



Annual Report & Accounts \_ 2015



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“In spite of this challenging context of change, the AdP Group companies showed extreme resilience, boosted by their experience and ability to implement strategic guidelines and efforts made by their boards of directors and senior managers.”



**Afonso Lobato de Faria**  
*Chairman of the Board of Directors*

## Chairman's Statement

For the last 20 years, the AdP Group's work has made a substantial contribution to the improvement in the degree of coverage of services and water reliability and quality. Nonetheless, at the beginning of 2015 it was still facing challenges that were jeopardising its sustainability and therefore the balance of the sector in general.

The tariff deficit accumulated over two decades, with no solution in sight, and the high level of municipal customers' debts were serious problems with a direct impact not only on the Group's economic and financial sustainability but also its ability to make the investments necessary to fulfil its goals for the sector.

The reorganisation that took place in 2015 constituted the change needed to guarantee the sustainability of the sector and the AdP Group and the quality of water supply and wastewater treatment services in Portugal.

As part of a number of strategic, legislative, regulatory and macroeconomic changes for the AdP Group, the right way to ensure the economic and financial efficiency and sustainability of the systems was to implement large, robust solutions with synergies of scale and range that fostered efficiency and reductions in operating costs and created the right conditions for complying with the recommendations of the Court of Auditors.

In spite of this challenging context of change, the AdP Group companies showed extreme resilience, boosted by their experience and ability to implement strategic guidelines and efforts made by their boards of directors and senior managers.

As such, the drastic business reorganisation of the AdP Group, which in itself was a huge challenge that is considered to have been met, it is with great satisfaction that the Board of Directors submits its annual report for the 2015 financial year, which confirms our good performance also in economic and financial terms.

The economic and financial indicators show results consistent with those in the past. The net profit for 2015 was extraordinary, totalling EUR 166 million. It was affected by the sale of the waste business and also by other factors that influenced operating performance.

Operating performance in 2015 involved revising the assumptions for the restructuring of the Group's core business segment in the second half of the year. It impacted EBITDA, which fell EUR 41.8 million against 2014 as a result of a reduction in turnover caused mainly by a general decrease in tariffs charged to most municipal customers of the new aggregated companies.

The increase in amortisation associated with investment and the recording of impairments, plus ongoing efforts to contain costs, influenced operating profit, which was EUR 208 million at the end of the year, some 8 million less than in 2014.

On the other hand, the AdP Group's net borrowing fell by EUR 206 million against 2014, due in part to the amount received from the sale of EGF and the recovery of customers' debts. The long-term finance component, which makes up around 85.5% of the Group's gross borrowing, totalled EUR 2.4 billion in 2015.

In recent years, the AdP Group has engaged in prudential financial management. The results are now evident, not only in the weight of long-term borrowing in total borrowing but also in the significant fixed rate component and a reduction in the volatility of financial costs.

An increase in the maturity of our debt and a reduction in the cost of funding from commercial banks are vital to the prudential management of the AdP Group's funding structure and are essential in guaranteeing sustainability so that it can continue to promote quality and reliability of the services provided by our companies to the public all over the country.

This is the AdP Group's mission: to provide high-quality services reliably and in sufficient quantity. This is a noble mission that has been fulfilled by a team of excellent professionals. Their achievements have been recognised in Portugal and abroad and are the result of the defence and appreciation of the natural and human capital of our country.



# The Group



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# The Group

# The Group

## Who we are

### Mission, goals and policies

AdP - Águas de Portugal, SGPS, S.A. (AdP) is a holding company that, through its subsidiaries, designs, constructs, operates and manages water supply and wastewater treatment systems, and the treatment and recovery of solid household and industrial waste, in a framework of economic, financial, technical, social and environmental sustainability. It also aims to develop a strong, highly competent Portuguese business group that is capable of responding effectively and efficiently to the major challenges that the environmental sector currently faces.

Since it is the state's business tool for implementing public policy and national objectives in these areas of the environmental sector, it promotes **(a)** universality, continuity and quality of service, **(b)** the sustainability of the sector and **(c)** the protection of environmental values.

Sustainability in the use of natural resources and the preservation of water as a strategic resource that is essential to life, the balance and improvement of environmental quality, equal access to basic services and the promotion of wellbeing by improving people's quality of life are the AdP Group's fundamental values.

The AdP Group's goals are set by government policies for the sector, guidelines in the strategic plans applicable to its areas of action, general guidelines from ministerial ordinances and specific guidelines from its shareholders.

