obtained with fixed interest rates expose AdP Group to the fair value risk associated with the interest rate. AdP Group manages cash flow risk associated with interest rates via swaps that allow conversion of loans with interest calculated at a variable rate to loans with interest calculated at a fixed rate. The guaranteed yield from concession contracts is also associated with the volatility of interest rates and consequently the tariff deficit.

The table below lists the sensitivity analysis of AdP Group financial charges.

| | 31.12.2010 | Average Rate + 1% | Average Rate - 1% |
|---------------|-------------------|-------------------|-------------------|
| Interest paid | 74,983,215 | 92,657,034 | 52,103,763 |
| | 74,983,215 | 92,657,034 | 52,103,763 |

3.6 Capital risk

AdP Group's goal in terms of managing capital, which is a broader concept than the capital stated on the face of the balance sheet, is to maintain an optimized capital structure via prudent use of debt that will allow it to reduce the cost of capital.

The goal of capital risk management is to safeguard the continuity of group operations with adequate shareholder earnings and generating benefits for all interested third parties.

AdP Group policy is to obtain loans from financial entities via parent company AdP, SGPS, S.A. (with the exception of EPAL and investment loans), which will then offer loans to its affiliates. This policy seeks to optimize the capital structure in view of greater tax efficiency and reduction of the average cost of capital.

| | 31.12.2010 | 31.12.2009 |
|---------------------------|----------------------|----------------------|
| Non-current loans | 2,416,057,836 | 2,030,125,828 |
| Current loans | 509,375,118 | 551,802,186 |
| Deposits | (478,840,367) | (299,236,062) |
| Debt | 2,446,592,587 | 2,282,691,952 |
| Investment grants | 1,842,471,849 | 1,761,573,162 |
| Total equity | 928,470,145 | 860,010,152 |
| Capital | 5,217,534,581 | 4,904,275,266 |
| Debt/total capital | 0.47 | 0.47 |

3.7 Regulatory risk

As a provider of a public service, AdP Group operates within a highly regulated environment. The Regulator - ERSAR - mandated by the Government regulates, among other aspects, the tariff to be collected for the services provided. In an attempt to balance public interest as regards adequate access to the services provided and the interest in generating results that satisfy and remunerate our shareholders' invested capital, the Regulator can take measures that can negatively impact cash flow, with all the ensuing adverse consequences.

4. Estimates and judgements

Estimates and judgements that have an impact on the financial statements of AdP Group are continually assessed, representing the Administration's best estimate at the date of each report, taking into account historical performance, accumulated experience and expectations regarding future events that, under the circumstances in question, are believed to be reasonable. The intrinsic nature of the estimates can cause the real effect of the situations that had been the target of the estimate to differ from the estimated amounts for the purpose of the financial report. Estimates and judgments that pose a significant risk of causing material adjustment in the book value of assets and liabilities over the course of the financial year are as follows:

4.1 Provisions and adjustments

AdP Group periodically analyzes all obligations that result from past events and which should be recognized or disclosed. The group is a party to various court cases currently underway and on the basis of its lawyers' opinions conducts a judgment regarding whether a provision should be established for these contingencies (note 41). Adjustments to accounts receivable are calculated essentially on the basis of the age of the accounts receivable, the risk profile of the customers and their financial situation. Estimates related to adjustments to accounts receivable differ from business to business.

The subjectivity involved in determining the probability and amount of outflow of internal resources necessary to fulfil obligations may lead to significant adjustments, whether by changes in these criteria or by future recognition of provisions previously disclosed as contingent liabilities.

4.2 Tangible and intangible assets

Determination of useful lives of the assets and the depreciation method are essential to ascertain the amount of depreciation and amortization to be recognized in the consolidated income statement.

These two parameters were defined in accordance with the Administration's best estimate for the assets and businesses in question; however, they may be changed if international practice in the sector for identical situations points to a different benchmark.

The group conducts annual tests to determine whether goodwill suffered any losses due to impairment. The recoverable value of cash generating units is determined on the basis of the use value, which requires using estimates.

4.3 Impairment

Determination of a possible loss due to impairment can be sparked by the occurrence of various events, many of which are outside AdP Group's sphere of influence, such as the future availability of financing, the cost of capital or maintaining the current regulatory structure of the market, as well as other changes inside and outside AdP Group. Identification of impairment indicators, estimated future cash flow and the determination of the fair value of assets (or group of assets) imply a high level of judgment by the Administration as regards identifying and assessing various impairment indicators, expected cash flow, applicable discount rates, useful lives and residual values. In the specific case of the AdP Group, the impairment indicators change with the growth in the infrastructure network, expected tariff changes or current strategies of AdP stakeholders, which together with the other factors may lead to changes in the standard or amount of future cash flows.

At the date of issue of AdP Group's financial statements it is our opinion that there is no likely occurrence of any situation of impairment in the reported assets. If subsequent to the assessment currently underway there should be evidence of any impairment, the respective balance sheet value of the asset shall be adjusted under results of the year. In addition to the aforementioned uncertainties, there are also some judgment areas whose impact is reflected in the financial statements. Although we do not expect that they will cause a material change in the following year, they may still change the criteria or the assessment undertaken by AdP Group's Administration.

4.4 Fair value of derivatives

The fair value of financial instruments that do not have an active market is determined on the basis of valuations that reflect the mark-to-market valuation of these instruments. The Group uses its own judgement to select the valuation techniques and criteria to use for valuation of the contracted derivatives at the date of financial reporting.

5. First time adoption of the IFRS

Under its articles of incorporation AdP Group reported its financial data in accordance with the Official Plan of Accounts (OPA), which was extinguished on 31 December 2009. With the publication of Decree-Law no. 158/2009 of 13 June, the OPA and accounting directives were revoked as of 1 January 2010. Therefore, for the period ensuing after this date, AdP Group began stating its consolidated accounts in accordance with the IFRS, as stipulated in number 2 of Article 4 of said Decree-Law. Below are reconciliations between total equity and income for the comparative period, prepared in accordance with the Official Plan of Accounts.

| | | 31.12.2009 | 01.01.2009 |
|---|-------------|--------------------|--------------------|
| Total equity | OPA | 534,758,177 | 497,540,813 |
| Minority interest | | 217,609,927 | 213,974,367 |
| Subtotal (CP + IM) | | 752,368,104 | 711,515,180 |
| Valuation of tangible fixed assets | i) | 117,213,864 | 111,454,633 |
| Recognition of balance sheet gratuities under results | ii) | (381,450) | - |
| Discount of medium and long-term debt | iii) | (116,964) | (192,886) |
| Fair value of financial instruments and foreign exchange updating | iv) | (7,424,066) | (20,306,680) |
| Cancellation of intangible fixed assets | v) | 703,854 | (474,988) |
| Cancellation of provisions | vi) | 1,074,074 | 1,113,281 |
| Fair value of securities | vii) | 12,127 | 61,999 |
| Cancellation of subscribed, unpaid capital | vii) | (3,439,392) | (3,439,392) |
| Other | | - | - |
| Total adjustments | | 107,642,047 | 88,215,967 |
| Total equity | IFRS | 860,010,152 | 799,731,146 |

| | | 31.12.2009 |
|---|-------------|-------------------|
| Net income | OPA | 45,911,366 |
| Valuation of tangible fixed assets | i) | 5,759,231 |
| Recognition of balance sheet gratuities under results | ii) | (381,450) |
| Discount of medium and long-term debt | iii) | 75,922 |
| Fair value of financial instruments and foreign exchange updating | iv) | 12,882,614 |
| Cancellation of intangible fixed assets | v) | 1,181,973 |
| Cancellation of provisions | vi) | (39,207) |
| Fair value of securities | vii) | (49,871) |
| Cancellation of subscribed, unpaid capital | vii) | - |
| Other | | (15,089) |
| Total adjustments | | 19,414,123 |
| Net income | IFRS | 65,325,489 |

Adjustments

i) Valuation of tangible fixed assets

AdP Group, during the transition, began to reevaluate buildings and land at fair value (resulting from the valuation) and use of this fair value as cost considered at that date. Accrued value of the assets as at the transition date resulted from the valuation that was conducted, in the amount of 111,454,633 euros, net of deferred taxes.

ii) Recognition of balance sheet gratuities under results

With this transition, responsibilities were accrued with the gratuities to be paid to employees during the following year. In 2009, EPAL paid balance sheet gratuities directly under total equity. For the purpose of preparing the 2009 values this amount was recorded under results (staff costs).

iii) Discount of medium and long-term debt

In preparing the financial statements in accordance with IFRS in 2009 a medium and long-term debt that did not earn interest was discounted.

iv) Fair value of financial instruments and foreign exchange updating

AdP Group has various lines of credit negotiated as a form of financing investment made in the operation. Swaps were negotiated for some financing operations to cover interest rate and foreign exchange risks.

At end 2009, AdP SGPS had negotiated a series of swaps at simple interest rates, under which fixed interest rates were exchanged for variable interest rates, as well as foreign exchange rates. Because they do not qualify as hedging instruments, taking into account the conditions stipulated under IAS 39, the aforementioned swaps were recorded at 31 December 2009 as trading instruments. The fair value of these derivatives has not been recognized in the OPA accounts.

v) Cancellation of intangible fixed assets

Some intangible assets recognized in the balance sheet under the OPA were eliminated during the transition (for instance, start-up costs) and goodwill was restored, which up until then had been amortized in accordance with national rules.

vi) Cancellation of provisions

Pursuant to "IAS 37 - Provisions, contingent liabilities and contingent assets," only provisions for situations with an underlying obligation can be recognized, resulting from a past event, and the obligation requires outflow of resources in order to fulfil it. Provisions for Other risks and charges recorded by AdP Group essentially refer to provisions for legal proceedings and other provisions such as: (i) provisions for covering losses in affiliate companies, in accordance with the share in minority holdings and (ii) provisions for contingencies. The transition led to the write off of a provision that did not fully meet these conditions.

vii) Fair value of securities

Investment in shares of companies which AdP Group does not control or have significant influence over are valued in accordance with IAS 39 - Financial instruments, at fair value (stock market price) or under results. Under the OPA, these investments were recorded at acquisition cost less accumulated impairment losses.

viii) Cancellation of subscribed, unpaid capital

Capital that has been subscribed but as yet unpaid has been eliminated in preparing the financial statements pursuant to IFRS.

Most relevant reclassifications

a) Tangible fixed assets changed to intangible assets (IUR) and investment properties

AdP Group concessions under the OPA had been classified as infrastructure and operating equipment under tangible fixed assets. Under the IFRS, infrastructure and operating equipment are stated as intangible because they correspond to the right to use them, given that the concessionaire does not fully own all of the associated rights.

Assets rented to third parties, therefore generating income, were reclassified as tangible fixed assets (OPA) and recorded under investment properties (IFRS).

b) Tariff deficit

The tariff deficit (assets and liabilities) was reclassified from current to non-current because it involves rights and obligations whose fulfilment will take place 12 months from the balance sheet date.

c) Extraordinary income

Extraordinary income (OPA) of 2009 was reclassified in accordance with its nature (operating, operating income and taxes), as this classification does not exist under the IFRS.

d) Corporate income tax (IRC)

The amount of payable IRC was removed from the State and other entities item (liabilities) and stated in a separate line of the balance sheet, as required by the IAS 1.

e) Advances to suppliers and fixed assets

They began to be stated as a current or non-current assets instead of being included under tangible fixed assets.

f) Financial leasing debts

They began to be stated under the financing item instead of under fixed assets suppliers.

6. Information according to business area

| | Regulated activity Production, Treat. Transp. | Regulated activity Solid Waste | Unregulated activity Distribution and collection | Unregulated activity EPAL | Unregulated activity International | Unregulated activity Corporate | Adjustments | Total Consolidation |
|---|---|--------------------------------------|--|------------------------------|--|-----------------------------------|---------------------|------------------------|
| External sales | 381,342,654 | 158,842,153 | 28,221,637 | 139,723,222 | 15,626,295 | 723,638 | - | 724,479,599 |
| Inter-segment sales | 5,951,017 | 891,522 | 96,972 | 7,731,497 | - | 18,164,153 | (32,835,162) | - |
| Total yield | 387,293,671 | 159,733,676 | 28,318,609 | 147,454,719 | 15,626,295 | 18,887,791 | (32,835,162) | 724,479,599 |
| Cost of sales/change in inventory | (11,203,487) | (11,541,404) | (3,205,714) | (2,810,388) | (1,520,255) | - | - | (30,281,249) |
| External Supplies and Services (ESS) | (121,187,627) | (51,884,299) | (3,580,579) | (35,371,948) | (6,130,994) | (6,561,198) | - | (224,716,644) |
| Staff costs | (48,006,818) | (47,031,787) | (4,487,972) | (31,509,792) | (4,737,661) | (10,812,530) | - | (146,586,559) |
| Amort., deprec. and reversals of the year | (141,589,106) | (52,908,803) | (5,084,710) | (23,129,653) | (395,638) | (1,940,203) | - | (225,048,112) |
| Provisions and reversals of the year | (89,998) | (1,178,976) | - | 10,922,884 | 16,265,979 | (748,124) | - | 25,171,766 |
| Losses due to impairment 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 operational costs and losses | (6,759,983) | (3,829,950) | (187,940) | (1,574,557) | (13,389,373) | (662,782) | - | (26,404,585) |
| Other operational income and gains | 8,300,252 | 2,677,277 | 73,525 | 2,039,892 | 4,272,408 | 575,200 | - | 17,938,553 |
| Inter-segment operational income | (21,619,587) | (2,684,998) | (6,676,354) | (3,642,925) | (604,546) | 2,129,738 | 33,098,671 | - |
| Total operational income | 89,889,751 | 9,547,716 | 4,820,728 | 64,119,577 | 7,045,131 | 876,508 | 263,510 | 176,562,921 |
| External financial income | (24,063,031) | (1,612,004) | (1,196,902) | (2,913,861) | (556,750) | (20,203,523) | - | (50,546,071) |
| Inter-segment financial income | (16,671,054) | (425,568) | (507,683) | (126,888) | (9,245) | 18,003,948 | (263,510) | - |
| Income before taxes | 49,155,666 | 7,510,145 | 3,116,144 | 61,078,827 | 6,479,136 | (1,323,067) | - | 126,016,850 |
| Income tax of the year | (10,703,483) | (3,582,773) | (1,975,124) | (14,642,211) | 1,965,484 | (344,527) | - | (29,282,634) |
| Net income of the year | 38,452,183 | 3,927,372 | 1,141,020 | 46,436,616 | 8,444,620 | (1,667,594) | - | 96,734,216 |
| Attributable to minority interests | 14,343,165 | 2,356,909 | 560,248 | - | - | 14,876 | - | 17,275,198 |
| Attributable to AdP SGP S, S.A. shareholders: | 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. Derivatives

7.1 Classification of financial assets and liabilities in accordance with IAS 39.

| 31.12. 2010 | Financial assets at fair value under results | Loans and Accounts Receivable | Financial liabilities at fair value under results | Financial liabilities at amortized cost | Total Financial Instruments | Assets and liabilities not classified as financial instruments | Balance Sheet Total |
|---|--|-------------------------------|---|---|-----------------------------|--|----------------------|
| Tangible fixed assets | | | | | - | 831,267,198 | 831,267,198 |
| Intangible assets | | | | | - | 4,573,734,850 | 4,573,734,850 |
| Investment properties | | | | | - | 1,261,033 | 1,261,033 |
| Financial investments | 92,427 | 105,576,202 | | | 105,668,629 | | 105,668,629 |
| Financial investments in associated companies | | 1,077,064 | | | 1,077,064 | | 1,077,064 |
| Deferred tax assets | | | | | - | 239,211,070 | 239,211,070 |
| Derivatives | 2,227,586 | | | | 2,227,586 | | 2,227,586 |
| Tariff deficit assets | | | | | - | 310,762,868 | 310,762,868 |
| Customers and other non-current assets | | 124,610,736 | | | 124,610,736 | | 124,610,736 |
| Inventory | | | | | - | 8,100,566 | 8,100,566 |
| Customers | | 296,433,690 | | | 296,433,690 | | 296,433,690 |
| State and other public entities | | 12,385,344 | | | 12,385,344 | | 12,385,344 |
| Other current assets | | 227,815,360 | | | 227,815,360 | | 227,815,360 |
| Cash and cash equivalents | | 478,840,367 | | | 478,840,367 | | 478,840,367 |
| Total Assets | 2,320,013 | 1,246,738,763 | | | 1,249,058,776 | 5,964,337,585 | 7,213,396,361 |
| Provisions | | | | | - | 13,411,726 | 13,411,726 |
| Pensions responsibilities | | | | | - | 12,640,738 | 12,640,738 |
| Non-current loans | | | | 2,416,057,836 | 2,416,057,836 | | 2,416,057,836 |
| Suppliers and other non-current liabilities | | | | 170,811,987 | 170,811,987 | | 170,811,987 |
| Deferred tax liabilities | | | | | - | 248,662,999 | 248,662,999 |
| Amortization of future investment | | | | | - | 571,054,561 | 571,054,561 |
| Investment grants | | | | | - | 1,842,471,849 | 1,842,471,849 |
| Tariff deficit liabilities | | | | | - | 135,317,264 | 135,317,264 |
| Derivatives | | | 14,914,691 | | 14,914,691 | | 14,914,691 |
| Loans | | | | 509,375,118 | 509,375,118 | | 509,375,118 |
| Suppliers | | | | 158,784,662 | 158,784,662 | | 158,784,662 |
| Other current liabilities | | | | 119,158,242 | 119,158,242 | | 119,158,242 |
| Income tax of the year | | | | 43,219,244 | 43,219,244 | | 43,219,244 |
| State and other public entities | | | | 29,045,299 | 29,045,299 | | 29,045,299 |
| Total Liabilities | | | 14,914,691 | 3,446,452,388 | 3,461,367,079 | 2,823,559,137 | 6,284,926,216 |

7.2 Fair value hierarchy

| | 31 December 2010 | | | 31 December 2009 | | |
|--|-------------------------|------------|---------|------------------|-----------|---------|
| | level 1 | level 2 | level 3 | level 1 | level 2 | level 3 |
| Financial assets at fair value under results | | | | | | |
| Financial investments in shares | 92,427 | | - | 181,927 | | - |
| Derivatives | - | 2,227,586 | | | 2,477,311 | |
| Financial liabilities at fair value under results | | | | | | |
| Derivatives | - | 14,914,691 | - | - | 9,334,823 | - |

8. Intangible assets

| | | 31.12.2010 | 31.12.2009 |
|--|-----|----------------------|----------------------|
| Infrastructure usage rights - IFRIC 12 | 8.2 | 3,783,760,406 | 2,925,787,473 |
| Goodwill | 8.3 | 3,785,877 | 6,499,257 |
| Development costs | | 3,014,886 | 1,263,470 |
| Industrial property and other rights | | 24,065,915 | 25,427,682 |
| Computer software | | 48,191 | - |
| Other intangible assets | | 12,502,539 | 12,283,964 |
| Intangible assets under construction | 8.2 | 746,557,035 | 1,043,226,993 |
| | | 4,573,734,850 | 4,014,488,838 |

The group does not recognize intangible assets generated internally.

8.1 Changes during the period

| Gross Value | 31.12.2009 | Increases | For. Ex. conversion | Write-offs/sales | Transf. | Reclass. | Perimeter changes | 31.12.2010 |
|--------------------------------------|----------------------|--------------------|---------------------|--------------------|-------------------|-------------------|-------------------|----------------------|
| Infrastructure usage right | 3,745,543,885 | 174,071,860 | - | (2,244,652) | 102,051,369 | 681,337,974 | - | 4,700,760,436 |
| Goodwill | 6,499,257 | - | - | (1,322,740) | - | (1,390,640) | - | 3,785,877 |
| Development projects | 9,198,732 | 40,929 | - | (49,110) | - | 1,813,471 | (517,159) | 10,486,863 |
| Industrial property | 36,798,958 | 285,640 | - | (30,725) | - | 7,103 | - | 37,060,976 |
| Computer software | - | - | - | - | - | 209,527 | - | 209,527 |
| Other intangible assets | 33,475,319 | 1,628,699 | 27 | (873,825) | 1,077,268 | (5,758,952) | (1,054) | 29,547,481 |
| Intangible assets under construction | 1,043,226,993 | 391,628,422 | - | (1,730,474) | (22,713,173) | (663,814,750) | (39,984) | 746,557,035 |
| | 4,874,743,144 | 567,655,550 | 27 | (6,251,525) | 80,415,464 | 12,403,733 | (558,196) | 5,528,408,196 |

| Accumulated amortization | 31.12.2009 | Increases | For. Ex. conversion | Write-offs/sales | Transf. | Reclass. | Perimeter Changes | 31.12.2010 |
|----------------------------|----------------------|-----------------------|---------------------|-------------------|-------------------|-------------------|-------------------|----------------------|
| Infrastructure usage right | (819,756,412) | (114,316,596) | - | 15,965,433 | 3,273,636 | (2,166,091) | - | (917,000,030) |
| Development projects | (7,935,262) | (342,949) | - | 239,658 | 218,706 | 20,734 | 327,137 | (7,471,977) |
| Industrial property | (11,371,277) | (1,654,987) | - | 31,829 | (627) | - | - | (12,995,061) |
| Computer software | - | (37,107) | - | - | - | (124,229) | - | (161,336) |
| Other intangible assets | (21,191,355) | (1,722,825) | (27) | 1,858,979 | (259,823) | 3,719,226 | 550,882 | (17,044,943) |
| | (860,254,306) | (1,18,074,464) | (27) | 18,095,899 | 3,231,892 | 1,449,640 | 878,019 | (954,673,347) |
| Net value | 4,014,488,838 | 449,581,086 | - | 11,844,374 | 83,647,356 | 13,853,373 | 319,823 | 4,573,734,849 |

8.2 Infrastructure usage rights and intangible assets under construction

| Gross Value | 31.12.2009 | Increases | Transf. | Write-offs/sales | Reclass. | Perimeter Changes | 31.12.2010 |
|--------------------------------------|----------------------|--------------------|-------------------|--------------------|-------------------|-------------------|----------------------|
| Infrastructure usage right | 3,745,543,885 | 174,071,860 | 102,051,369 | (2,244,652) | 681,337,974 | - | 4,700,760,436 |
| Intangible assets under construction | 1,043,226,993 | 391,628,422 | (22,713,173) | (1,730,474) | (663,814,750) | (39,984) | 746,557,035 |
| | 4,788,770,878 | 565,700,282 | 79,338,196 | (3,975,126) | 17,523,224 | (39,984) | 5,447,317,471 |

| Accumulated amortization | 31.12.2009 | Increases | Transf. | Write-offs/sales | Reclass. | Perimeter Changes | 31.12.2010 |
|----------------------------|----------------------|--------------------|-------------------|-------------------|-------------------|---------------------|----------------------|
| Infrastructure usage right | (819,756,412) | (83,732,765) | 3,273,636 | 15,965,433 | (2,166,091) | (30,583,831) | (917,000,030) |
| | (819,756,412) | (83,732,765) | 3,273,636 | 15,965,433 | (2,166,091) | (30,583,831) | (917,000,030) |
| Net value | 3,969,014,466 | 481,967,518 | 82,611,832 | 11,990,307 | 15,357,133 | (30,623,815) | 4,530,317,441 |

The increase in infrastructure usage rights and intangible assets under construction results from the continuous volume of investments that AdP Group companies have undertaken over the past years. The business units that contributed most to this investment volume 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 designing and constructing the Wastewater Treatment Plant (WTP) of Vale da Telha and Arrifana e Vale da Telha interceptor system; Contract for constructing the WTP of Vila Real de Santo António - Phase II; Project for conclusion of the construction of the Odelouca dam);

- Águas do Centro (Contracts for constructing and remodelling the WTP, interceptor systems and the Pumping Station of the geographic area of Raia, Zêzere and Nabão of the municipalities of Proença-a-Nova, Vila Velha de Ródão, Pedrógão Grande, Figueiró dos Vinhos, Oleiros and Sertã; Project for designing and constructing of the embankment adjacent to the Bela Vista reservoirs and the Corgas Water Treatment Plant (WTP) of the municipalities of Castelo Branco and Proença-a-Nova);
- Águas do Centro Alentejo (Contracts for the small WTPs of the Municipalities of Alandroal, Reguengos, Évora, Borba and Redondo);
- Águas do Douro e Paiva (Contracts to interconnect with the subsystem of Vale do Sousa - Ramalde Pumping Station and connection pipeline at Galegos; Contacts for supplying water to Amarante);
- Águas do Mondego (Contracts associated with construction of the Boavista water supply system; Contract for constructing the Alge and Louçainha pipeline systems of Alge and Louçainha; Contract for constructing the Ronqueira complex and pipeline system; Contracts for executing collection and treatment of effluent of the municipality of Penela);
- Águas do Noroeste (Contract for remodelling and renovating the Rabada WTP; Contract for constructing the Ave WTP; Contract for constructing the Sousa WTP, Contract for constructing the South Jetty Pumping Station and Vila do Conde North interceptor; Contract for constructing the Ponte da Baía WTP; Contract for constructing the duplication of the Ave interceptor and pumping stations; Contract for executing the interceptors of Vila do Conde South);
- Águas do Norte Alentejano (Contract for restoring the Alegrete WTP and respective pumping stations and construction of the WTP and Urra and Caia Pumping Stations; Contract for restoring the Alter do Chão, Chança and Ervedal WTPs);
- Águas do Oeste (Contract for expanding the Nazaré sanitation system and executing the North Shore - Óbidos sanitation system; Contract for remodelling and expanding the WTPs of Alenquer, Carregado and Nazaré);
- AgdA - Águas Públicas do Alentejo (Contract for constructing the feeder pipe of Sta. Vitória, Mombeja and Beringel; Contract for constructing the WTP and interceptor systems of Serpa and Vila Nova de S. Bento);
- AdRA - Águas da Região de Aveiro (Contract for constructing the water supply network to Castelões, Presas and Espinheiro; Contract for expanding the wastewater drainage network of Vila de Vagos - 2nd phase);
- Águas de Santo André; Contract for constructing the dumping cell of Harmless Industrial Waste in the Santo André Landfill);
- Águas de Trás-os-Montes e Alto Douro (Contract for constructing the pipelines, reservoirs and Alto Sabor Pumping Stations); Contracts for constructing the small WTPs of Douro South; Contract for constructing the Cachão WTP and pumping systems);
- Águas do Zêzere e Côa (Contract for constructing the technical connections of the Pinhel sanitation sub-systems; Contracts for constructing the sanitation sub-systems of Upper Mondego - municipalities of Seia and Oliveira do Hospital);
- Sanest (Contract for restoring the wastewater treatment facilities of the Estoril Coast Sanitation System; Contract for restoring the Laje outfall, low zone of the municipality of Oeiras);
- Simarsul (Contract for designing and constructing the WTP and the drainage and pumping systems of the Barreiro - Moita sub-system; Contract for designing and constructing the Quinta do Conde WTP; Contract for constructing the underwater outfall of the Lagoa - Meco WTP);
- Simria (Contract for constructing the Laje and Caster interceptors; Contracts for stabilizing underwater crossings - Main Canal and São Jacinto Canal);
- Simtejo (Contract for designing and constructing the adaptation and complementary work of Alcântara WTP; Contract for constructing the Agencies pumping system and the underwater outflow Contract for the interceptor and Pumping Stations of Largo Chafariz de Dentro - Cais do Sodré).

In addition, affiliate AdRA - Águas da Região de Aveiro recorded an addition of intangible assets - Infrastructure Usage Rights, in the amount of 98,118,261 euros. This value corresponds to monetary compensation in the form of remuneration for allocation of the infrastructures where the company operates.

Investment in the UNR conducted in 2010 was approximately 101,724 000 euros. The following table lists the main investments according to type and system.

| | Landfill Sanitário | Biogas Landfill | Organic Recovery Plants | Incinerator | Waste Transfer | Selective Collection | Sorting | Other | Total |
|-----------------|--------------------|------------------|-------------------------|----------------|------------------|----------------------|------------------|------------------|-------------------|
| Resinorte, S.A. | 818,838 | 7,396 | 1,389,890 | - | 4,183,292 | 797,366 | - | 496,740 | 7,693,523 |
| Suldouro, S.A. | 168,064 | 976,456 | 15,941,695 | - | - | 241,307 | 315,524 | 2,118 | 17,645,164 |
| Ersuc, S.A. | 183,460 | 681,610 | 23,322,697 | - | 15,000 | 859,082 | 2,663,801 | 212,467 | 27,938,116 |
| Valorlis, S.A. | 809,424 | 709,440 | 3,062,596 | - | 300 | 142,376 | 14,330 | 386,696 | 5,125,162 |
| Amarsul, S.A. | 952,544 | 1,678,600 | 4,500,730 | - | 208,827 | 532,199 | 1,288,186 | 306,917 | 9,468,003 |
| Valnor, S.A. | 1,811,198 | - | 2,156,541 | - | - | 494,368 | 196,528 | 619,124 | 5,277,758 |
| Algar, S.A. | 2,266,883 | 1,847,052 | 8,277,120 | - | 365,380 | 928,946 | 631,953 | 1,260,559 | 15,577,893 |
| Valorsul, S.A. | 2,650,905 | 1,727,443 | - | 802,773 | 1,030,264 | - | 415,284 | 3,234,012 | 9,860,682 |
| Total | 9,661,317 | 7,627,997 | 58,651,269 | 802,773 | 5,803,064 | 3,995,643 | 5,525,605 | 6,518,633 | 98,586,302 |

8.3 Goodwill

| | 31.12.2010 | 31.12.2009 |
|---------------------------------|------------------|------------------|
| 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 |
| Conveyance | | |
| Águas do Norte Alentejano, S.A. | - | 1,390,640 |
| Empresa Geral do Fomento, S.A. | 138,501 | 1,461,241 |
| | 138,501 | 2,851,881 |
| | 3,785,877 | 6,499,257 |

The amount recorded under conveyance by affiliate Águas do Norte Alentejano was reclassified as other intangible assets of the Concession. The conveyance amount for EGF consisted of two portions and the conveyance portion that is not considered recoverable was eliminated.

9. Tangible fixed assets

| | 31.12.2010 | 31.12.2009 |
|-----------------------------------|--------------------|--------------------|
| Land and natural resources | 114,177,109 | 114,167,044 |
| Buildings and other constructions | 137,773,448 | 128,359,275 |
| Basic equipment | 550,466,058 | 555,430,695 |
| Transportation equipment | 1,010,437 | 335,605 |
| Office equipment | 4,545,546 | 4,700,965 |
| Other | 3,526,340 | 3,382,114 |
| Investments in progress | 19,768,260 | 44,226,755 |
| | 831,267,198 | 850,602,453 |

9.1 Changes during the period

| Gross Value | 31.12.2009 | Additions | Write-offs | Transf. | Reclass. | Perimeter changes | Consolidation diff. | 31.12.2010 |
|-----------------------------------|----------------------|-------------------|--------------------|---------------------|---------------------|--------------------|---------------------|----------------------|
| Land and natural resources | 114,185,798 | - | - | - | 8,222 | - | - | 114,194,020 |
| Buildings and other constructions | 215,657,982 | 278,444 | (267) | - | 12,068,187 | (487) | - | 228,003,859 |
| Basic equipment | 993,433,200 | 2,168,526 | (577,322) | - | 14,671,327 | (1,351,714) | - | 1,008,344,017 |
| Transportation equipment | 3,762,462 | 992,502 | (321,417) | - | 992,247 | (783,924) | - | 4,641,869 |
| Office equipment | 32,711,678 | 1,148,317 | (218,849) | - | 679,265 | (604,035) | 6,906 | 33,723,282 |
| Other | 25,076,467 | 587,665 | (87,403) | - | 456,259 | (32,188) | 380 | 26,001,179 |
| Investments in progress | 44,226,755 | 29,757,509 | (101,982) | (15,129,784) | (38,988,975) | 4,738 | - | 19,768,260 |
| | 1,429,054,342 | 34,932,963 | (1,307,241) | (15,129,784) | (10,113,469) | (2,767,611) | 7,286 | 1,434,676,487 |

| Accumulated amortization | 31.12.2009 | Additions | Write-offs | transfer. | Reclass. | Perimeter changes | Conversion diff. | 31.12.2010 |
|-----------------------------------|----------------------|---------------------|------------------|---------------------|---------------------|--------------------|------------------|----------------------|
| Land and natural resources | (18,754) | (12,894) | - | - | 14,736 | - | - | (16,912) |
| Buildings and other constructions | (87,298,707) | (5,210,058) | 267 | 203,969 | 2,073,779 | 339 | - | (90,230,411) |
| Basic equipment | (438,002,505) | (17,947,985) | 408,537 | 2,002 | (2,575,110) | 237,102 | - | (457,877,959) |
| Transportation equipment | (3,426,857) | (219,827) | 314,905 | 194,440 | (1,139,127) | 645,033 | - | (3,631,432) |
| Office equipment | (28,010,713) | (1,956,895) | 213,305 | 86,869 | 86,038 | 407,985 | (4,326) | (29,177,736) |
| Other | (21,694,353) | (997,963) | 84,501 | 63,708 | 46,975 | 22,674 | (380) | (22,474,839) |
| | (578,451,889) | (26,345,621) | 1,021,516 | 550,988 | (1,492,709) | 1,313,133 | (4,706) | (603,409,289) |
| Net value | 850,602,453 | 8,587,342 | (285,725) | (14,578,796) | (11,606,178) | (1,454,478) | 2,580 | 831,267,198 |

Almost all the tangible assets of AdP Group are from EPAL.

“Basic equipment” essentially includes the distribution network, pipelines, reservoirs, water and electricity installations, water works and meters. At the end of 2010 and 2009 the item “Basic equipment” included fixed assets held by third parties, namely water meters installed in the distribution network.

Acquisitions that took place in 2010 under tangible fixed assets totalled approximately 24.7 million euros and essentially relate to projects pertaining to the new central laboratory, replacement of pipelines and branches, remodelling of the Olivais Pumping Station.

As regards reduction of the Tangible fixed assets under construction item in 2010 in the amount of approximately 28,800,00 euros, it essentially corresponds to the conclusion of the new central laboratory during the course of 2010, in the amount of 15,400,000 euros, of some sections of the project for remodelling pipelines and branches, in the amount of some 5,000,000 euros and renovation of the distribution network in the amount of 3,300,000 euros.

At 31 December 2010 the item “Tangible fixed assets under construction” essentially includes the projects of the Olivais Pumping Station, expansion of the Castelo de Bode pipeline, restoration of the Vila Franca de Xira reservoir and the various processes of land ownership.

9.2 Financial leasing

Net book values of tangible fixed assets acquired via financial leasing:

| | 31.12.2010 |
|-----------------------------------|-------------------|
| Land and natural resources | 372,059 |
| Buildings and other constructions | 22,788,822 |
| | 23,160,882 |

10. Investment properties

| | 31.12.2010 | 31.12.2009 |
|--------------------------|-------------------|-------------------|
| Land | 7,347 | 7,347 |
| Buildings | 1,280,222 | 1,280,222 |
| Accumulated depreciation | (26,535) | (25,432) |
| | 1,261,033 | 1,262,136 |

11. Financial investments

| | | 31.12.2010 | 31.12.2009 |
|--|------|--------------------|--------------------|
| Renovation fund | i) | 7,979,862 | 32,471,235 |
| Replenishment fund | ii) | 96,909,657 | 97,731,252 |
| Other financial investments | | 921,661 | 661,451 |
| Losses from financial investments impairment | 11,1 | (142,551) | (96,735) |
| | | 105,668,629 | 130,767,203 |

i) When the concession contracts of the multi-municipal companies were signed, these companies were obliged to maintain the goods and resources allocated to the concession in good working order, well preserved and safe, agreeing to undertake the necessary repairs, renovations and adaptations. As such, the company, after beginning operation of the service, agreed to create a renovation fund. Under Decree-Law no. 195/2009 of 20 August, the multi-municipal systems framework was changed, whereby the companies were released from the obligation to maintain existing renovation funds as of 1 January 2010, when the legislation came into force.

ii) AUnder the concession contracts, the concessionaire and regulated companies are obliged to create a capital replenishment fund at an institution authorized by the Bank of Portugal and the amount shall correspond to the annual amortization charge of the capital for creation of a capital replenishment fund that shall be managed by the concessionaire and which the latter shall be entitled to at the end of the contract. In safeguarding users' interests, seeing as the invested capital return margin is included in the tariff, interest on the fund shall be deducted from costs and charges on an annual basis.