The state, as the shareholder, sets out strategic guidelines under the legal framework for the state business sector and the Public Manager Statute.

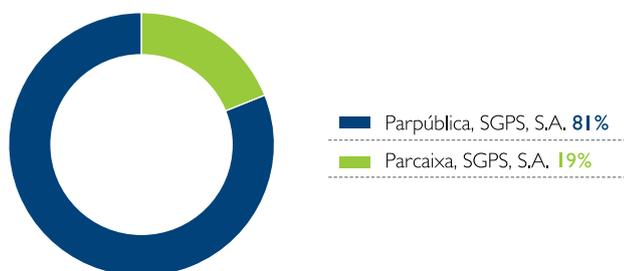
### The AdP Group

AdP Group – Águas de Portugal plays a structural role in the environmental sector in Portugal and works in the field of water supply and wastewater treatment.

The AdP Group's companies are present all over the country, from north to south, where they provide services to municipalities. These municipalities are also shareholders in the management companies of the multi-municipal systems (upstream systems) and directly serve the public in their municipal water and treatment systems (downstream systems).

The Group also operates in the fields of renewable energies, shared services and international markets.

### Ownership structure



# Corporate Organisation Chart



## Organisational structure

The AdP Group is divided into business units whose planning and control is run by their holding company. This is how their strategic guidelines, business and investment plans, goals and annual budgets are defined jointly and interactively. They are periodically revised and controlled.



To ensure that it operates properly, AdP SGPS has management support departments for the Group. They are responsible for defining and implementing policies, managing corporate resources and assessing and monitoring its invested companies.

### • Corporate Finance

It defines and coordinates the Group's financial policy. It handles the Group's tax and accounting management, which entails standardising criteria, procedures and practices in accordance with national rules.

### • Planning, Management Control and Regulation

It is responsible for providing accurate management information to decision-makers, taking corrective measures and coordinating regulatory strategy, including tariff-related matters. It is also in charge of relations with the regulator and identifying key elements to minimise the regulatory risk their impacts on the Group's assets.

## • Corporate Human Resources

It defines human resource policies and strategy for the Group, and manages its resources.

## • Internal Auditing and Risk Control

It identifies the risks to the Group's business, conducts internal audits of the companies in which it has a majority interest, identifies key control elements necessary to minimise their impact and conducts compliance tests to assess the results.

## • Corporate Communication and Image

It defines the Group's advertising and publicity strategy and policy and provides the Board of Directors with direct assistance in these matters.

## • Research and Development

It supports innovation in areas of knowledge that are important to the Group and undertakes, coordinates and promotes research and development projects with Portuguese and foreign organisations.

## • Business Sustainability

It plans, coordinates and implements the AdP Group's sustainability and social responsibility programme and organises any vision, strategy and commitment to the principles of sustainable development that the Group establishes.

## • Company Secretary

The responsibilities of the Company Secretary are set out in Article 446-B of the Company Code. S/he provides assistance at meetings of the governing bodies, certifies the company's documents, notarises the signatures of members of the Board of Directors, issues extracts of minutes, follows up on the Board's decisions and checks the conformity of the company's official books.

## Governing Bodies

Governing bodies in office on 31 December 2015, elected for 2015/2017.

### Officers of the General Meeting

**Chair** Ana Cristina de Menezes Pereira Paes Sequeira Rodrigues

**Vice-Chair** Maria Fernanda Joanaz Martins

**Secretary** Manuel Bruno Rossi Ruano Gouveia Pereira

### Board of Directors

**Chair** Afonso José Marçal Grilo Lobato de Faria (stepped down, effective as of 30 April 2016)

**Vice-Chair** Manuel Maria Pereira Fernandes Thomaz

**Director** Cláudio Miguel André de Sousa Jesus

**Director** Gonçalo Ayala Martins Barata

**Director** José Manuel Leitão Sardinha

**Non-executive director** José Manuel Barros, appointed by the shareholders Parpública, SGPS, S.A. and Parcaixa, SGPS, S.A.