The table below breaks down the value of the funds per affiliate:

| | 31.12.2010 | | 31.12.2009 | |
|--|----------------------------|---------------------------|----------------------------|---------------------------|
| | Capital Replenishment Fund | Equipment Renovation Fund | Capital Replenishment Fund | Equipment Renovation Fund |
| UNA-PD | | | | |
| Águas do Algarve, S.A. | 8,267,571 | - | 7,498,127 | - |
| Águas do Ave, S.A. | - | - | 2,236,980 | - |
| Águas do Cávado, S.A. | - | - | 5,190,461 | - |
| Águas do Centro Alentejo, S.A. | 1,163,390 | - | 988,999 | - |
| Águas do Centro, S.A. | 6,113,767 | - | 5,555,157 | 1,429,318 |
| Águas do Douro e Paiva, S.A. | 8,884,288 | - | 8,183,338 | - |
| Águas do Minho e Lima, S.A. | - | - | 4,157,412 | - |
| Águas do Mondego, S.A. | 3,130,756 | - | 2,608,963 | - |
| Águas do Norte Alentejano, S.A. | 2,177,301 | - | 1,972,782 | - |
| Águas do Noroeste, S.A. | 11,584,853 | - | - | - |
| Águas do Oeste, S.A. | 5,327,456 | - | 4,361,614 | - |
| Águas de Santo André, S.A. | 171,739 | 5,674,520 | 133,000 | 5,674,520 |
| Águas de Trás-os-Montes e Alto Douro, S.A. | 6,444,684 | - | 5,459,649 | - |
| Águas do Zêzere e Côa, S.A. | 4,153,661 | - | 3,247,211 | - |
| Sanest, S.A. | 6,641,809 | - | 6,190,961 | 7,506,855 |
| Simarsul, S.A. | 4,865,147 | - | 4,020,622 | 2,587,562 |
| Simdouro, S.A. | 108,021 | - | - | - |
| Simdouro, S.A. | 1,751,099 | - | 1,580,104 | - |
| Simria, S.A. | 3,495,283 | - | 3,173,039 | - |
| Simtejo, S.A. | 4,880,797 | - | 3,886,114 | - |
| | 79,161,622 | 5,674,520 | 70,444,533 | 17,198,255 |
| Waste | | | | |
| Algar, S.A. | 4,131,916 | - | 3,811,606 | 2,413,077 |
| Amarsul, S.A. | 3,611,040 | - | 3,234,491 | 1,502,343 |
| Ersuc, S.A. | 2,126,088 | 1,204,478 | 1,948,914 | 2,145,219 |
| Resiestrela, S.A. | 408,511 | - | 200,000 | - |
| Resinorte, S.A. | 449,485 | - | 449,485 | - |
| Resioeste, S.A. | - | - | 962,532 | 1,164,909 |
| Resulima, S.A. | 1,279,194 | - | 1,166,526 | 1,536,420 |
| Suldouro, S.A. | 1,693,074 | - | 1,537,899 | 3,133,050 |
| Valnor, S.A. | 1,508,254 | 624,740 | 1,317,114 | 614,032 |
| Valorlis, S.A. | 1,055,471 | 476,124 | 969,603 | 1,613,087 |
| Valorminho, S.A. | 477,002 | - | 438,549 | 1,150,843 |
| Valorsul, S.A. | 1,008,000 | - | 11,250,000 | - |
| | 17,748,035 | 2,305,342 | 27,286,719 | 15,272,980 |
| | 96,909,657 | 7,979,862 | 97,731,252 | 32,471,235 |

11.1 Losses from accumulated impairment on financial investments

| | 31.12.2010 |
|-----------------|-------------------|
| Initial balance | (96,735) |
| Increase | (45,817) |
| Final balance | (142,551) |

12. Financial investments in associated companies

| | 31.12.2010 | 31.12.2009 |
|---|-------------------|-------------------|
| AdRA - Águas da Região de Aveiro, S.A. | - | 7,768,373 |
| AgdA - Águas Públicas do Alentejo, S.A. | - | 256,315 |
| Trevo Oeste, S.A. | 549,779 | 549,779 |
| Clube de Golf das Amoreiras, S.A. | 250,000 | 250,000 |
| Netdouro, S.A. | 85,501 | 85,501 |
| Miese, Lda. | 186,783 | 40,000 |
| Águas de Timor, Lda. | 5,001 | 5,001 |
| | 1,077,064 | 8,954,969 |

Investments in associated companies are stated at the value resulting from application of the equity method. According to this method, consolidated financial statements shall include the group's share of total gains and losses recognized from the date that the significant influence begins until the date when it effectively ends. Associated companies are entities in which the group holds 20% to 50% of voting rights or over which the group has significant influence, but cannot exercise its control.

Changes in the period were as follows

| | 31.12.2010 |
|--|-------------------|
| Initial balance | 8,954,969 |
| Perimeter changes - inclusion in the consolidation perimeter - AdRA and AgdA | (8,024,688) |
| Perimeter changes - increase in the Miese stake | 146,783 |
| Final balance | 1,077,064 |

AdRA and AgdA became part of the consolidation perimeter in 2010.

13. Deferred tax

| | 31.12.2010 | 31.12.2009 |
|--------------------------|--------------------|--------------------|
| Deferred tax assets | 239,211,070 | 75,910,713 |
| | 239,211,070 | 75,910,713 |
| Deferred tax liabilities | 248,662,999 | 116,687,924 |
| | 248,662,999 | 116,687,924 |

13.1 Changes during the period

| | 31.12.2009 | Perimeter changes | Corrections | Contribution | Use | 31.12.2010 |
|--|--------------------|-------------------|-------------------|--------------------|---------------------|----------------------|
| Corporate income tax (IRC) rate | 24.09% | 28.78% | 31.57% | 24.17% | 23.25% | 24.68% |
| Municipal surtax rate | 1.62% | | 3.93% | 1.69% | 1.90% | 1.86% |
| Deferred tax assets | | | | | | |
| Provisions | 32,515,519 | - | 2,452,872 | (195,517) | (4,235,621) | 30,537,253 |
| Losses carried forward | 167,636,187 | 13,161,740 | (23,590,023) | 14,586,444 | (46,227,524) | 125,566,824 |
| Other | | | | | | |
| Other | 238,813,581 | - | 77,708,254 | 582,368,048 | (30,239,771) | 868,650,113 |
| Taxable amount | 438,965,287 | 13,161,740 | 56,571,102 | 596,758,974 | (80,702,917) | 1,024,754,189 |
| Corporate income tax (IRC) | 105,742,560 | 3,788,102 | 17,860,969 | 144,264,701 | (18,765,569) | 252,890,764 |
| Municipal surtax | 4,400,628 | - | 3,147,449 | 9,843,257 | (655,685) | 16,735,649 |
| Tax | 110,143,188 | 3,788,102 | 21,008,418 | 154,107,958 | (19,421,253) | 269,626,413 |
| Impairment | 34,232,475 | 3,788,102 | (3,614,533) | 2,533,319 | (6,524,021) | 30,415,343 |
| Recognized deferred tax assets | 75,910,713 | - | 24,622,951 | 151,574,639 | (12,897,233) | 239,211,070 |
| Corporate income tax (IRC) rate | 25.75% | | 25.00% | 23.89% | 24.06% | 24.79% |
| Municipal surtax rate | 1.85% | | 4.00% | 1.57% | 1.73% | 1.84% |
| Deferred tax liabilities | | | | | | |
| Revaluations | 30,036,739 | - | - | - | (1,779,401) | 28,257,338 |
| Capital gains reinvestment | 184,281 | - | - | - | (4,877) | 179,404 |
| Other | | | | | | |
| Other | 392,492,310 | - | 56,922,461 | 501,243,252 | (45,358,156) | 905,299,867 |
| Taxable amount | 422,713,330 | - | 56,922,461 | 501,243,252 | (47,142,434) | 933,736,609 |
| Corporate income tax (IRC) | 108,856,692 | - | 14,230,261 | 119,743,595 | (11,342,642) | 231,487,906 |
| Municipal surtax | 7,831,232 | - | 2,279,224 | 7,879,258 | (814,621) | 17,175,093 |
| Recognized deferred tax liabilities | 116,687,924 | - | 16,509,486 | 127,622,853 | (12,157,262) | 248,662,999 |

| Impairment | 31.12.2009 | Perimeter changes | Corrections | Contribution | Use | 31.12.2010 |
|--|--------------------|-------------------|---------------------|-------------------|---------------------|--------------------|
| Corporate income tax (IRC) rate | 21.92% | 28.78% | 18.29% | 24.42% | 21.01% | 23.58% |
| Municipal surtax rate | 0.01% | 0.00% | 0.19% | 0.00% | 0.00% | -0.02% |
| Deferred tax assets | | | | | | |
| Provisions | 1,053,085 | - | 2,452,872 | - | - | 3,505,957 |
| Losses carried forward | 155,070,176 | 13,161,740 | (22,018,078) | 10,373,722 | (31,045,935) | 125,541,624 |
| Taxable amount | 156,123,261 | 13,161,740 | (19,565,206) | 10,373,722 | (31,045,935) | 129,047,581 |
| Corporate income tax (IRC) | 34,215,433 | 3,788,102 | (3,577,740) | 2,533,319 | (6,524,021) | 30,435,093 |
| Municipal surtax | 17,042 | - | (36,793) | - | - | (19,751) |
| Deferred tax assets impairment | 34,232,475 | 3,788,102 | (3,614,533) | 2,533,319 | (6,524,021) | 30,415,342 |

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
|-------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Tax losses | 8,380,197 | 26,350,227 | 18,599,518 | 33,077,213 | 24,573,225 | 14,586,444 | 125,566,824 |

The significant increase in deferred tax assets and liabilities is explained, in addition to the normal changes in provisions, revaluations, tax losses, etc., by application of IFRIC 12 in which there are significant temporary differences between the book amortizations and the tax amortizations, having an equivalent impact on the deferred taxes associated with the investment grants. It should also be mentioned that this item includes deferred tax assets are recorded (44,202,570 euros) and deferred tax liabilities (62,921,420 euros) for the tariff deficit (see note 15).

14. Derivatives

| | 31.12.2010 | 31.12.2009 |
|-------------------|---------------------|--------------------|
| Swaps assets | 2,227,586 | 2,477,311 |
| Swaps liabilities | (14,914,691) | (9,334,823) |
| | (12.687.105) | (6.857.512) |

| | 31.12.2010 | | 31.12.2009 | |
|-----------------------------|-------------------|-------------------|------------------|------------------|
| | Assets | Liabilities | Assets | Liabilities |
| Foreign exchange risk swaps | 2,227,586 | - | 2,477,311 | - |
| Interest rate swaps | - | 14,914,691 | - | 9,334,823 |
| | 2,227,586 | 14,914,691 | 2,477,311 | 9,334,823 |

The group uses derivatives for the sole purpose of managing the financial risks it is exposed to. In accordance with its financial policies, the group does not use derivatives for speculation purposes. Even though the derivatives used by AdP are effective instruments for hedging risks, not all of them qualify as hedging instruments under the rules and requirements of IAS 39. Instruments that do not qualify as hedging instruments are recorded in the balance sheet at fair value and its changes are recorded under financial results. Whenever available, the fair value of derivatives is estimated on the basis of quoted instruments. In the absence of market prices, the fair value of derivatives is estimated using the discounted cash flow method and determined by external entities, in accordance with valuation principles accepted by the market. Derivatives are recognized on their trade date at fair value. Subsequently, the fair value of derivatives is revalued on a regular basis, and the ensuing gains or losses of this revaluation are recorded directly under results for the period, except with respect to hedging derivatives. Recognition of changes in the fair value of hedging derivatives depends on the nature of the hedged risk and the hedging model used.

15. Tariff deficit

| | 31.12.2010 | 31.12.2009 |
|------------------------------------|--------------------|--------------------|
| Gross tariff deficit - assets | 310,762,868 | 262,487,519 |
| Gross tariff deficit - liabilities | (135,317,264) | (124,876,302) |
| Net gap | 175,445,605 | 137,611,217 |

| | ASSETS deficit assets | ASSETS deferred tax | LIABILITIES deficit liabilities | LIABILITIES deferred tax | Effect Net Balance | Effect on Sales |
|--|--------------------------|------------------------|------------------------------------|-----------------------------|-----------------------|---------------------|
| UNA-PD | | | | | | |
| Águas do Algarve, S.A. | 10,080,538 | - | - | (3,381,874) | 6,698,664 | 2,155,410 |
| Águas do Centro Alentejo, S.A. | 6,197,862 | - | - | (782,418) | 5,415,444 | (1,777,912) |
| Águas do Centro, S.A. | 35,720,092 | - | - | (8,825,096) | 26,894,996 | (7,589,627) |
| Águas do Douro e Paiva, S.A. | - | 2,611,635 | (5,139,068) | - | (2,527,434) | 1,741,797 |
| Águas do Mondego, S.A. | 4,845,908 | - | - | (985,863) | 3,860,045 | (865,954) |
| Águas do Norte Alentejano, S.A. | 19,382,010 | - | - | (2,503,767) | 16,878,244 | (3,064,032) |
| Águas do Noroeste, S.A. | 61,801,457 | - | - | (13,623,190) | 48,178,266 | (7,384,268) |
| Águas do Oeste, S.A. | 23,736,094 | - | - | (4,134,630) | 19,601,465 | (5,211,939) |
| Águas de Trás-os-Montes e Alto Douro, S.A. | 48,562,807 | - | - | (6,226,086) | 42,336,720 | (5,283,686) |
| Águas do Zêzere e Côa, S.A. | 35,684,761 | - | - | (8,730,594) | 26,954,167 | (3,144,142) |
| AgdA - Águas Públicas do Alentejo, S.A. | 682,660 | - | - | (180,905) | 501,755 | (621,433) |
| Sanest, S.A. | - | 10,326,230 | (32,343,079) | - | (22,016,849) | 754,851 |
| Simarsul, S.A. | 17,650,154 | - | - | (4,226,036) | 13,424,118 | (4,975,761) |
| Simdouro, S.A. | 646,034 | - | - | (135,335) | 510,699 | (646,034) |
| Simlis, S.A. | 14,562,647 | - | - | (2,265,036) | 12,297,610 | (2,968,383) |
| Simria, S.A. | 22,856,344 | - | - | (5,325,202) | 17,531,143 | 954,982 |
| Simtejo, S.A. | - | 5,523,564 | (20,706,730) | - | (15,183,166) | 2,614,533 |
| Total UNA-PD | 302,409,369 | 18,461,429 | (58,188,877) | (61,326,033) | 201,355,888 | (35,311,598) |
| AdRA - Águas da Região de Aveiro | 8,338,309 | - | - | (1,546,442) | 6,791,867 | (7,901,421) |
| Total UNA-DR | 8,338,309 | - | - | (1,546,442) | 6,791,867 | (7,901,421) |
| Solid Waste | | | | | | |
| Algar, S.A. | - | 1,192,366 | (3,933,979) | - | (2,741,612) | (518,903) |
| Amarsul, S.A. | - | 885,276 | (2,783,773) | - | (1,898,497) | (368,999) |
| Ersuc, S.A. | - | 2,100,188 | (6,031,028) | - | (3,930,840) | 794,549 |
| Resiestrela, S.A. | - | 176,219 | (1,287,529) | - | (1,111,310) | 622,776 |
| Resinorte, S.A. | - | - | (689,435) | (17,922) | (707,357) | (1,857,441) |
| Resulima, S.A. | 15,191 | - | - | (31,024) | (15,833) | 546,964 |
| Suldouro, S.A. | - | 946,081 | (3,467,419) | - | (2,521,337) | 29,616 |
| Valnor, S.A. | - | 1,094,746 | (4,570,278) | - | (3,475,532) | 1,207,836 |
| Valorlis, S.A. | - | 503,944 | (1,897,397) | - | (1,393,453) | 618,190 |
| Valorminho, S.A. | - | 71,447 | (466,961) | - | (395,514) | 179,633 |
| Valorsul, S.A. | - | 18,770,873 | (52,000,588) | - | (33,229,715) | 4,622,524 |
| Total UNR | 15,191 | 25,741,141 | (77,128,386) | (48,945) | (51,421,000) | 5,876,745 |
| Total | 310,762,868 | 44,202,570 | (135,317,264) | (62,921,420) | 156,726,755 | (37,336,274) |

Balances at 31 December 2009 did not include AgdA amounts (61,227 euros) and AdRA (436,887 euros) because these two companies were not included in the consolidation perimeter at that date.

16. Customers and other non-current assets

| | | 31.12.2010 | 31.12.2009 |
|---|------|--------------------|--------------------|
| Customers - current account | 16.1 | 35,180,065 | 33,968,320 |
| Investment grants - Cohesion Fund and other | | 55,875,679 | 46,811,155 |
| Concession charges - investment accruals | i) | 18,001,507 | 88,374,912 |
| Other | ii) | 15,553,484 | - |
| | | 124,610,736 | 169,154,387 |

i) In 2009 this item included amounts related to the difference between the amortization rates applied to infrastructures and tax rates. In 2010 this difference was reclassified to the accumulated amortization of infrastructure usage rights item. This includes the amount of 17,998,972 euros in concession charges.

- ii) As a result of changes to the volume of investment existing in the initial concession contracts, in some cases there have been some so called expansion or modernization investments that may exhibit a residual value at the end of the concession period and which will be reimbursed by the Awarding Authority or another entity at that date. Recognized amounts pertain to Águas do Algarve (7,876,775 euros) and to Águas do Douro e Paiva (7,676,709 euros).

16.1 Customers

| | | 31.12.2010 | 31.12.2009 |
|----------------|------|-------------------|-------------------|
| General | | 74,300 | 163,086 |
| Municipalities | 18.2 | 35,105,765 | 33,805,234 |
| | | 35,180,065 | 33,968,320 |

17. Inventory

| | | 31.12.2010 | 31.12.2009 |
|--|------|-------------------|-------------------|
| Goods | | 358,709 | 380,228 |
| Consumable materials | | 7,087,731 | 6,866,498 |
| Finished goods | | 1,077,309 | 1,147,058 |
| Reclassification and adjustment of stocks | | (2,706) | (213) |
| Accumulated inventory losses due to impairment | 17.1 | (420,477) | (468,379) |
| | | 8,100,566 | 7,925,192 |

17.1 Accumulated inventory losses due to impairment

| | 31.12.2010 |
|---|-------------------|
| Initial balance | (468,379) |
| Conversion differences | - |
| Increase | (44,438) |
| Reversals | 20,609 |
| Outside the perimeter (Águas de Moçambique) | 71,730 |
| Final balance | (420,477) |

18. Customers

| | | 31.12.2010 | 31.12.2009 |
|---------------------------------------|------|--------------------|--------------------|
| Customers - current account | 18.1 | 279,316,518 | 229,276,403 |
| Doubtful debt customers | | 10,293,318 | 20,662,452 |
| Estimated services awaiting invoicing | | 15,963,176 | 14,563,656 |
| Losses due to impairment of customers | 18.3 | (9,139,322) | (19,594,177) |
| | | 296,433,690 | 244,908,335 |

18.1 Customers

| Suppliers c/a | | 31.12.2010 | 31.12.2009 |
|----------------------|------|--------------------|--------------------|
| General | | 60,146,964 | 37,142,082 |
| Municipalities | 18.2 | 219,169,554 | 192,134,322 |
| | | 279,316,518 | 229,276,403 |

2010 saw a significant increase in customers debt as a result of the significant worsening of the average receipts time period essentially due to the increased difficulties that customers - municipalities - had in paying their debts. note 18.2 indicates the most significant debts per municipality at 31 December 2010.

18.2 Customers - municipalities

Reconciliation of current and non-current customers debts with the debts per municipality table:

| | 31.12.2010 | 31.12.2009 |
|---|--------------------|--------------------|
| Non-current municipality clients | | |
| Customers municipalities | 35,105,765 | 33,805,234 |
| | 35,105,765 | 33,805,234 |
| Customers current municipalities | | |
| Customers municipalities - TRH | 2,987,946 | 3,655,793 |
| Customers municipalities - Agreements | 22,559,956 | 33,838,890 |
| Customers municipalities - Other | 193,621,652 | 154,639,639 |
| | 219,169,554 | 192,134,322 |
| Customers municipalities doubtful debt | 4,407,108 | 2,751,758 |
| Losses due to impairment - municipalities | (4,386,847) | (2,751,758) |
| | 20,261 | - |
| | 254,295,580 | 225,939,556 |

Debts per municipality in excess of 2,000,000 euros:

| | Overdue 2008 | Overdue 2009 | Overdue 2010 | Total overdue | Total not overdue | Total debt |
|------------------------------------|-------------------|-------------------|--------------------|--------------------|----------------------|--------------------|
| Municipality of Chaves | - | 2,067,721 | 5,520,798 | 7,588,519 | 831,322 | 8,419,841 |
| Municipality of Évora | 57,149 | 848,247 | 5,777,638 | 6,683,034 | 1,026,265 | 7,709,299 |
| Municipality of Loures | 42 | 1,525,995 | 3,058,443 | 4,584,479 | 3,086,060 | 7,670,540 |
| Municipality of Albufeira | - | 70,423 | 6,071,407 | 6,141,830 | 1,352,276 | 7,494,106 |
| Municipality of Alcobaça | 708,543 | 1,370,045 | 4,514,318 | 6,592,905 | 726,377 | 7,319,283 |
| Municipality of Lisboa | - | 44,263 | 3,168,950 | 3,213,214 | 3,820,581 | 7,033,794 |
| Municipality of Aveiro | 6,602,220 | - | (26) | 6,602,195 | 344,675 | 6,946,870 |
| Municipality of Loulé | - | 8,715 | 5,218,980 | 5,227,695 | 1,579,627 | 6,807,321 |
| Municipality of Fundão | 194,991 | 273,859 | 802,947 | 1,271,797 | 5,310,234 | 6,582,031 |
| Municipality of Olhão | - | 792,477 | 3,446,701 | 4,239,178 | 1,288,699 | 5,527,877 |
| Municipality of Alenquer | 50,807 | 2,188,761 | 2,353,405 | 4,592,972 | 588,557 | 5,181,529 |
| Municipality of Setúbal | - | 2,177,636 | 2,394,033 | 4,571,669 | 429,391 | 5,001,060 |
| Municipality of Faro | 884,027 | 538,649 | 2,272,384 | 3,695,059 | 1,222,942 | 4,918,001 |
| Municipality of Lagoa | 2,175 | 47,187 | 4,209,083 | 4,258,445 | 658,136 | 4,916,581 |
| Municipality of V. R. Sto António | - | 880,249 | 2,930,785 | 3,811,034 | 898,077 | 4,709,111 |
| Municipality of Seixal | 104,518 | - | 655,659 | 760,177 | 3,634,699 | 4,394,876 |
| Municipality of Coimbra | - | 206,465 | 1,295,894 | 1,502,359 | 2,817,851 | 4,320,210 |
| Municipality of Sintra | 1,845,277 | - | 352,798 | 2,198,075 | 1,887,350 | 4,085,425 |
| Municipality of Guarda | 89,553 | 81,262 | 2,800,542 | 2,971,357 | 753,767 | 3,725,124 |
| Municipality of Vila Real | - | 184,173 | 2,744,891 | 2,929,065 | 668,167 | 3,597,232 |
| Municipality of Barreiro | - | 56,814 | 854,455 | 911,269 | 2,415,933 | 3,327,202 |
| Municipality of Seia | 32,249 | 546,848 | 2,190,143 | 2,769,240 | 337,611 | 3,106,851 |
| Municipality of Portalegre | 822,522 | -77,411 | 1,195,573 | 1,940,684 | 991,909 | 2,932,593 |
| Municipality of Silves | 182,117 | 283,769 | 1,628,686 | 2,094,572 | 718,981 | 2,813,553 |
| Municipality of Caminha | 14,182 | 605,789 | 1,812,182 | 2,432,153 | 336,689 | 2,768,841 |
| Municipality of Oeiras | 1,913,534 | - | - | 1,913,534 | 822,355 | 2,735,889 |
| Municipality of Trofa | 7,678 | 868,175 | 1,298,599 | 2,174,452 | 473,592 | 2,648,043 |
| Municipality of Ovar | 2,256,977 | - | 16,711 | 2,273,688 | 351,168 | 2,624,855 |
| Municipality of Montijo | - | 1,634 | 503,971 | 505,605 | 2,111,633 | 2,617,238 |
| Municipality of Azambuja | 612,175 | 1,233,562 | 398,656 | 2,244,393 | 280,193 | 2,524,585 |
| Municipality of Nazaré | -5,175 | 760,661 | 1,520,720 | 2,276,205 | 211,461 | 2,487,665 |
| Municipality of Sta Maria da Feira | 2,668 | - | 1,156,718 | 1,159,386 | 1,219,239 | 2,378,625 |
| Municipality of Tavira | 444,648 | 770,352 | 769,120 | 1,984,120 | 352,081 | 2,336,201 |
| Municipality of Palmela | - | - | 578,510 | 578,510 | 1,730,213 | 2,308,722 |
| Municipality of Torres Vedras | - | 976 | 1,150,116 | 1,151,092 | 1,036,826 | 2,187,917 |
| Municipality of Estarreja | 2,053,788 | - | 4,944 | 2,058,732 | 85,445 | 2,144,177 |
| Municipality of Sesimbra | - | - | 771,621 | 771,621 | 1,319,196 | 2,090,817 |
| Municipality of Óbidos | 259,979 | 679,667 | 1,001,298 | 1,940,943 | 112,997 | 2,053,940 |
| Customers < 2,000,000 Eur | 6,963,191 | 5,248,663 | 37,855,910 | 50,067,763 | 41,779,985 | 91,847,754 |
| | 26,099,833 | 24,285,625 | 114,297,561 | 164,683,019 | 89,612,560 | 254,295,580 |

18.3 Losses due to impairment of customers

| Losses due to impairment of customers | 31.12.2010 | 31.12.2009 |
|---|---------------------|---------------------|
| Initial balance | (19,594,177) | (20,467,615) |
| Increase | (2,566,981) | (3,156,233) |
| Decrease | 2,315,968 | - |
| Reclassification | (361,020) | - |
| Reversals | 318,797 | 1,436,147 |
| Consolidation differences | (854) | 2,593,524 |
| Outside the perimeter (Águas de Moçambique) | 10,748,945 | - |
| Final balance | (9,139,322) | (19,594,177) |

19. State and other public entities

| | 31.12.2010 | 31.12.2009 |
|--|---------------------|---------------------|
| Corporate income tax (IRC) withholding from third parties | 1,551,531 | - |
| VAT receivable | 10,616,707 | 12,402,378 |
| Other | 217,106 | 963,950 |
| State and other public entities assets | 12,385,344 | 13,366,328 |
| Withholding on behalf of third parties -- IRC | (1,527,562) | (1,639,223) |
| VAT payable | (1,538,588) | (1,626,648) |
| Social Security contributions | (2,105,628) | (1,866,805) |
| Other taxes and duties | (23,873,521) | (21,324,457) |
| State and other public entities liabilities | (29,045,299) | (26,457,133) |
| Net value amounts owed to State and other public entities | (16,659,956) | (13,090,805) |

20. Other current assets

| | 31.12.2010 | 31.12.2009 |
|---|--------------------|--------------------|
| Advances to suppliers | 1,136,188 | 584,758 |
| Staff | 369,913 | 308,189 |
| Other current assets | 46,151 | - |
| Shareholders/partners | 1,383,246 | 1,149,481 |
| Other accounts receivable | 63,212,990 | 70,929,452 |
| Investment grants - Cohesion Fund and other | 150,579,913 | 271,652,121 |
| Advances to investment suppliers | 7,926,387 | 12,276,679 |
| Deferrals | 9,605,489 | 12,974,103 |
| Accumulated losses due to impairment | (6,444,917) | (4,848,052) |
| | 227,815,360 | 365,026,732 |

i) The decrease in the "Other accounts receivable" item is the result of the sale of the debt of Águas de Guariroba (as a result of the sale of Prolagos) to a Brazilian bank in the amount of 8,649,170 euros.

ii) Affiliates with amounts receivable from the Cohesion Fund are:

| | 31.12.2010 | 31.12.2009 |
|--|--------------------|--------------------|
| Águas do Algarve, S.A. | 13,293,506 | 22,660,703 |
| Águas do Noroeste, S.A. | 26,452,812 | 47,227,870 |
| Águas do Centro Alentejo, S.A. | 4,174,228 | 3,177,307 |
| Águas do Centro, S.A. | 7,101,479 | 14,947,717 |
| Águas do Mondego, S.A. | - | 8,031,058 |
| Águas do Norte Alentejano, S.A. | 7,939,709 | 8,340,541 |
| Águas do Oeste, S.A. | 23,928,175 | 29,076,069 |
| Águas de Trás-os-Montes e Alto Douro, S.A. | 21,033,652 | 71,128,680 |
| Águas do Zêzere e Côa, S.A. | 126,183 | 3,397,437 |
| Algar, S.A. | 1,914,851 | 1,981,960 |
| Amarsul, S.A. | 277,243 | 2,049,972 |
| Ersuc, S.A. | 4,217,966 | - |
| Resinorte, S.A. | 4,508,324 | - |
| Simarsul, S.A. | 1,440,695 | 17,476,802 |
| Simlis, S.A. | 6,594,165 | 6,594,165 |
| Simria, S.A. | 7,333,420 | 5,646,455 |
| Simtejo, S.A. | 9,772,387 | 22,867,415 |
| Suldouro, S.A. | 7,152,701 | 2,288,473 |
| Valnor, S.A. | 1,300,180 | 1,789,475 |
| Valorlis, S.A. | 2,018,236 | 2,970,023 |
| Total | 150,579,913 | 271,652,121 |

Significant amounts were received from the Cohesion Fund in 2010.

20.1 Losses due to impairment of other current assets

| | 31.12.2010 |
|------------------------|--------------------|
| Initial balance | (4,848,052) |
| Increases | (436,586) |
| Reversals | 29,585 |
| Conversion differences | - |
| Reclassifications | (1,316,025) |
| Outside the perimeter | 126,161 |
| Final balance | (6,444,917) |

Reclassifications are explained in note 26.

21. Cash and cash equivalents

| | 31.12.2010 | 31.12.2009 |
|-----------------|--------------------|--------------------|
| Cash | 1,393,724 | 3,106,023 |
| Demand deposits | 51,773,491 | 38,140,052 |
| Term deposits | 425,673,152 | 257,989,986 |
| | 478,840,367 | 299,236,062 |

22. Capital

Capital in the amount of 434,500,000 euros consists of 86,900,000 shares of 5 euros each and is fully paid up.

22.1 Shareholders

| 31.12.2010 | Value | % |
|---|--------------------|----------------|
| Parública - SGPS, S.A. | 313,613,590 | 72.18% |
| Parcaixa, SGPS, S.A. | 82,555,000 | 19.00% |
| Direcção Geral do Tesouro (National Treasury) | 38,331,410 | 8.82% |
| | 434,500,000 | 100.00% |

22.2 Earnings per share

| | 31.12.2010 | 31.12.2009 |
|---|-------------------|-------------------|
| Net income of the year | 79,459,018 | 65,325,489 |
| Average number of shares | 86,900,000 | 86,900,000 |
| Earnings per share (basic and diluted) | 0.91 | 0.75 |

23. Reserves and other adjustments

| | 31.12.2010 | 31.12.2009 |
|-------------------------------------|-------------------|-------------------|
| Legal reserves | 10,163,283 | 7,867,715 |
| Free reserves | 19,000,764 | - |
| Foreign exchange conversion reserve | 89,429 | 3,749,355 |
| | 29,253,475 | 11,617,070 |

| | 31.12.2009 | Increases/ Decreases | Dividends | Distribution of Net Income | Transfer. | 31.12.2010 |
|--------------------------------------|--------------------|-------------------------|---------------------|-------------------------------|--------------------|--------------------|
| Legal reserves | 7,867,715 | - | - | 2,295,568 | - | 10,163,283 |
| Free reserves | - | - | - | 19,000,764 | - | 19,000,764 |
| Foreign exchange conversion reserves | 3,749,355 | (81,092) | - | - | (3,578,834) | 89,429 |
| | 11,617,070 | (81,092) | - | 21,296,332 | (3,578,834) | 29,253,475 |
| Retained earnings | 134,400,154 | (6,332,218) | (24,615,034) | 44,029,157 | 3,578,834 | 151,060,893 |
| Net income | 65,325,489 | 79,459,018 | - | (65,325,489) | - | 79,459,018 |
| | 199,725,643 | 73,126,800 | (24,615,034) | (21,296,332) | 3,578,834 | 230,519,910 |
| | 211,342,712 | 73,045,708 | (24,615,034) | - | - | 259,773,386 |

| Foreign Exchange Conversion Reserve | 31.12.2010 | 31.12.2009 |
|-------------------------------------|------------------|------------------|
| Initial balance | 3,749,355 | 1,443,356 |
| Changes of the year: | | |
| - Águas do Brasil, S.A. | (70,145) | (117,629) |
| - Aquatec, Lda. | (10,947) | 167,460 |
| - Águas de Moçambique, S.A.R.L. | (3,578,834) | 2,256,168 |
| Final balance | 89,429 | 3,749,355 |

24. Retained earnings

| | 31.12.2010 |
|------------------------|--------------------|
| Initial balance | 134,400,154 |
| Net income | 44,029,157 |
| Dividends paid | (24,615,034) |
| Other changes | (2,753,384) |
| Final balance | 151,060,893 |

The main amounts recorded under other changes in retained earnings refer to EPAL in the amount of 3,761,277 euros and pertains to the effect of changing the tax rate on temporary differences previously recorded under reserves, namely legal and free revaluation reserves. There were also changes in capital holdings in the approximate amount of 331,000 euros.

25. Non-controlled interests

| | 31.12.2010 |
|--------------------------------|--------------------|
| Initial balance | 214,167,440 |
| Distributed dividends | (8,403,767) |
| Result | 17,275,196 |
| Perimeter changes AgdA | 7,463,730 |
| Perimeter changes AdRA | 246,263 |
| Perimeter changes Simdouro | 2,077,579 |
| Unpaid capital | 827,480 |
| Change in minimum holding | (1,366,348) |
| Capital increase | 1,616,936 |
| Changes in total equity - IFRS | 263,919 |
| Other | 28,332 |
| Final balance | 234,196,760 |

26. Provisions

| | 31.12.2010 | 31.12.2009 |
|--------------------------------|-------------------|-------------------|
| Provisions - taxes | 83,388 | - |
| Provisions - legal proceedings | 546,696 | 11,407,750 |
| Provisions - work accidents | 149,986 | 141,572 |
| Provisions - other | 12,631,656 | 15,516,906 |
| | 13,411,726 | 27,066,228 |

26.1 Changes during the period

| | 31.12.2009 | Increases | Reductions | Reversals | Reclass. | Transf. | For. Ex. conversion | Outside the perimeter | 31.12.2010 |
|-------------------|-------------------|------------------|------------------|---------------------|--------------------|-------------------|---------------------|-----------------------|-------------------|
| Taxes | - | 83,388 | - | - | - | - | - | - | 83,388 |
| Legal proceedings | 11,407,750 | 151,974 | (27,954) | (10,928,924) | - | - | - | (56,149) | 546,696 |
| Work accidents | 141,572 | 8,414 | - | - | - | - | - | - | 149,986 |
| Other | 15,516,906 | 3,010,622 | 2,157,139 | (17,882,367) | (1,973,246) | 12,515,512 | 214 | (713,124) | 12,631,656 |
| | 27,066,228 | 3,254,398 | 2,129,185 | (28,811,291) | (1,973,246) | 12,515,512 | 214 | (769,274) | 13,411,726 |

Below, companies that contributed to the increase in provisions – other, in the amount of 3,010,622 euros:

| | 31.12.2010 |
|---------------------------------|-------------------|
| Águas do Algarve, S.A. | 428,309 |
| Águas do Norte Alentejano, S.A. | 567,753 |
| AdP Serviços, S.A. | 552,130 |
| Águas do Zêzere e Côa, S.A. | 110,031 |
| Empresa Geral do Fomento, S.A. | 1,090,439 |
| EPAL, S.A. | 100,000 |
| Resinorte, S.A. | 161,960 |
| Total | 3,010,622 |

The item “other - increases” includes creation of provisions in the amount of 1,090,439 euros related to the negative performance that occurred at the delegation of EGF - Maputo (947,000 euros) and the loss ensuing from the sale of shares of Resinorte to AMAVE in accordance with the Constitution Decree-Law (243,440 euros).

Changes in the item “other,” decreases (2,157,139 euros), reversals (17,882,367 euros) and transfers (12,515,512 euros), result from the sale of Águas de Moçambique and correspond to the cancellation of all provisions created in the past in order to face contingent responsibilities and from the respective financial holding (with negative total equity).

The amount recorded under reclassification of other provisions in the amount of 1,973,246 euros can be explained by the fact that these provisions are incorrectly classified at affiliate EPAL, which has reclassified this amount for impairment of customers and other debtors.

Reversal of the provision for legal proceedings was undertaken at EPAL, which ceased to be responsible for payment of any fines or penalty interest associated with the underground tax in relation to previous years in the amount of 10,675,024 euros.

27. Pensions responsibilities

| | 31.12.2010 | 31.12.2009 |
|--|-------------------|-------------------|
| EPAL pension fund | 12,640,738 | 15,602,126 |
| EGF pension fund | - | - |
| Águas de Moçambique pensions provision | - | 110,351 |
| | 12,640,738 | 15,712,477 |

Pension responsibilities at Águas de Moçambique do not have an associated pension fund. It is merely an accounting provision and corresponds to a percentage of the total payroll. This company was sold on 31 December 2010.

27.1 Defined benefit

27.1.1 Actuarial assumptions

| | EPAL 31.12.2010 | EPAL 31.12.2009 | EGF 31.12.2010 | EGF 31.12.2009 |
|-------------------------------------|--------------------|--------------------|-------------------|-------------------|
| Regular retirement age | 65 years | 65 years | | |
| Mortality table | TV 88/90 | TV 88/90 | TV 73/77 | TV 73/77 |
| Disability table | EVK 80 | EVK 80 | EVK 80 | EVK 80 |
| Yield return | 4.50% | 5.25% | 5% | 0.6% to 5.7% |
| Deduction rate | 4.50% | 5.25% | 4.50% | 5.50% |
| Salary growth rate | 2.50% | 2.50% | n.a. | n.a. |
| Social Security salary growth rate | 2.50% | 2.50% | n.a. | n.a. |
| Pensions growth rate | 1.25% | 1.25% | 1.00% | 1.00% |
| Pre-retirement payments growth rate | 2.50% | 2.50% | n.a. | n.a. |

27.1.2 Fund summary

| | 31 December 2010 | | | 31 December 2009 | | |
|--|-------------------|----------------|---------------------|-------------------|-----------------|---------------------|
| | EPAL | EGF | Total | EPAL | EGF | Total |
| Responsibilities at the end of the period | 47,786,569 | 648,279 | 48,434,848 | 48,900,000 | 650,207 | 49,550,207 |
| Value of the assets at the end of the period | (36,267,749) | (651,211) | (36,918,960) | (35,043,000) | (699,744) | (35,742,744) |
| Unrecognized actuarial gains/(losses) | 1,121,918 | - | 1,121,918 | 1,745,126 | - | 1,745,126 |
| Responsibilities provision | 12,640,738 | (2,932) | 12,637,806 | 15,602,126 | (49,537) | 15,552,589 |

The EGF pension fund has a level of financing that is greater than its responsibilities. The difference does not contribute to the balance sheet provision.