### Executive Committee

**Chair** Afonso José Marçal Grilo Lobato de Faria (stepped down, effective as of 30 April 2016)

**Vice-Chair** Manuel Maria Pereira Fernandes Thomaz

**Director** Cláudio Miguel André de Sousa Jesus

**Director** Gonçalo Ayala Martins Barata

**Director** José Manuel Leitão Sardinha

### Supervisory board

**Chair** Carla Ribeiro

**Member** Mário José Alveirinho Carrega

**Member** Ana Luisa Videira Gomes

**Substitute member** Graça Maria V.N. Montalvão Fernandes

## Statutory auditor

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

## Company secretary

**Effective** Ana Cristina Rebelo Pereira

**Substitute** Ricardo Cortes Ribeiro

## External auditor

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

## Shareholding portfolio

Company	Holding	Head office	Business activity
EPAL, S.A.	100.00%	Lisbon	Water upstream and distribution downstream
Águas de Lisboa e Vale do Tejo, S.A.	59.38%	Guarda	Water and wastewater treatment upstream
Águas de Centro Litoral, S.A.	60.33%	Coimbra	Water and wastewater treatment upstream
Águas do Norte, S.A.	59.59%	Vila Real	Water and wastewater treatment upstream and downstream
Águas do Algarve, S.A.	54.44%	Faro	Water and wastewater treatment upstream
AdRA - Águas da Região de Aveiro, S.A.	51.00%	Aveiro	Water and wastewater treatment downstream
AgdA - Águas Públicas do Alentejo, S.A.	51.00%	Beja	Water and wastewater treatment upstream
Águas de Santo André, S.A.	100.00%	V.N. Sto. André	Water, wastewater and waste
Empresa Geral de Fomento, S.A.	5.00%	Lisbon	Sub-holding company
AdP Internacional, S.A.	100.00%	Lisbon	Sub-holding company
Aquatec, Lda.	100.00%	Moçambique	Technical services
Águas do Brasil, S.A.	100.00%	Cabo Frio, Brazil	Sub-holding company for Brazil - being wound up
AdP Timor-Leste, Lda.	100.00%	Díli, East Timor	Technical services
AdP Serviços, S.A.	100.00%	Lisbon	Instrumental - shared services
Aquasis, S.A.	55.00%	Lisbon	Development and implementation of geographical information system for basic sanitation
AdP Energias, S.A.	100.00%	Lisbon	Environmental management
Trevo Oeste, S.A.	43.24%	Alcobaça	Treatment and recovery of livestock waste
MIESE, Lda.	40.00%	Vila Real	Being divested

## Subsidiaries

Subsidiaries as at 31 December 2015:

- AdP Internacional, subsidiary in Angola
- AdP Internacional, subsidiary in Cape Verde
- AdP Internacional, subsidiary in Guinea Bissau

## Summary of consolidated indicators

### Economic and financial indicators

	2013	2014	2015
Turnover (1)	654.5	626.2	669.9
Cost recovery deviations	54.9	26.3	90.1
Operating profit/loss (2)	223.7	216.1	208.7
EBITDA (3)	300.9	327.1	285.3
Financial income	(49.6)	(58.1)	34.1
Net profit of financial year	104.7	102.3	166.0

(1) It does not include revenue from construction (IFRIC 12) or cost recovery deviations. | (2) Earnings before interest tax.

(3) RO + amortisation + provisions + impairment losses and reversals - cost recovery deviations - investment grants

	2013	2014	2015
Operating assets (net)	5 460.8	4 776.3	4 803.1
Investment	162.4	169.8	193.6
Trade receivables (1)	559.8	439.6	383.0
Total assets	7 595.5	7 491.7	6 407.0
Financial debt - medium and long term	2 423.5	2 139.7	2 065.8
Financial debt - short term	616.7	598.9	349.1
Financial debt - Total	3 040.2	2 738.6	2 414.9
Financial debt - net	2 544.7	2 347.5	2 144.4
Grants	1 943.2	1 630.4	1 621.3
Liabilities	6 353.3	6 164.1	4 978.7
Equity (2)	1 242.3	1 327.7	1 428.3
Non-controlling interests	325.3	340.8	298.7

(1) Referring only to amounts billed for water and treatment | (2) Equity includes non-controlling interests

### Business data

	2013	2014	2015
Volume of water produced (1)	590.2	573.3	573.5
Volume of water distributed (1) (2)	76.0	74.4	75.3
Volume of water billed (1)	570.8	553.3	577.2
Volume of wastewater treated (1)	505.1	546.7	456.3
Volume of wastewater billed (1)	447.7	475.8	463.1
Number of employees	3 321	3 234	3 253

(1) Unit: million m<sup>3</sup>. | (2) Includes water distributed by EPAL and AdRA

### Economic and financial indicators

	2013	2014	2015
Financial structure (1)	2.4	2.1	1.7
Solvency(2)	0.5	0.5	0.6
Assets to total equity ratio (3)	0.4	0.4	0.5
Growth in turnover (4)	6.4%	0.1%	(3.4%)
EBITDA margin(5)	47.5%	54.5%	49.2%
ROCE before tax(6)	4.7%	4.3%	3.3%

(1) Bank loans / equity | (2) (equity + grants) / liabilities | (3) (Equity + grants) / assets. | (4) Net of cost recovery deviations.