27.1.3 Changes in responsibilities

| | 31 December 2010 | | | 31 December 2009 | | |
|--|-------------------|----------------|--------------------|-------------------|----------------|--------------------|
| | EPAL | EGF | Total | EPAL | EGF | Total |
| Responsibilities at the start of the period | 48,900,000 | 650,207 | 49,550,207 | 50,623,000 | 738,342 | 51,361,342 |
| Change in the deduction rate | - | 27,646 | 27,646 | - | - | - |
| Cost of current services | 249,000 | - | 249,000 | 293,000 | - | 293,000 |
| Interest cost | 2,419,000 | 32,545 | 2,451,545 | 2,516,000 | 37,189 | 2,553,189 |
| Recognition of new pre-retirement pensions | 1,752,862 | - | 1,752,862 | 4,011,000 | - | 4,011,000 |
| Actuarial (gains)/losses | 24,707 | 54,822 | 79,529 | (3,030,000) | (7,436) | (3,037,436) |
| Benefits paid | (5,559,000) | (116,941) | (5,675,941) | (5,513,000) | (117,888) | (5,630,888) |
| Responsibilities at the end of the period | 47,786,569 | 648,279 | 48,434,848 | 48,900,000 | 650,207 | 49,550,207 |

27.1.4 Changes in the fund assets

| | 31 December 2010 | | | 31 December 2009 | | |
|---|-------------------|----------------|-------------------|-------------------|----------------|-------------------|
| | EPAL | EGF | Total | EPAL | EGF | Total |
| Responsibilities at the start of the period | 35,042,872 | 699,744 | 35,742,616 | 33,151,000 | 779,768 | 33,930,768 |
| Fund return | 1,785,000 | 8,606 | 1,793,606 | 1,688,000 | 37,864 | 1,725,864 |
| Contribution to the fund | 2,069,659 | 60,978 | 2,130,637 | 1,611,000 | - | 1,611,000 |
| Actuarial gains and losses | (566,782) | - | (566,782) | 544,000 | - | 544,000 |
| Benefits paid | (2,063,000) | (118,117) | (2,181,117) | (1,951,000) | (117,888) | (2,068,888) |
| Amount at the end of the period | 36,267,749 | 651,211 | 36,918,960 | 35,043,000 | 699,744 | 35,742,744 |

The rate of return on the assets of the plan is determined on the basis of the expected return on the assets, in accordance with the established investment plan. Long-term treasury bond yields are used, Euribor 6 months (short-term yield), rates of return on capital instruments and investment properties instruments that reflect real long-term rates on the basis of the experience and maturity of the respective markets.

27.1.5 Cost for the period

| | 31 December 2010 | | | 31 December 2009 | | |
|--|------------------|---------------|------------------|------------------|--------------|------------------|
| | EPAL | EGF | Total | EPAL | EGF | Total |
| Cost of current services | 249,000 | - | 249,000 | 293,000 | - | 293,000 |
| Interest cost | 2,419,000 | 32,545 | 2,451,545 | 2,516,000 | 37,189 | 2,553,189 |
| Return on assets | (1,785,000) | (8,606) | (1,793,606) | (1,688,000) | (37,864) | (1,725,864) |
| Recognition of new pre-retirement pensions | 1,753,000 | - | 1,753,000 | 4,011,000 | - | 4,011,000 |
| Actuarial gains and losses | (5,000) | - | (5,000) | - | - | - |
| Total | 2,631,000 | 23,939 | 2,654,939 | 5,132,000 | (675) | 5,131,325 |

27.1.6 Breakdown of the fund assets

| | 31.12.2010 | 31.12.2009 |
|--------------------------|-------------------|-------------------|
| Total equity instruments | 11,421,234 | 9,124,873 |
| Debt instruments | 19,017,987 | 23,106,571 |
| Real estate | - | 832,552 |
| Other | 6,479,739 | 2,678,748 |
| | 36,918,960 | 35,742,744 |

27.1.7 Responsibilities trend over the past five years

| | 31.12.2010 | 31.12.2009 | 31.12.2008 | 31.12.2007 | 31.12.2006 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Responsibilities at the end of the period | 48,434,848 | 49,550,207 | 51,360,779 | 89,158,229 | 97,024,435 |
| Value of the assets at the end of the period | 36,918,960 | 35,742,744 | 33,931,212 | 49,255,217 | 47,241,499 |
| Unrecognized actuarial gains and losses | (1,121,918) | (1,745,126) | 1,828,240 | 14,550,802 | 23,728,443 |
| Excess coverage | (2,932) | (49,537) | (41,425) | (39,828) | (2,079) |
| Águas de Moçambique provision | - | 110,351 | - | - | - |
| Responsibilities provision | 12,640,738 | 15,712,477 | 15,642,752 | 25,392,038 | 26,056,572 |

EPAL Pension Benefits - change 2007/2008

Pre-Retirement

During the course of the first half of 2008, EPAL changed the criteria/assumptions related to calculating the company's responsibilities in relation to pre-retirees. Up until then, the assumption had been that a group of employees representing 10% of total payroll eligible for pre-retirement would enter pre-retirement, and this assumption contributed to calculating the respective responsibilities. Because this assumption was not compatible with the real situation, only effective pre-retirement responsibilities began to be considered as a provision, and when an employee enters pre-retirement the total corresponding responsibility is recognized during the year.

EPAL pension fund

Also during the first half of 2008, the Pension Plan was changed from a Defined Benefit Plan (DB) to a Defined Benefit and Defined Contribution (DC) Mixed Plan. As such, the portion of the company's DB responsibilities corresponding to employees currently under DC was reduced, along with the corresponding fund value, as it was transferred to individual accounts of the employees of the DC Plan, as per the agreement signed between the Company and Worker Representation Organizations of EPAL.

27.2 Defined contribution

Company contributions made during the year totalled 554,533 euros (510,923 euros at EPAL and 43,610 euros at EGF). In addition, employees made individual contributions in the amount of 35,885 euros (29,122 euros at EPAL and 6,763 euros at EGF).

28. Loans

| | | 31.12.2010 | 31.12.2009 |
|-----------------------------------|-----------|----------------------|----------------------|
| Non-current | | | |
| Bank loans - EIB | 28.1/28.2 | 1,606,082,801 | 1,300,304,302 |
| Bank loans – commercial banks | | - | - |
| Bond loans | 28.1/28.2 | 500,000,000 | 500,000,000 |
| Other bank loans | 28.1/28.2 | 285,644,937 | 204,554,486 |
| Other loans | | 680,245 | - |
| Bank loans | | 2,392,407,984 | 2,004,858,788 |
| Amounts owed to leasing companies | 28.3 | 23,649,853 | 25,267,040 |
| Total non-current loans | | 2,416,057,836 | 2,030,125,828 |
| Current | | | |
| Bank overdrafts | | 177,814,198 | 150,283,067 |
| Bank loans | 28.1/28.2 | 327,884,637 | 393,459,147 |
| Other loans | | 175,911 | 4,541,486 |
| Bank loans | | 505,874,746 | 548,283,700 |
| Amounts owed to leasing companies | 28.3 | 3,500,372 | 3,518,486 |
| Other loans | | - | - |
| Total current loans | | 509,375,118 | 551,802,186 |
| Total bank loans | | 2,898,282,730 | 2,553,142,488 |
| Total loans | | 2,925,432,955 | 2,581,928,014 |

28.1 Loan breakdown according to maturity

| | | 31.12.2010 | 31.12.2009 |
|-------------------------------|--|----------------------|----------------------|
| Non-current | | | |
| Bank loans - EIB | | 1,606,082,801 | 1,300,304,302 |
| Bank loans – commercial banks | | - | - |
| Bond loans | | 500,000,000 | 500,000,000 |
| Other bank loans | | 285,644,937 | 204,554,486 |
| Current | | | |
| Bank loans | | 327,884,637 | 393,459,147 |
| | | 2,719,612,375 | 2,398,317,935 |
| By maturity | | | |
| Up to 1 year | | 327,884,636 | 393,459,147 |
| 1 to 2 years | | 58,346,922 | 66,840,081 |
| 2 to 3 years | | 60,907,258 | 51,376,780 |
| 3 to 4 years | | 82,180,803 | 115,374,454 |
| 4 to 5 years | | 63,376,424 | 74,377,639 |
| More than 5 years | | 2,126,916,332 | 1,696,889,834 |
| | | 2,719,612,375 | 2,398,317,935 |

28.2 Loan breakdown according to interest rate

| | | 31.12.2010 | 31.12.2009 |
|-------------------------------|--|----------------------|----------------------|
| Variable interest rate | | | |
| Up to 1 year | | 291,476,742 | 377,653,019 |
| 1 to 2 years | | 20,774,900 | 47,303,426 |
| 2 to 3 years | | 18,987,689 | 29,200,230 |
| More than 3 years | | 1,177,484,194 | 1,129,092,561 |
| | | 1,508,723,525 | 1,583,249,236 |

| Fixed interest rate | 31.12.2010 | 31.12.2009 |
|----------------------------|----------------------|----------------------|
| Up to 1 year | 36,407,894 | 15,806,128 |
| 1 to 2 years | 37,572,022 | 19,536,655 |
| 2 to 3 years | 41,919,569 | 22,176,550 |
| More than 3 years | 1,094,989,365 | 757,549,366 |
| | 1,210,888,849 | 815,068,699 |
| | 2,719,612,375 | 2,398,317,935 |

28.3 Financial leasing

| Financial leasing | 31.12.2010 | 31.12.2009 |
|--------------------------|-------------------|-------------------|
| Current | 3,500,372 | 3,518,486 |
| Non-current | 23,649,853 | 25,267,040 |
| | 27,150,225 | 28,785,526 |

| Capital owed by nature of acquired assets | 31.12.2010 | 31.12.2009 |
|--|-------------------|-------------------|
| Buildings and other constructions | 23,023,061 | 23,567,802 |
| Basic equipment | 2,195,887 | 2,835,373 |
| Transportation equipment | 1,870,522 | 2,372,612 |
| Office equipment | 60,755 | 9,740 |
| | 27,150,225 | 28,785,526 |

| Minimum future payments | 31.12.2010 | 31.12.2009 |
|--------------------------------|-------------------|-------------------|
| Up to 1 year | 3,821,721 | 3,903,614 |
| 1 to 5 years | 9,424,943 | 13,010,021 |
| More than 5 years | 15,954,892 | 14,187,495 |
| | 29,201,556 | 31,101,130 |

| Interest | 31.12.2010 | 31.12.2009 |
|-------------------|-------------------|-------------------|
| Up to 1 year | 321,350 | 385,128 |
| 1 to 5 years | 918,410 | 1,294,279 |
| More than 5 years | 811,572 | 636,197 |
| | 2,051,332 | 2,315,603 |

| Present value of minimum payments | 31.12.2010 | 31.12.2009 |
|--|-------------------|-------------------|
| Up to 1 year | 3,500,372 | 3,518,486 |
| 1 to 5 years | 8,506,533 | 11,715,742 |
| More than 5 years | 15,143,320 | 13,551,298 |
| | 27,150,225 | 28,785,526 |

29. Suppliers and other non-current liabilities

| | 31.12.2010 | 31.12.2009 |
|------------------------|--------------------|--------------------|
| Investment suppliers | 32,252,524 | 29,491,396 |
| Other accounts payable | 138,559,463 | 80,209,209 |
| Shareholders/partners | - | 1,190,008 |
| | 170,811,987 | 110,890,613 |

The main affiliates with amounts owed to other creditors are:

| | 31.12.2010 | 31.12.2009 |
|---|--------------------|-------------------|
| Águas do Centro Alentejo, S.A. | 2,323,878 | 2,306,585 |
| Águas do Centro, S.A. | 40,481,114 | 47,064,001 |
| Águas do Mondego, S.A. | 7,340,700 | 8,682,187 |
| Águas do Norte Alentejano, S.A. | 1,128,786 | 1,183,516 |
| AdRA -Águas Região de Aveiro, S.A. | 56,267,688 | - |
| AgdA - Águas Públicas do Alentejo, S.A. | 6,048,007 | - |
| Águas de Santo André, S.A. | 7,152,722 | 7,402,628 |
| Águas do Algarve, S.A. | 3,464,125 | - |
| Simarsul, S.A. | 7,440,378 | 7,545,900 |
| Simtejo, S.A. | 5,814,311 | 6,024,393 |
| Other | 1,097,753 | - |
| | 138,559,463 | 80,209,209 |

Accounts payable refer to amounts owed to municipalities due to integration of assets in the multi-municipal systems.

30. Accrued contractual investment costs

| | 31.12.2010 | 31.12.2009 |
|---|--------------------|--------------------|
| Water - production, treatment and transport | 361,531,398 | 339,971,916 |
| Water - Distribution and collection | 4,097,901 | - |
| Solid waste | 205,425,262 | 191,793,017 |
| | 571,054,561 | 531,764,934 |

31. Investment grants

| | | 31.12.2010 | 31.12.2009 |
|-----------------------------------|------|----------------------|----------------------|
| Investment grants - Cohesion Fund | 31.1 | 1,577,458,422 | 1,491,136,179 |
| Investment grants - other | i) | 16,611,824 | 119,667,696 |
| Integration of assets | i) | 248,401,604 | 150,769,287 |
| | | 1,842,471,849 | 1,761,573,162 |

i) Changes in these two balance sheet items, in addition to changes in the year, is the result of reclassifications between the two items, the most significant one being those from Águas do Algarve, in the amount of 56,805,863 euros, and Sanest in the amount of 44,163,583 euros

31.1 Changes during the period

| | Value |
|--|----------------------|
| Investment grants at 31 December 2009 | 1,491,136,179 |
| Recognition of entitlement to fund | 177,921,076 |
| Recognition of income | (56,474,043) |
| Recognition corrections | (35,124,790) |
| Investment grants at 31 December 2010 | 1,577,458,422 |
| Receivables at 31 December 2010 | 173,788,850 |

The corrections line stated above in the amount of 35,124,790 euros essentially relates to:

i) Affiliate Amarsul saw the settlement of the amount of 891,585 euros relating to an advance made by the Cohesion Fund;

- ii) The pig farming subsidy that was estimated to be receivable and depended on fulfilling the country's pig farming targets in the amount of 9,600,000 euros in Simarsul was cancelled;
- iii) At Águas do Noroeste, the applications of the 2nd and 3rd phase fell below 100% execution and as such the subsidized amount was corrected in the amount of 13,338,493 euros.

31.2 Amounts accrued to results for the period

| | | 31.12.2010 | 31.12.2009 |
|-----------------------------------|------|-------------------|-------------------|
| Investment grants - Cohesion Fund | 31.1 | 56,474,043 | 57,288,991 |
| Investment grants - other | | 7,219,234 | 5,692,563 |
| Integration of assets | | 3,444,609 | 4,039,728 |
| | | 67,137,886 | 67,021,282 |

32. Suppliers

| | | 31.12.2010 | 31.12.2009 |
|---|--|--------------------|--------------------|
| Suppliers c/a general | | 60,195,853 | 52,496,025 |
| Investment suppliers | | 92,538,649 | 112,758,443 |
| Suppliers - invoices reception verification | | 4,591,067 | 2,893,678 |
| Other suppliers balances | | 1,459,093 | - |
| | | 158,784,662 | 168,148,146 |

Amounts recorded under "Investment suppliers" refer to amounts owed to municipalities due to integration of assets in multi-municipal systems and non-current debts are stated in note 29.

33. Other current liabilities

| | | 31.12.2010 | 31.12.2009 |
|-------------------------|------|--------------------|--------------------|
| Advances from customers | | 63,263 | 57,473 |
| Staff | i) | 16,278,881 | 22,635,570 |
| Shareholders/partners | ii) | 244,457 | 3,344,073 |
| Other accounts payable | iii) | 93,963,568 | 67,061,661 |
| Deferrals | | 8,608,074 | 12,811,162 |
| | | 119,158,242 | 105,909,939 |

- i) The reduction in current liabilities - staff can essentially be explained by the fact that the group did not estimate any bonuses payable in 2011 to employees and managers due to legal imposition;
- ii) The change in shareholders is due to the payment of dividends from previous years that were available and had not yet been paid, in the amount of 1,940,020 euros at AdP SGPS and 1,273,990 euros at Águas do Algarve, S.A.;
- iii) The main changes in other accounts payable took place at the following companies:
- Águas do Noroeste (+ 4,927,860 euros), essentially referring to the updating of the tariff charged to Tratave (in the amount of 2,520,623 euros), agreements made with construction companies (1,545,000 euros) and works invoiceable to Fafe (in the amount of 1,500,000 euros);
 - Águas do Centro (9,920,600 euros), this change essentially refers to the adjustment of the contractual investment in the amount of 8,138,000 euros;
 - Resinorte (+1,995,443 euros), this change essentially refers to invoicing not issued to Suma in the approximate amount of 1,100,000 euros.

34. Income tax

| | 31.12.2010 | 31.12.2009 |
|--------------------------|-------------------|------------------|
| Income tax - liabilities | 43,219,244 | 6,208,330 |
| | 43,219,244 | 6,208,330 |

Corporate income tax for the period There are no outstanding amounts owed to tax entities.

35. Sales and supply of services per business unit

| | 31.12.2010 | 31.12.2009 |
|---|--------------------|--------------------|
| Sales | | |
| Water - production, treatment and transport | 162,110,566 | 148,917,298 |
| Solid waste | 71,795,326 | 67,112,265 |
| Distribution and collection | 11,693,290 | - |
| EPAL | 137,716,370 | 138,498,007 |
| International | 12,898,173 | 9,747,576 |
| | 396,213,724 | 364,275,146 |
| Supply of services | | |
| Water - production, treatment and transport | 183,920,491 | 162,042,883 |
| Solid waste | 92,923,573 | 90,834,199 |
| Distribution and collection | 8,626,926 | - |
| EPAL | 2,006,852 | 2,766,600 |
| International | 2,728,122 | 4,265,269 |
| Corporate | 723,638 | 1,231,447 |
| | 290,929,601 | 261,140,398 |
| Tariff gap | | |
| Water - production, treatment and transport | 35,311,598 | 42,725,992 |
| Solid waste | (5,876,745) | (10,265,526) |
| Distribution and collection | 7,901,421 | - |
| | 37,336,274 | 32,460,465 |
| | 724,479,599 | 657,876,010 |

The increase in sales and supply of services can be explained by the coming on stream of various infrastructures, as well as the start of activity of AdRA - Águas da Região de Aveiro and AgdA - Águas Públicas do Alentejo.

36. Sales and supply of services per market

| | Domestic Market | International Market | Internal transactions | 31.12.2010 |
|---|--------------------|----------------------|-----------------------|--------------------|
| Sales | | | | |
| Water - production, treatment and transport | 162,926,014 | - | (815,448) | 162,110,566 |
| Solid waste | 71,795,326 | - | - | 71,795,326 |
| Distribution and collection | 11,718,847 | - | (25,557) | 11,693,290 |
| EPAL | 145,447,750 | - | (7,731,381) | 137,716,370 |
| International | - | 12,898,173 | - | 12,898,173 |
| | 391,887,937 | 12,898,173 | (8,572,386) | 396,213,724 |
| Supply of services | | | | |
| Water - production, treatment and transport | 190,005,953 | 1,341 | (6,086,803) | 183,920,490 |
| Solid waste | 93,737,571 | - | (813,998) | 92,923,573 |
| Distribution and collection | 8,698,341 | - | (71,415) | 8,626,926 |
| EPAL | 2,006,968 | - | (116) | 2,006,852 |
| International | - | 2,728,122 | - | 2,728,122 |
| Corporate | 21,273,982 | 25,032 | (20,575,376) | 723,638 |
| | 315,722,815 | 2,754,494 | (27,547,708) | 290,929,601 |
| Tariff deficit | 37,336,274 | - | - | 37,336,274 |
| | 37,336,274 | - | - | 37,336,274 |
| | 744,947,027 | 15,652,667 | (36,120,094) | 724,479,599 |

37. Cost of sales

| | 31.12.2010 | 31.12.2009 |
|--|-------------------|-------------------|
| Purchase of goods for resale - goods | 6,201,553 | 6,279,554 |
| Purchase of goods for resale - materials | 25,155,070 | 19,626,330 |
| Corrections of previous years | 4,889 | 2,128 |
| | 31,361,512 | 25,908,011 |
| Capitalization of purchase of goods for resale | (997,141) | (547,654) |
| | 30,364,371 | 25,360,357 |
| Production change | (83,122) | 570,674 |
| | 30,281,249 | 25,931,031 |

38. External supplies and services

| | | 31.12.2010 | 31.12.2009 |
|--|-----|--------------------|--------------------|
| Subcontracts | i) | 34,823,620 | 26,808,361 |
| Specialized services | | 83,400,588 | 77,466,184 |
| Materials | | 6,997,351 | 5,305,654 |
| Energy and fluids | ii) | 61,968,170 | 53,063,066 |
| Travel and accommodation | | 3,574,561 | 3,501,768 |
| Rental and leasing | | 11,599,788 | 9,397,177 |
| Communication | | 5,888,824 | 5,594,637 |
| Insurance | | 9,845,098 | 9,209,745 |
| Other | | 13,351,145 | 13,397,030 |
| Corrections of previous years | | 424,765 | (14,753) |
| | | 231,873,909 | 203,728,869 |
| Capitalized external supplies and services (ESS) | | (7,157,265) | (8,804,569) |
| | | 224,716,644 | 194,924,300 |

- i) The increase in subcontracts results from the continuation of the group's policy to outsource as many services as possible. The most significant increases occurred in Águas do Algarve (+ 2,129,000 euros), Águas do Noroeste (+3,000,000 euros) and Resinorte (+3,800,000 euros);
- ii) The 17% increase in energy and fluids costs is essentially due to an increase in energy costs (price increase). This rise was also due to the coming on stream of new infrastructures such as the Wastewater Treatment Plant (WTP) of Alcântara and the WTP of Guia (testing phase) and the new companies AdRA and AgdA.