(5) EBITDA / turnover net of cost recovery deviations | (6) (EBIT / capital used; EBIT = operating profit - cost recovery deviations

(Capital used = total net assets - short-term liabilities - investment grants - cost recovery deviations - deferred tax assets)

## Awards and recognition

In 2015, the AdP Group companies received a number of distinctions for services provided and research and development, environmental communication and education and corporate responsibility.

### WEX Global Awards 2015

The innovation project Neural AD (Neural Networks + Anaerobic Digestion) involved several AdP Group companies and won the WEX Global Awards 2015 in the Water and Energy Category. The project involves artificial neural-networks used to optimise anaerobic digestion of sludge from waste water treatment plants. It makes it easier to predict the behaviour of the process in different operating conditions, thereby maximising the potential for energy recovery from biogas from the Group's plants.

### Best company to work for

For the fourth year running AdRA – Águas da Região de Aveiro was voted one of the 100 Best Companies to Work for in Portugal, based on a survey by Accenture for Exame magazine. Its aim is to recognise and publicise good human resource management practices.

### Green Project Awards

Once again EPAL was one of the winners of the Seventh Green Project Awards (GPA) Portugal. The award, in the Products and Services Category, went to WATERBEEP®, a new EPAL service enabling customers to monitor water consumption.

An honourable mention in the 2015 GPA also went to the "Take tap water with you. Easy on the wallet, easy on the environment", also promoted by EPAL. The SimT\_90 project by Águas Lisboa e Vale do Tejo was a finalist in the Information Technology Category. The project entailed developing an operational decision support scheme for urban wastewater systems and integrated management of collectors.

### APDA Golden Pipe

The "Ecological Footprint" project, which involved restoring and preserving Lagoa Pequena, near Lagoa da Albufeira, Sesimbra, won Águas de Lisboa e Vale do Tejo a Golden Pipe award for the best social responsibility project at ENEG 2015, organised by APDA - Associação Portuguesa de Distribuição e Drenagem de Águas.

### NOS Innovation Award

EPAL was among the 10 finalists of the NOS Innovation Award with two of its projects: WONE®, a solution for management companies to reduce losses from water mains and WATERBEEP®, which allows customers to monitor and manage their water consumption.

### APCE Award

The project to renovate the Barbadinhos Steam Pumping Station and the Permanent Exhibition at the EPAL Water Museum won the Prize for Excellence in Communication from APCE – Associação Portuguesa de Comunicação de Empresa in the Historical Responsibility and Corporate Memory Category.

Merit also went to the publication Barbadinhos do Vapor ao Museu, the EPAL website (www.epal.pt), the "BEEP seal, do you know how to save water?" and "Take tap water with you. Easy on the wallet, easy on the environment" campaigns and the "IWA Congress powered by tap water", which was in the special Surprise Us category.

### iF Design Award

The EPAL "Fill Forever" Bottle won the iF Design Award, one of the most prestigious awards worldwide that has been internationally recognised for over 60 years as a symbol of excellence in design. The "Fill Forever" water bottle is reusable, ecological and ultra light and EPAL will be using it to promote tap water quality.

### APOM Award

Associação Portuguesa de Museologia (APOM) awarded EPAL the Institution Prize for its work on the preservation and restoration of its museums, which are great works of architecture and engineering, such as the Águas Livres Aqueduct, Mãe d'Água Reservoir in Amoreiras, the Patriarcal Reservoir and the Barbadinhos Steam Pumping Station.

### 0% Energy awards

In addition to recognition from outside organisations, in 2015 the AdP Group instituted the "AdP 0% Energy – efficient energy use when managing our water" awards for initiatives aimed at improving energy efficiency within the Group.

In the spirit of healthy competition between companies, the award is also designed to publicise good practices among them that result in better use of energy in the Group with a view to a zero energy balance.