39. Staff costs

| | 31.12.2010 | 31.12.2009 |
|-------------------------------|--------------------|--------------------|
| Remuneration | 120,630,878 | 119,411,456 |
| Remuneration charges | 24,301,273 | 24,032,197 |
| Other staff costs | 13,405,939 | 14,649,960 |
| Corrections of previous years | i) (1,924,897) | (101,928) |
| | 156,413,193 | 157,991,685 |
| Capitalized staff costs | (9,826,634) | (8,526,657) |
| | 146,586,559 | 149,465,028 |

- i) The significant amount recorded under corrections of previous years refers almost entirely to the cancellation/reversal of management bonuses estimates for 2009, which were not paid due to legal impositions in 2010.

39.1 Governing bodies remuneration

| | 31.12.2010 | 31.12.2009 |
|--------------------------|-------------------|-------------------|
| Board of Directors | 754,566 | 1,112,370 |
| Audit Committee | 60,323 | 95,912 |
| Statutory Accountant (a) | 84,704 | 80,000 |
| | 899,583 | 1,299,282 |

- (a) The amount recorded in 2010 includes 4,704 euros in VAT due to the fact that the company uses the pro rata method.

The drop in governing bodies remuneration is due to the 5% drop in their wages during the second half of 2010, and due to the fact that in 2009 bonuses payable in 2010 were estimated in the amount of 255,860 euros (cancelled in 2010) which could not be paid for legal reasons. The reduction in Audit Committee remunerations is explained by the fact that 2009 contained retroactive operations.

39.2 Average number of shares

| | 31.12.2010 | 31.12.2009 |
|-------------------------------|-------------------|-------------------|
| Governing Bodies | 152 | 141 |
| Permanent employees and other | 5,552 | 5,196 |
| | 5,704 | 5,337 |

The average number of employees increased significantly essentially due to the following affiliates:

| | 31.12.2009 | Aumentos | 31.12.2010 |
|---|-------------------|-----------------|-------------------|
| AdRA - Águas da Região de Aveiro, S.A. | - | 165 | 165 |
| AgdA - Águas Públicas do Alentejo, S.A. | - | 46 | 46 |
| Resinorte, S.A. | 187 | 114 | 301 |
| | 187 | 325 | 512 |

As regards AdRA and AgdA, these were companies established in 2009 and which only began operating in 2010 and therefore increased their staff by this number (expected to also increase in 2011). As regards Resinorte, the 114 rise in employees is due to the fact that AMAVE was integrated into the Resinorte system.

40. Amortizations, provisions and reversals of the year

| | 31.12.2010 | 31.12.2009 |
|--|--------------------|--------------------|
| Depreciation in investment properties | 1,103 | 1,103 |
| Depr. and amort. of tangible and intangible fixed assets | 225,047,010 | 214,833,420 |
| | 225,048,112 | 214,834,523 |

41. Provisions and reversals of the year

| | 31.12.2010 | 31.12.2009 |
|---|---------------------|--------------------|
| Provisions of the year - taxes | 83,388 | - |
| Provisions of the year - legal proceedings underway | 151,974 | 2,026,683 |
| Provisions of the year - pensions | - | 125,083 |
| Provisions of the year - work accidents | - | - |
| Provisions of the year - other | 3,010,622 | 8,187,598 |
| | 3,245,984 | 10,339,365 |
| Reversal of provisions - legal proceedings underway | (10,951,367) | (486,089) |
| Reversal of provisions - pensions | (25,448) | - |
| Reversal of provisions - other | (17,440,935) | (663,138) |
| | (28,417,750) | (1,149,226) |
| | (25,171,766) | 9,190,138 |

i) The increase and reversal of the year are explained in note 26.

42. Losses due to impairment and reversals of the year

| | 31.12.2010 | 31.12.2009 |
|--|-------------------|--------------------|
| Losses due to impairment - customers | 5,050,672 | 3,158,195 |
| Losses due to impairment - other debtors | 436,586 | 1,932,830 |
| Losses due to impairment - inventories - goods | - | 792 |
| Losses due to impairment - inventories - finished products | 44,438 | - |
| Losses from impairment - financial investments | 92,006 | - |
| Losses from impairment - other financial investments | - | 32,371 |
| Losses due to impairment - intangible assets | - | 176,894 |
| | 5,623,702 | 5,301,082 |
| Reversal of impairment losses - customers | (318,797) | (776,514) |
| Reversal of impairment losses - other debtors | (96,766) | - |
| Reversal of impairment losses - invent, - goods | (20,609) | - |
| Reversal of impairment losses - invent, - Consumable materials | (53,177) | - |
| Reversal of impairment losses - other financial investments | (2,504) | (302,378) |
| | (491,853) | (1,078,892) |
| | 5,131,849 | 4,222,190 |

i) Below, the main companies that suffered losses due to impairment of customers:

| | 31.12.2010 |
|------------------------------------|-------------------|
| Águas do Noroeste, S.A. | 789,451 |
| AdP Internacional, S.A. | 2,483,691 |
| AdRA -Águas Região de Aveiro, S.A. | 348,137 |
| Águas de Santo André, S.A. | 855,636 |
| EPAL, S.A. | 313,142 |
| Other | 260,615 |
| Total | 5,050,672 |

43. Outros gastos e perdas operacionais

| | | 31.12.2010 | 31.12.2009 |
|--|-----|-------------------|-------------------|
| Direct and indirect taxes | | 9,446,140 | 10,060,639 |
| Losses on inventory | | 57,431 | 71,779 |
| Losses on financial investments | | 319,880 | 605,009 |
| Donations | | 1,167,927 | 968,383 |
| Foreign exchange differences on financial operations | i) | 1,176,450 | 3,473,156 |
| Other costs and losses | ii) | 13,789,166 | 663,753 |
| Corrections of previous years | | 478,791 | 1,571,416 |
| | | 26,435,785 | 17,414,136 |
| Capitalized costs | | (31,200) | (53,598) |
| | | 26,404,585 | 17,360,538 |

i) Foreign exchange differences in non-financial operations ensue almost entirely from Águas de Moçambique, in the amount of 836,640 euros in 2010 (3,179,291 euros in 2009);

ii) In 2010, other costs and losses included cancellation of bad debt by AdP Internacional in the amount of 11,771,514 euros, which were entirely provisioned.

44. Other operational income and gains

| | | 31.12.2010 | 31.12.2009 |
|-------------------------------|-----|-------------------|-------------------|
| Additional income | i) | 6,956,324 | 7,394,874 |
| Operational grants | | 622,192 | 997,846 |
| Other income and gains | ii) | 10,342,645 | 2,523,131 |
| Corrections of previous years | | 164,769 | 2,991,181 |
| | | 18,085,930 | 13,907,031 |
| Capitalized income and gains | | (147,377) | (176,557) |
| | | 17,938,553 | 13,730,474 |

i) Additional income includes the following items:

| | | 31.12.2010 | 31.12.2009 |
|--|--|-------------------|-------------------|
| Equipment rental | | 233,047 | 273,058 |
| Sale of energy | | 626,595 | 306,961 |
| Studies, projects and technological assistance | | 119,765 | 110,808 |
| Performance of social duties | | 1,924 | - |
| Social services | | 13,276 | 22,574 |
| Other | | 5,961,717 | 6,681,473 |
| | | 6.956.324 | 7.394.874 |

ii) Other additional income includes works performed by group companies on behalf of third parties and some fees debited from these third parties.

45. Financial costs

| | | 31.12.2010 | 31.12.2009 |
|---|-----|-------------------|-------------------|
| Interest paid | i) | 74,983,215 | 79,473,102 |
| Unfavourable foreign exchange differences | ii) | 7,478,991 | 1,469,893 |
| Other financial costs | | 6,150,819 | 4,577,371 |
| Corrections of previous years | | 64,481 | (3,858) |
| | | 88,677,507 | 85,516,509 |
| Capitalized financial costs | | (16,541,483) | (25,201,511) |
| | | 72,136,023 | 60,314,998 |

- i) The decrease in interest paid is essentially due to the fall in interest rates during the first half of 2010, but also due to renegotiation of short-term loans that were changed into medium and long-term loans;
- ii) The increase in unfavourable foreign exchange differences is due to the rise of the yen against the euro. AdP SGPS holds a loan in yen and the effect of the foreign exchange update in 2010 was 7,478,991 euros (1,469,893 euros in 2009).

46. Financial income

| | | 31.12.2010 | 31.12.2009 |
|-------------------------------------|------|-------------------|-------------------|
| Interest earned | i) | 17,196,531 | 21,229,148 |
| Fair value of financial instruments | 46.1 | 2,845,794 | 5,192,969 |
| Other financial income and gains | ii) | 481,973 | 14,949,934 |
| Corrections of previous years | | (59,533) | (219,498) |
| | | 20,464,765 | 41,152,553 |

- i) The decrease seen in interest earned can essentially be explained by the change in the parent company AdP SGPS S.A. The table below breaks down the interest recorded at AdP SGPS S.A.:

| | | 31.12.2010 | 31.12.2009 |
|----------------------------------|--|-------------------|-------------------|
| Interest on term deposits | | 1,918,027 | 3,240,063 |
| Interest from Águas de Guariroba | | - | 4,584,062 |
| Other interest | | 391,075 | 502,090 |
| | | 2,309,102 | 8,326,215 |

The fall in interest on term deposits is due to the fact that the amount applied was more or less consistent over the course of 2009; in 2010, a significant amount was only applied at the end of the year.

- ii) Other financial income and gains in 2009 were significantly influenced by the positive foreign exchange differences of the debt of Águas de Guariroba (this debt was sold to the bank at the start of 2010), and by the positive foreign exchange difference on the loan that AdP SGPS has in yen (in 2010 this accounts for a negative foreign exchange difference, see financial costs note).

46.1 Fair value of financial instruments

The fair value of financial instruments for the period breaks down as follows:

| | | 31.12.2010 | 31.12.2009 |
|-------------------------------|--|-------------------|-------------------|
| Foreign exchange swap | | 8,425,662 | (1,559,017) |
| Interest rate swap (positive) | | 4,467,527 | 8,886,935 |
| Interest rate swap (negative) | | (10,047,395) | (2,134,949) |
| | | 2,845,794 | 5,192,969 |

47. Gains/(losses) from financial investments

| | 31.12.2010 | 31.12.2009 |
|--------------------------|-------------------|----------------|
| Income and gains - other | 1,125,186 | 261,598 |
| | 1,125,186 | 261,598 |

48. Tax of the year - current and deferred

| | 31.12.2010 | 31.12.2009 |
|------------------------|---------------------|-------------------|
| Income tax of the year | 62,718,568 | 23,176,868 |
| Overestimated taxes | (649,433) | (193,648) |
| Underestimated taxes | 43,230 | 111,546 |
| Current taxes | 62,112,366 | 23,094,766 |
| Deferred tax | (32,829,732) | 1,792,129 |
| Deferred tax | (32,829,732) | 1,792,129 |
| | 29,282,634 | 24,886,894 |

| Item | Value |
|---|--------------------|
| Consolidated income before taxes | 126,016,850 |
| Permanent differences | - |
| Losses | 11,945,667 |
| Depreciation and amortization | 42,562,425 |
| Changes in assets | 99,817,565 |
| Provisions | (3,088,842) |
| Recovery of impairment losses | (31,045,935) |
| Other (IFRC 12 and tariff deficit) | (117,908,887) |
| Taxable amount | 128,298,843 |
| Municipal surtax base | 161,985,556 |
| Remaining base | (33,686,713) |
| Tax | 31,431,531 |
| State surtax | 4,911,654 |
| Independent taxation and other | 786,103 |
| Tax charges | 32,217,634 |
| Current taxes | 62,718,566 |
| Deferred tax | (32,829,732) |

49. Transactions with related entities

| At 31 December 2010 | Parent company | Other shareholders | Executive committee | Other related parties |
|--|-------------------|-----------------------|------------------------|--------------------------|
| Assets | | | | |
| Municipalities | | | | 254,295,580 |
| Liabilities | | | | |
| Municipalities | | | | 138,559,463 |
| Income | | | | |
| Sales and supply of services to municipalities | | | | 510,275,838 |
| Costs | | | | |
| Non-executive administrators costs | 28,607 | 28,607 | | |
| Executive administrators costs | | | 615,155 | |
| Dividends | 17,767,132 | 6,847,902 | | |

50. Contractual investment

The estimated off-balance sheet financial commitments accepted by AdP Group resulting from the signing of concession contracts pertaining to initial, replacement, renovation and expansion investments that are to take place during the course of the outstanding period of the concession break down as follows:

| | Contractual investment | Previous investment | Investments in progress | Contractual investments (2011) | Contractual investments (2012 .. 2015) | Contractual investments (>2015) |
|--------|------------------------|----------------------|-------------------------|--------------------------------|--|---------------------------------|
| UNA-PD | 6,487,754,928 | 3,632,284,971 | 684,229,024 | 508,362,433 | 730,000,630 | 934,089,572 |
| UNA-DR | 490,757,995 | 969,409 | 905,116 | 14,600,553 | 133,274,325 | 341,008,592 |
| UNR | 1,415,607,438 | 853,881,916 | 72,309,122 | 178,299,362 | 134,745,079 | 212,483,575 |
| | 8,394,120,360 | 4,487,136,296 | 757,443,262 | 701,262,348 | 998,020,034 | 1,487,581,739 |

| Companies | Supply/ Sanitation | Waste | Distribution and Collection | 31.12.2010 | 31.12.2009 |
|------------------------------------|--------------------|---------------|-----------------------------|---------------|---------------|
| Contractual investment | 6,487,754,928 | 1,415,607,438 | 490,757,995 | 8,394,120,360 | 6,477,326,116 |
| Previous investment | 3,632,284,971 | 853,881,916 | 969,409 | 4,487,136,296 | 3,709,513,350 |
| Investments in progress | 684,229,024 | 72,309,122 | 905,116 | 757,443,262 | 1,053,941,457 |
| Contractual investment | - | - | - | - | - |
| Contractual investment - N | - | - | - | - | - |
| Contractual investment - (N+1) | 508,362,433 | 178,299,362 | 14,600,553 | 701,262,348 | 807,555,295 |
| Contractual investment N+2 .. N+5) | 730,000,630 | 134,745,079 | 133,274,325 | 998,020,034 | 559,322,182 |
| Contractual investment (>N+5) | 934,089,572 | 212,483,575 | 341,008,592 | 1,487,581,739 | 785,421,718 |

The following table lists the group's future commitments regarding rents payable to municipalities, as defined in the concession contracts.

| | Previously recognized rents | Outstanding recognized debts | Future rents | Other future rents | 31.12.2010 | 31.12.2009 |
|--|-----------------------------|------------------------------|------------------|--------------------|--------------------|--------------------|
| Águas do Algarve, S.A. | 456,586 | - | 96,180 | 3,224,844 | 3,777,610 | 3,777,610 |
| Águas do Ave, S.A. | - | - | - | - | - | 3,276,825 |
| Águas do Centro Alentejo, S.A. | 931,691 | - | 168,640 | 4,689,792 | 5,790,123 | 3,110,117 |
| Águas do Mondego, S.A. | 27,261,971 | - | 1,348,632 | 7,656,671 | 36,267,274 | 20,942,880 |
| Águas do Norte Alentejano, S.A. | 208,969 | - | 53,016 | 1,128,655 | 1,390,640 | 1,390,640 |
| Águas do Noroeste, S.A. | 2,799,015 | 395,762 | 217,863 | 4,075,177 | 7,487,816 | - |
| Águas do Oeste, S.A. | 25,874 | - | 4,727 | 126,956 | 157,557 | 301,641 |
| Águas de Santo André, S.A. | 4,309,634 | - | 478,846 | 9,576,899 | 14,365,379 | 14,365,379 |
| Águas de Trás-os-Montes e Alto Douro, S.A. | 2,178,078 | 1,266,840 | 658,891 | 14,880,773 | 18,984,583 | 18,972,399 |
| Águas do Zêzere e Côa, S.A. | 5,391,150 | 462,490 | 715,690 | 20,604,574 | 27,173,904 | 26,090,124 |
| AgdA - Águas Públicas Alentejo, S.A. | - | 62,351 | 124,701 | 6,048,007 | 6,235,059 | - |
| Simarsul, S.A. | 2,789,455 | - | 441,344 | 8,901,449 | 12,132,248 | 12,132,248 |
| Simdouro, S.A. | 321,366 | - | 321,366 | 642,733 | 1,285,466 | - |
| Simlis, S.A. | 960,866 | - | 101,414 | 1,816,797 | 2,879,077 | 2,879,077 |
| Simtejo, S.A. | 38,690,490 | - | 390,813 | 7,816,261 | 46,897,564 | 46,897,564 |
| | 86,325,146 | 2,187,444 | 5,122,123 | 91,189,588 | 184,824,300 | 154,136,504 |

51. Assets and contingent liabilities

51.1 Assets and contingent liabilities

Águas do Algarve, S.A.

Águas do Algarve, S.A. has three court cases underway. The first one involves Sistema do Sotavento, which is underway at the Administrative Court of Lisbon involving the amount of 2,662,385.97 euros. The second one involves Sistema do Sotavento, which is underway at the Administrative Court of Lisbon involving the amount of 1,909,823.20 euros. The third case (Case 516/09.3 Belle - Somague, Engigás, Neopul, Construtores ACE, involving the amount of 9,191,97.54 euros, is based on the alleged technical non-

executability of the Ria Formosa crossings. In addition to contesting this suit, Águas do Algarve, S.A. instituted proceedings involving the amount of 1,894,762,79 euros due to breach of contract by the contractor. In all of these cases Águas do Algarve, S.A. is of the opinion that no amounts will be owed regarding these disputes and as such no provision has been created for this purpose.

Águas do Centro, S.A.

The following court cases are underway. no. 105/07.7 of Ferreira de Zêzere Court no. 4/08.5 of Alvaiázeres Court no. 135/07.9 TBOLVR of Oleiros Law Court no. 198/07.07TBTMR of the 1st Court of the Court of Tomar No. 150/07.2 BECTB of the Administrative and Tax Court of Castelo Branco and administrative offence proceedings no. 155NAJ/05 and 156NAJ/05 both of the National Agriculture Department of Beira Litoral no. 250/06 of the Regional Development of Central Portugal Coordinating Committee.

Águas do Mondego, S.A.

Case no. 905/09.3TBLSA (Lousã Law Court): trespassing.

Case no. 116/10.5TBPNL (Penela Law Court): Damage to private property;

Case no. 3234/10.6TBLRA - 2nd Court (Leiria Law Court): damage to private property;

Case no. 488/07.9PCCBR - 3rd Court Coimbra Criminal Court: crime: Art. 277 of the Criminal Code, aggravated by the death of a worker by drowning at the Loreto Pumping Station;

Case no. 1480/09.4TTTCBR - 1st Court (Coimbra Labour Court): Regarding the contract for the supply of services signed on 01-04-2008 with Luís Manuel Velez Ventura;

Case no. nº 1747/10.9YYPR - Enforcement of payment of correct amount underway in the Foreclosure Courts of Porto -2nd Court, 2nd Section, instituted by BNP Paribas Factor; Instituição Financeira de Crédito, S.A. against Águas do Mondego. In this case, BNP is claiming payment of certain quantities by Águas do Mondego, payments which would result from (a) invoice no. E010411 issued by João Salvador, S.A. to Águas do Mondego and (b) various invoices submitted by Leirislina - Engenharia e Construções, S.A. to Águas do Mondego. Águas do Mondego opposed this enforcement and informed that it requested attachment of the proceedings to the action for payment proceedings that it instituted at the Coimbra Administrative and Tax Court (Case no. 330/10.3BECBR) and therefore requested suspension of the suit. BNP contested. By way of order of 13 July 2010, the suit was suspended until a decision has been rendered in the action for payment case;

Case no. 330 (10.3BECBR - Special action for payment proceedings underway at the 1st Organic Unit of the Coimbra Administrative and Tax Court, in which Águas do Mondego is the plaintiff and in which the following are summoned: BNP Paribas Factor; Instituição Financeira de Crédito, S.A.; António José Matos Loureiro, in the capacity of the Insolvency Administrator of Leirislina - Engenharia e Construções, S.A.; Andaluga - Aluguer de Andaimos e Maquinas para a Construção, Lda.; Aqualis Captações - Hidrogeologia e Sondagens, Lda.; Aplintina - Protecção e Revestimentos de Betão, Lda.; Arcopintura - Construções, Pintura, Tacos e Lacagem Unipessoal, Lda.; Areia Centro - Construções, S.A.; Brastec - Construção, Lda.; Eliseu & Filhos, Lda.; Ernesto Alves Pinto e Cª, Lda.; Gistec - Técnicas Cartográficas e Fotogramétricas, Lda.; Luis Monsanto, Unipessoal, Lda.; Mortelas - Construção Civil, Lda.; Nogueira Fernandes, Lda.; Noráqua - Consultores de Engenharia, Lda.; Rui Paulo - Muros - Construções, Lda.; Sodrenagens - Drenagens, Lda.; Soplacas - Sociedade de Placas de Betão, S.A. and Terraplanagens Oliveira e Sequeira, Lda. Águas do Mondego instituted these proceedings because of the objective and legitimate absence of certainty in identifying the creditor (or creditors) of certain payments in relation to three different public works contracts. (i) Boavista Contract; (ii) Ronqueira Contract and (iii) Roxo Contract. In this case, Águas do Mondego seeks to declare extinct monetary obligations ensuing from these construction contracts via deposit of a sum with the court clerk in the amount €848,351.78 (eight hundred and forty-eight thousand three hundred fifty-one euros and seventy-eight cents). Five contestations were filed with a reply by Águas do Mondego. We are now awaiting authorization for the aforementioned deposit.

Águas do Noroeste, S.A.

| Plaintiff | Case | Value | Situation at 31.12.2010 |
|--|----------------|--------------|--|
| Alberto Martins de Mesquita & Filhos, SA | 113/10.0TYVNG | 8,457,484.60 | Awaiting case developments |
| Alberto Martins de Mesquita & Filhos, SA | 1636/08.7BEBRG | 3,649,442.68 | Awaiting new scheduling |
| Construtora do Tâmega, SA and Others | 256/06.5BERG | 3,326,979.76 | Awaiting new scheduling of preliminary hearing |
| Construtora do Tâmega, SA and Others | 515/05.4BERG | 2,965,665.87 | Awaiting scheduling of judgment. |
| Isolux Engenharia, SA | 476/10.8BEBRG | 1,578,627.90 | Awaiting case developments |
| Municipality of Caminha | 144/09.3BEBRG | 1,073,485.23 | Awaiting case developments |
| Mª José Maio D. Veloso and Others (suit against municipality of PV) | 2166/08.2BEPRT | 560,000.00 | Awaiting case developments |

Águas de Santo André, S.A.

Institution of injunction proceedings and ordinary administrative action against Sines and Santiago do Cacém City Councils, cases involving mud and overturning of invalid dismissal.

Águas do Zêzere e Côa, S.A.

Arbitration case instituted by the municipality of Fundão, whereby this entity claims payment of compensation in the amount of 43,394,957.71 euros (forty-three million three hundred and ninety-four thousand nine hundred and fifty-seven euros and seventy-one cents). Concurrently, Águas do Zêzere e Côa, S.A. is claiming payment of compensation in the amount of 186,149 euros (one hundred and eighty-six thousand one hundred and forty-nine euros) from the Municipality of Fundão. Under the Arbitration Court ruling of 29 October 2010, the claim of the Municipality of Fundão was partially recognized with an amount to be established at the time of final ruling, with a limit value of 762,022.59 euros (seven hundred and sixty-two thousand and twenty-two euros and fifty-nine cents). In turn, as regards Águas do Zêzere e Côa, S.A., the formulated request for compensation was judged partially well founded with the awarding of compensation to be defined upon final ruling and with a maximum limit of 364,615 euros (three hundred and sixty-four thousand six hundred and fifteen euros). All other claims by the Municipality of Fundão were dismissed or rejected. Both parties partially appealed the Arbitration Court Ruling and the case is now awaiting the decision of Central Administrative Court South;

Joint administrative action via ordinary procedure instituted by Águas do Zêzere e Côa, S.A., asking that the court order the Municipality of Fundão to pay invoices issued between May 2001 and August 2008, along with payment of respective overdue and due interest in the total amount of 1,202,018.70 euros (one million two hundred and two thousand and eighteen euros and seventy cents) – Case no. 487/08.3BECTB, currently underway in the Castelo Branco Administrative and Tax Court. We are currently awaiting reorganization of the proceedings, which takes place prior to the judgment phase;

Joint administrative action via ordinary procedure instituted by Águas do Zêzere e Côa, S.A., asking that the court order the Municipality of Fundão to pay invoices issued between September and December 2008, along with payment of respective overdue and due interest in the total amount of 591,711.19 euros (five hundred and ninety-one thousand seven hundred and eleven euros and nineteen cents) – Case no. 154/09.0BECTB, currently underway in the Castelo Branco Administrative and Tax Court. We are currently awaiting reorganization of the proceedings, which takes place prior to the judgment phase;

Joint administrative action via ordinary procedure instituted by Águas do Zêzere e Côa, S.A., asking that the court order the Municipality of Fundão to pay invoices issued between January and April 2009, along with payment of respective overdue and due interest in the total amount of 550,822.46 euros (five hundred and fifty thousand eight hundred and twenty-two euros and forty-six cents) – Case no. 491/09.4BECTB, currently underway in the Castelo Branco Administrative and Tax Court. We are currently awaiting reorganization of the proceedings, which takes place prior to the judgment phase;

Joint administrative action via ordinary procedure instituted by Águas do Zêzere e Côa, S.A., asking that the court order the Municipality of Fundão to pay invoices issued between January and April 2009, along with payment of respective overdue and due interest in the total amount of 550,822.46 euros (five hundred and fifty thousand eight hundred and twenty-two euros and forty-six cents) – Case no. 491/09.4BECTB, currently underway in the Castelo Branco Administrative and Tax Court. We are currently awaiting reorganization of the proceedings, which takes place prior to the judgment phase;

Joint administrative action via ordinary procedure instituted by Águas do Zêzere e Côa, S.A., asking that the court order the Municipality of Fundão to pay invoices issued between January and April 2010, along with payment of respective overdue and due interest in the total amount of 803,196.84 euros (eight hundred and three thousand eight hundred and ninety-six euros and eighty-four cents) – Case no. 377/10.0BECTB, currently underway in the Castelo Branco Administrative and Tax Court. We are currently awaiting reorganization of the proceedings, which takes place prior to the judgment phase;

Joint administrative action via ordinary procedure instituted by Águas do Zêzere e Côa, S.A., asking that the court order the Municipality of Fundão to pay invoices issued between May and July 2010, along with payment of respective overdue and due interest in the total amount of 522,366.71 euros (five hundred and twenty-two thousand three hundred and sixty-six euros and seventy-one cents) – Case no. 554/10.3BECTB, currently underway in the Castelo Branco Administrative and Tax Court. We are currently awaiting reorganization of the proceedings, which takes place prior to the judgment phase.

Joint administrative action via ordinary procedure instituted by Águas do Zêzere e Côa, S.A., asking that the court order the Municipality of Fundão to pay invoices issued between August and October 2010, along with payment of respective overdue and due interest in the total amount of 709,766.15 euros (seven hundred and nine thousand seven hundred and sixty-six euros and fifteen cents) – Case no. 15/11.3BECTB, currently underway in the Castelo Branco Administrative and Tax Court. We are awaiting contestation by the Municipality of Fundão.

Resiestrela, S.A.

Case no. 64/10.9BECTB do TAF of Castelo Branco – Executed: Municipality of Celorico da Beira; Date of entry: 26/01/2010; Amount at stake in the suit: 1,112,709.52 euros; Court costs paid: 408,00 euros; Nature and state of the case: Enforcement procedure regarding various invoices. In accordance with the ruling rendered on 23/04/2010, the suit was ruled to be entirely well founded. Subsequent to the ruling, the municipality paid some of the invoices as indicated above. In addition to these invoices, the municipality also paid Debit Note no. 2300000048 in the amount of 34,824.42 euros regarding default interest. Although this Debit Note is not listed in any of the debt recognitions that served as the basis for the enforcement procedure, the truth is that the amount of default interest stated in this document corresponds to part of the amount of default interest pertaining to part of the invoices mentioned and petitioned in the suit. However, we are awaiting payment of the remainder of the amount either by the municipality (voluntarily or via the seizure that was requested in the proceedings), or via the budget appropriation registered under the name of the Senior Council of the Administrative and Tax Courts, extraordinary credit having been requested for this body;

Case no. 66/10.9BECTB of the Administrative and Tax Courts (TAF) of Castelo Branco – Defendant: ADC – Águas da Covilhã, E.M.; Date of entry: 19/11/2008; Amount at stake in the suit: 1,028,129.28 euros; Court costs paid: 1,152.00 euros + 1,152.00 euros + 1,152.00 euros; Nature and state of the case: Case resulting from the injunction petitioned by Águas do Zêzere e Côa, S.A., with subsequent enabling of Resiestrela (accepted via ruling dated 31/03/2009), relating to invoices issued between 31/07/2007 and 31/05/2008, in the overall amount of 950,126.26 euros.

The ruling dated 16/12/2010 was rendered in favour of the Defendant who was not ordered to comply with the request on the grounds that the court deemed there to be no contract for the delivery and reception of solid urban waste, and that there was no contract supporting the issue and collection of the invoices whose payment is requested in the proceedings records.

Resiestrela, S.A. has decided to appeal these rulings at the Central Administrative Court South;

NUIPC 581/09.3TAGRD- Inquiry Proceedings and investigation being undertaken by the National Republic Guard of Fundão, subsequent to a complaint filed by Resiestrela with respect to destruction of containers for selective collection by unknown parties on its property. Because the complaint was made against unknown parties it is unlikely that Resiestrela, S.A. will be compensated for its losses;

Case no. 57/2010-SM -Nature and state of the case: Obligatory arbitration to determine minimum services to be provided during a strike by Resiestrela workers. An arbitration ruling was rendered on 19/11/2010, and was appealed by STAL (Union of Local Administration Workers), Resiestrela having submitted its counter-claims to the Coimbra Court of Appeals on 14/12/2010, where the case is being duly processed.

Potential claims – On 05/11/2010 a letter was received from Maria Florinda Marques Pires Elias, mentioning damages to one of the exterior walls of the building located at no. 24 of Rua Formosa in Guarda, allegedly resulting from a fire that was set to the containers for selective collection by unknown parties, the containers for selective collection being the property of Resiestrela, S.A., which were installed at that location, and petitioning undertaking of procedures to minimize damages and repair said wall, there being no knowledge of the amounts involved and whether Resiestrela, S.A. will be asked to respond in court.

Resulima, S.A.

The company has instituted legal action against AGNI.

Simarsul, S.A.

Case no. CO/001132/09 – regarding the Fonte da Prata WTP, SIMARSUL having been charged with an administrative offence punishable with a fine ranging between 60,000 euros and 70,000 euros in the event of negligence and 500,000 euros to 2,500,000 euros in the event of malice and Case no. CO/001142/09 – regarding the ZIA WTP, SIMAR having been charged with an administrative offence punishable with a fine ranging between 60,000 euros and 70,000 euros in the event of negligence and 500,000 euros to 2,500,000 euros in the event of malice. IGAOT has joined the two cases, ordering SIMARSUL to pay the single penalty of €180,000.00, and the decision having been judicially opposed;

Case no. CO/15/2010 – pertaining to the Lagoínha WTP, SIMARSUL having been charged with an administrative offence punishable with a penalty reengaging between 38,500,000 euros and 70,000.00 euros in the event of negligence and 200,000 euros and 2,500,000 euros in the event of malice, SIMARSUL having mounted its defence within the scope of the administrative offence proceedings.

Case no. CO/32/2010 - pertaining to the Quinta do Conde WTP, SIMARSUL having been charged with an administrative offence punishable with a penalty reengaging between 38,500,000 euros and 70,000.00 euros in the event of negligence and 200,000 euros and 2,500,000 euros in the event of malice, SIMARSUL having mounted its defence within the scope of the administrative offence proceedings.

Simlis, S.A.

Case 1552/09.5BELRA – TAF Leiria – Joint administrative action via ordinary procedure instituted by Construtora Abrantina, S.A. on 29-09-2009, requesting that Simlis be ordered to pay the amount of 3,099,892.27 euros accrued by interest, in relation to losses, lost income, remaining on the worksite, lost profits, financial charges and losses associated with assembly and disassembly of the jobsite – “Contract for the Execution of the Maceira Sanitation Network – 3rd, 5th and 6th phases.”

Simria, S.A.

Joint administrative action via ordinary procedure no. 760/05.2BEVIS, underway at the Viseu Administrative and Tax Courts instituted by the companies Construtora Abrantina, S.A. and Jaime Ribeiro & Filhos, S.A., within the scope of the contract entitled “Multi-municipal Sanitation System of Ria de Aveiro – Interceptors South and Vouga – Pipelines,” requesting that Simria, S.A. be ordered to recognize the right of the Plaintiffs to extend the legal deadline of that project to April 2003 and pay the Plaintiffs compensation in the amount of 8,896,803.00 euros, accrued by the respective overdue and due interest at the applicable legal rate.

In this case Simria, S.A. instituted a counter-action against the Plaintiffs, claiming from them compensation in the amount of 7,820,565.53 euros, accrued by interest in the form of fines applied to the contractor for delay in executing the works, lost profits, damage to its image, among other claims.

This action is awaiting issuance of the order for reorganization of the proceedings by the court and respective notification of the parties in accordance with the due diligence of the proceedings.

Joint administrative action via ordinary procedure no. 1075/05.2BEVIS, underway at the Viseu Administrative and Tax Courts instituted by the companies Construtora Abrantina, S.A. and Jaime Ribeiro & Filhos, S.A., within the scope of the contract entitled “Multi-municipal Sanitation System of Ria de Aveiro – Interceptors South and Vouga – Pipelines,” requesting that Simria, S.A. be ordered to recognize the right of the Plaintiffs to extend the legal deadline of that project to April 2003 and pay the Plaintiffs compensation in the amount of 4,407,430.48 euros, accrued by the respective overdue and due interest at the applicable legal rate. This action is awaiting the drafting of the order to reorganize the proceedings. Judge, following due diligence.

Águas do Douro e Paiva, S.A.

Injunction without Opposition Case, Case involving Payment of Municipal Property Transfer Tax: Plaintiff: Tax Authority - Defendant Águas do Douro e Paiva

Court: Administrative and Tax Courts (TAF) of Porto. The Company has a contestation case pending at the TAF of Porto against payment of the municipal property transfer tax in the amount of 1,695,912,85 euros, accrued by compensatory interest in the amount of 681,431.72 euros. The case is awaiting contestation by the Tax Authority.

For the aforementioned cases in which the company is the Defendant, a provision has been created in the amount of 11,676.68 euros, which the Board of Directors considers sufficient for meeting expected losses.

51.2 Guarantees

Responsibilities related to bank guarantees pledged by business units of the companies included in the consolidation perimeter are stated as follows:

| UN | Courts | Financial Institutions | Granting Entities | Other | 31.12.2010 | 31.12.2009 |
|--------------|-------------------|------------------------|-------------------|-------------------|--------------------|--------------------|
| UNA-PD | 21,540,091 | - | 2,019,884 | 21,596,296 | 45,156,272 | 46,821,421 |
| EPAL | 5,433,496 | 12,564,880 | - | 29,879,991 | 47,878,367 | 42,726,983 |
| UNA-DR | - | - | - | - | - | - |
| UNR | 153,233 | 36,668,159 | 2,160,768 | 4,893,998 | 43,876,157 | 24,355,098 |
| UNI | - | - | - | 1,428,571 | 1,428,571 | 303,774 |
| Corporate | - | 400,000 | - | 404,562 | 804,562 | 199,617 |
| Total | 27,126,821 | 49,633,039 | 4,180,652 | 58,203,418 | 139,143,930 | 114,406,893 |

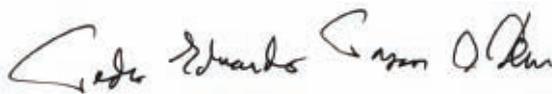
52. Subsequent events

In February 2011, AdP Group received from the Grantor (Ministry of the Environment and Territorial Planning) a letter requesting that AdP - Águas de Portugal, SGPS, S.A., in the capacity of majority shareholder of the entities that manage the multi-municipal systems of supply, sanitation, and recovery and treatment of waste, promote the necessary studies and submit to the Grantor a proposal to revise the concessions contracts in relation to which changes have been made that have a relevant impact on the financial balance of the concessionaires.

Also in February, AdP SGPS, S.A received a joint order from the Ministry of Finance and the Environment stating that:

- “- A AdP - Águas de Portugal, SGPS, S.A., via its affiliate AdP Energias - Energias Renováveis e Serviços Ambientais, S.A., should initiate the necessary procedures for constructing and implementing an Energy Recovery Plant for WTP muds and WDF, keeping the responsible ministries responsible for the shareholder function informed.
- “- A AdP - Águas de Portugal, SGPS, S.A., via its affiliate AdP Energias - Energias Renováveis e Serviços Ambientais, S.A., shall guarantee the participation of the partner or partners of the private sector in the project for constructing the ERP, complying with the necessary and essential conditions of equality, competition and transparency.
- “- A AdP - Águas de Portugal, SGPS, S.A., via its affiliate AdP Energias - Energias Renováveis e Serviços Ambientais, S.A., implements the necessary conditions to guarantee that there is no cross-subsidization between the activities for managing waste, managing water and managing wastewater.
- “- A AdP - Águas de Portugal, SGPS, S.A., via its affiliate AdP Energias – Energias Renováveis e Serviços Ambientais, S.A., shall guarantee the sustainability of the project and the return on invested capital shall reflect the underlying risk and said risk shall be duly assessed.
- A AdP - Águas de Portugal, SGPS, S.A., through affiliate AdP Energias – Energias Renováveis e Serviços Ambientais, S.A., shall submit studies regarding the economic and financial feasibility of the project, along with the business plan of the Company to be created for the purpose of prior authorization from the ministry, which must be granted under the law and such studies must be duly incorporated into the plan of activities and budget of AdP for 2011 and within the debt control limit policies stipulated in the SGP 2010-2013.”

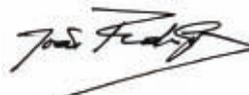
Lisbon, 15 March 2011



Pedro Eduardo Passos da Cunha Serra
(Chairman)



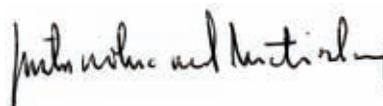
António Manuel da Silva Branco
(Member)



João Manuel Lopes Fidalgo
(Member)



José Maria Martins Soares
(Member)



Justino Manuel Matias Carlos
(Member)

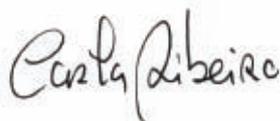


Joaquim José de Oliveira Reis
(Non-Executive Member)

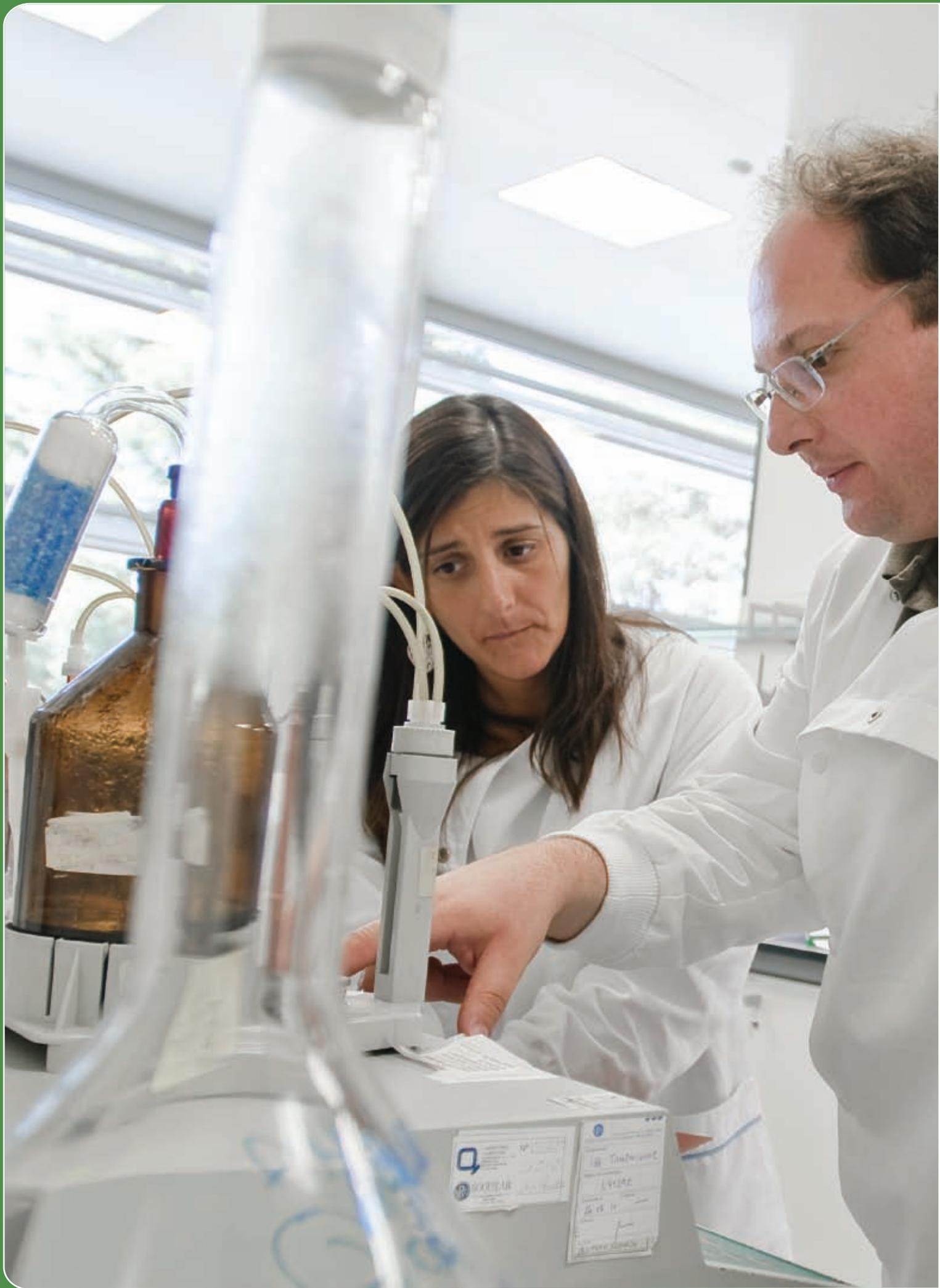


José Fernando Maia de Araújo e Silva
(Non-Executive Member)

The Statutory Accountant



Carla Isabel Costa Pinto Ribeiro



Report and Opinion of the Audit Committee

Águas de Portugal

Report and Opinion of the Audit Committee on the Consolidated Accounting Documents

1. In fulfilment of applicable legal and statutory provisions, the Audit Committee issues this Report and Opinion on the Annual Report and other consolidated accounting documents of the company AdP - Águas de Portugal, SGPS, S.A., submitted by the Board of Directors for the year of 2010.
2. The Audit Committee monitored the management of AdP - Águas de Portugal, SGPS, S.A., and the development of its business, namely through contact with the primary individuals in charge of the company, by attending meetings of the Board of Directors, and by reading the minutes of this board's other meetings. It held regular meetings which, as a rule, were attended by the Director in charge of financial matters and the Statutory Auditor. It obtained all of the clarifications requested and the documentation considered necessary to carry out its oversight duties.
3. The Audit Committee also verified the fulfilment of applicable legal and statutory provisions, having found no situations of non-fulfilment, and exercised its powers in accordance with the provisions of Article 420 of the Commercial Companies Code, having assessed the accounting policies and valuation criteria used to prepare the financial information, which it considers adequate, and having monitored the efficiency of the risk management system, internal control system and internal auditing system.
4. Under the powers vested in it by article 131 e) of Decree Law no. 558/99 of 17 December, pursuant to the wording of Decree Law no. 300/2007 of 23 August and by Order no. 14,277/2008 of the Minister of State and Finance, published in the Official Gazette (Diário da República) Series II, no. 99 of 23 May, the Audit Committee has verified the company's fulfilment of the obligations established therein, having issued the Quarterly Reports, which have been sent to the competent authorities.
5. The 2010 Annual Report and Accounts contain a separate chapter concerning proper governance principles, organized according to the circular letter on this matter of the Directorate General for the Treasury and Finance (DGTF), thereby fulfilling the principles of proper governance laid out in Cabinet Resolution (RCM) no. 49/2007 of 28 March.
6. The Audit Committee has been made aware of the External Auditors' Report on the consolidated accounts, and disputes none of its content.
7. The Audit Committee has assessed the Legal Certification of the Consolidated Accounts, issued by the Statutory Auditor pursuant to legislation in force, with which it agrees, and has been made aware of the respective annual report of the Statutory Auditor on the oversight carried out.
8. As a result of the work carried out, the Audit Committee believes that the Board of Directors' Report and the Consolidated Financial Statements (Consolidated Financial Position Statement on 31 December 2010, Consolidated Income Statement by Nature and Consolidated Comprehensive Income Statement, Changes in Consolidated Total Equity Statement, Consolidated Cash Flow Statement for the period ending on this date and Notes to the Consolidated Financial Statements) give a true and fair view of the financial position of the business group led by AdP at year end, how the results were obtained and how its business developed.

9. The Audit Committee wishes to point out the cooperation and support received from the Board of Directors, Statutory Auditor and Departments.

Opinion

In view of the above, it is the Audit Committee's opinion that all requirements have been met for the General Meeting of Shareholders of AdP - Águas de Portugal, SGPS, S.A. to approve the Annual Report and Consolidated Accounts for the year 2010.

Lisbon, 08 April 2011

The Audit Committee

Paulo Alexandre dos Santos Ferreira (Chairman)

Pedro António Martins Mendes (Member)

Célia Maria Marques Rocha Lino (Member)

Legal Certification of Consolidated Accounts

Alves da Cunha, A. Dias & Associados
Statutory Auditors

Legal Certification of Consolidated Accounts

I Introduction

1. We have audited the consolidated financial statements of AdP - Águas de Portugal, SGPS, S.A., which include the Consolidated Statement of Financial Position on 31 December 2010 (with a total of 7,213,396 thousand euros, total equity of 928,470 thousand euros, and a net income of 79,459 thousand euros), the Consolidated Income Statement by Nature and Consolidated Comprehensive Income Statement, the Changes in Consolidated Total Equity Statement, the Consolidated Cash Flow Statement for the period ending on this date and the Notes to the Consolidated Financial Statements.

Responsibilities

2. It is the Board of Directors' responsibility to prepare consolidated financial statements that truly and adequately represent the financial position of the companies included in the consolidation, the consolidated result of their operations and consolidated cash flow, as well as the adoption of appropriate accounting policies and criteria and the maintenance of appropriate internal control systems.
3. Our responsibility is to express a professional and independent opinion based on our audit of these financial statements.

Scope

4. The audit we carried out was performed according to the Technical Standards and Revision/Audit Guidelines of the Ordem dos Revisores Oficiais de Contas (Portuguese Institute of Statutory Auditors), which require that audits be planned and performed for the purpose of determining, with an acceptable degree of safety, whether the consolidated financial statements are free of material misstatements. To this end, the aforementioned audit included:

- verifying that the financial statements of the companies included in the consolidation were properly audited, and in significant cases where they were not, verifying the support, through sampling, for the amounts and disclosures contained therein and assessing the estimates used in their preparation, as based on judgements and criteria defined by the Board of Directors;
- verifying consolidation transactions, and the application of the equity method;
- evaluating whether the adopted accounting policies, their consistent use and their disclosure are appropriate under the circumstances;
- verifying the applicability of the going concern principle; and
- evaluating whether the presentation of the consolidated financial statements is appropriate, in overall terms.

Civil Society registered with the List of Statutory Auditors under no. 74 / Registered in the Securities Commission (CMVM) Auditors' Registry under no. 2699
Rua Américo Durão, 6 - 8º Esq. - 1900-064 Lisbon, Portugal - Email: acad.sroc@netcabo.pt
Telephone: 21 840 84 32 - 21 840 32 34 - Fax: 21 847 07 80 - Taxpayer ID (NIPC): PT 502 289 740

5. Our audit also included a verification of the consistency between the financial information in the annual report and in the consolidated financial statements.

6. We believe that the audit we performed provides an acceptable basis for expressing our opinion.

Opinion

7. In our opinion, the above-mentioned consolidated financial statements truly and adequately represent, in every material aspect, the consolidated financial position of AdP – Águas de Portugal, SGPS, S.A. on 31 December 2010, the consolidated results of its operations and consolidated cash flow for the year ending on this date, in accordance with international accounting standards used in the European Union.

Other Legal Requirements

8. It is also our opinion that the information contained in the annual report is consistent with the consolidated financial statements for the year.

Remarks

9. Without prejudice to our opinion expressed in (7) and (8) above, we wish to add the following:

9.1 As explained in point 5 of the Notes to the Financial Statements, beginning on 01 January 2010, AdP – Águas de Portugal, SGPS, S.A. began using the international accounting standards adopted by the European Union to prepare and report its financial information. The re-expression on this date, for comparative purposes, shows that total equity was affected positively by 107,642 thousand euros, and the 2009 net income was affected positively 19,414 thousand euros.

9.2 As explained in point 2.5.2, 15 and 35 of the Notes, the consolidated financial statements of AdP – Águas de Portugal, SGPS, S.A. show asset (310,763 thousand euros in 2010 and 262,488 thousand euros in 2009) and liability tariff deficit (135,317 thousand euros in 2010 and 124,876 thousand euros in 2009); these amounts refer to differences between tariffs and the prices practiced, and those that would correspond to the recovery of costs incurred plus return on equity in concession contracts of production and purification (water) and waste recovery and management companies. The grantor has yet to determine how it will rectify the economic and financial balance of the concession contracts where this is justified, under which circumstances it recently requested that AdP - Águas de Portugal, SGPS, S.A. conduct studies to submit a proposal to review the concession contracts with changes significantly impacting the concessionaires' financial balance.

Lisbon, 08 April 2011

Alves d'Auditors' Report
(Consolidated Financial Statements)
a Cunha, A. Dias & Associados
Statutory Auditors
Represented by José Duarte Assunção Dias

Auditors' Report (Consolidated 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 (Consolidated Financial Statements)

Introduction

1. We have audited the attached consolidated financial statements of AdP – Águas de Portugal, SGPS, S.A., which include the Consolidated Financial Position Statement on 31 December 2010 (with a total of 7,213,396,361 euros, total equity of 928,470,145 euros, and a net income attributable to the company's shareholders of 79,459,018 euros), the Consolidated Income Statement by Nature, the Consolidated Comprehensive Income Statement, the Changes in Consolidated Total Equity Statement and the Consolidated Cash Flow Statement for the period ending on this date, together with the Notes to the Consolidated Financial Statements.

Responsibilities

2. It is the Board of Directors' responsibility to prepare consolidated financial statements that truly and adequately represent the financial position of the companies included in the consolidation, the consolidated result and comprehensive income of their operations, consolidated changes in total equity and consolidated cash flow, as well as the adoption of appropriate accounting policies and criteria and the maintenance of appropriate internal control systems.
3. Our responsibility is to express a professional and independent opinion based on our audit of these financial statements.

Scope

4. The audit we carried out was performed according to the Technical Standards and Revision/Audit Guidelines of the Ordem dos Revisores Oficiais de Contas (Portuguese Institute of Statutory Auditors), which require that audits be planned and performed for the purpose of determining, with an acceptable degree of safety, whether the consolidated financial statements are free of material misstatements. To this end, the aforementioned audit included:

- verifying that the financial statements of the companies included in the consolidation were properly audited, and in significant cases where they were not, verifying the support, through sampling, for the amounts and disclosures contained therein and assessing the estimates used in their preparation, as based on judgments and criteria defined by the Board of Directors;

Limited liability company / Share capital: 1,105,000 euros / Registry no. 178 in the Statutory Auditors' Association / Registry no. 9011 with the Securities Market Commission
Taxpayer ID 505 988 286 / Registered under the same number in the Lisbon Commercial Companies Registry / A member firm of Ernst & Young Global Limited

- verifying consolidation transactions, and the application of the equity method;
- evaluating whether the adopted accounting policies, their consistent use and their disclosure are appropriate under the circumstances;
- verifying the applicability of the going concern principle; and
- evaluating whether the presentation of the consolidated financial statements is appropriate, in overall terms.

5. We believe that the audit we performed provides an acceptable basis for expressing our opinion.

Opinion

6. In our opinion, the above-mentioned consolidated financial statements truly and adequately represent, in every material aspect, the consolidated financial position of AdP – Águas de Portugal, SGPS, S.A. on 31 December 2010, the consolidated results and comprehensive income of its operations, the changes to its consolidated total equity and its consolidated cash flow for the year ending on this date, in accordance with the international financial reporting standards adopted by the European Union.

Remarks

7. Without prejudice to our opinion expressed in the above paragraph, we wish to add the following:

- As described in Note 2.5.2 of the Notes to the Financial Statements, the company recognizes, from an accounting standpoint, the amounts of deficiencies/surpluses of tariffs and prices practiced in relation to those that would be necessary to recover the inherent concession costs and reimburse the capital invested, thereby ensuring the economic and financial balance of the concessions, as foreseen in existing concession contracts. The company chose to reflect this situation in the financial statements, despite the ongoing lack of approval by competent entities of the mechanisms to reflect these deficiencies/surpluses of tariffs and prices.
- For the first time, this year the company prepared its consolidated financial statements in accordance with international accounting standards, as adopted by the European Union. The impacts of the transition compared to prior rules are described in Note 5 to the Financial Statements.

Lisbon, 08 April 2011

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

Rui Abel Serra Martins (Statutory Auditor no. 1119)



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 241 to 246 of this annual report were translated by Viva Translations from the original documents included in Águas de Portugal "Relatório e Contas 2010".

Viva Translations - Traduções, Lda
Rua Abade Faria, 49 - 1º Dto
1900-008 Lisboa
Telephone: (+351) 218 473 134
NIF: 506 514 420

Ana Gomes

Viva Translations • Rua Abade Faria, 46 – 1º Dto • 1900-008 • Lisboa • Portugal
tel. +351 218 473 134 • fax +351 218 473 135 • www.vivatranslations.com

Viva Translations-Traduções - Sede: Rua Quirino de Fonseca, 8 – R/C D • 1900-252Lisboa • Capital Social 5.000 euros • Registada no CRC de Lisboa • Cont. n.º 506 514 420

Photograph Captions

Cover and Back cover: Serzedelo WWTP, Guimarães

Page 4 : Alcantarilha WTP, Silves

Page 9: Odelouca Dam, Monchique

Page 14: Ave WWTP, Vila do Conde

Page 18 and 20: Environmental Education Centre, Lever WTP, Vila Nova de Gaia

Page 66 and 68: North WWTP, Aveiro

Page 116 and 118: Biogas Energy Recovery Facility , Barlavento Sanitary Landfill, Portimão

Page 160: Detail of the Barbadinhos Steam Pumping Station, EPAL Water Museum, Lisboa

Page 168: Detail of bundle of packaging materials for recycling, Barlavento Sanitary Landfill, Portimão

Page 240: EPAL Central Laboratory, Lisboa

AdP - Águas de Portugal, SGPS, S.A.

Rua Visconde de Seabra, 3 | 1700-421 Lisbon | Portugal

Tel: +351 21 246 94 00 | Fax: +351 21 246 94 01

E-mail: info@adp.pt | www.adp.pt

Edited by - AdP - Águas de Portugal, SGPS, S.A.

Design by - AdP - Águas de Portugal Serviços Ambientais, S.A. - Direcção de Marketing e Comunicação

[blank page]