The winners of the first award, in 2015, were Lever Pumping Station (Águas do Norte) for improvements to its water supply pumps and the Ílhavo (Águas do Centro Litoral) wastewater treatment plant for work done on the plant's sludge line and the change in the operation of pumps, spiral carrier and digester agitation.

## Highlights of the year

There were legislative and strategic initiatives in the environmental sector in Portugal with an impact on the AdP Group in 2015. They were:

- Approval of the strategic plan for the water sector (PENSAAR 2020).
- Approval of the operational programme for sustainable, efficient use of resources (POSEUR).

The restructuring process of the AdP Group continued in 2015. The aim was to foster equal access to essential public services, harmonise tariffs in large regions, converge tariffs and comply with the sector's strategic goals and the recommendations of the Court of Auditors.

The restructuring that began in 2012 was completed on 29 May 2015, when the government set up the Norte de Portugal, Centro Litoral de Portugal and Lisboa e Vale do Tejo multi-municipal water supply and treatment systems and their management companies Águas do Norte, Águas do Centro Litoral and Águas de Lisboa e Vale do Tejo:

- **Decree-Law 92/2015 - Diário da República n.º 104/2015, Série I of 2015-05-29**  
set up the multi-municipal water supply and wastewater treatment system of Centro Litoral de Portugal
- **Decree-Law 93/2015 - Diário da República n.º 104/2015, Série I of 2015-05-29**  
set up the multi-municipal water supply and wastewater treatment system of Norte de Portugal
- **Decree-Law 94/2015 - Diário da República n.º 104/2015, Série I of 2015-05-29**  
set up the multi-municipal water supply and wastewater treatment system of Lisboa e Vale do Tejo

Later on 30 June, the concession agreements were signed for Águas do Norte S.A., Águas do Centro Litoral S.A. and Águas de Lisboa e Vale do Tejo S.A., with retroactive effect from 29 May, when the decrees-law came into effect.

During the Group's reorganisation, studies were conducted with a view to forming public partnerships to manage water supply and urban wastewater treatment services.

In July 2015, after a favourable decision from the Competition Authority, AdP SGPS transferred 95% of the share capital of EGF to the consortium led by SUMA, winner of the public tender to reprivatize EGF.



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# The Business

(Annual Report)

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# The Business

# The Business (Annual Report)

## Strategies

The AdP Group's goals are set by government policies for the state business sector in general and for the AdP Group companies in particular via strategic guidelines issued in ministerial ordinances and shareholders' decisions, which are included in the Group companies' plans.

General strategic guidelines dictate that the Board of Directors must ensure that AdP SGPS and its invested companies, without prejudice to their independent management:

- Fulfil their mission in articulation with the sector's strategic policies defined by the government in a framework of business rationale, constant optimisation of efficiency, quality of service and respect for high standards of quality and safety.
- Are socially responsible, pursue social and environmental goals in their works and foster competition in the market, consumer protection, investment in personal and professional progress, equality, environmental protection and respect for ethical principles
- Conduct environmental awareness campaigns and foster the protection and efficient use of water resources.
- Promote an appropriate balance between quantitative and qualitative levels of public service with a view to customer satisfaction and economic, financial and environmental sustainability.
- Use methods that enable them to constantly improve quality of service and customer satisfaction.
- Devise and implement human resource policies that value individuals, strengthen motivation and stimulate increased employee productivity in a framework of balance and strict control of costs associated with them, compatible with their size.
- Implement plans of action that promote equal treatment and opportunities for men and women, eliminate discrimination and ensure life-work balance (promotion of equality).
- Follow policies of consistent scientific and technological innovation, foster research into new ideas, products, processes and market approaches in order to fulfil their missions better and meet collective needs while oriented towards economic, financial, social and environmental sustainability (innovation and sustainability policy).
- Use information and internal control systems suited to their size and complexity to cover all relevant risks that are ready at all times to be audited by the competent authorities.

As part of its specific strategic guidelines, the Board of Directors of AdP SGPS must during its current term (2015-2017):

- Follow the sector policies that govern its activity and the creation of shareholder value, with special focus on prudential risk management and the mobilisation of financial resources.
- Reorganise the water supply and wastewater treatment sector as defined by the government, with priority to the economic and financial sustainability of operations in these areas, ongoing improvement of services and the promotion of territorial cohesion.
- Handle the corporate reorganisation of the AdP Group with a view to reducing operating costs with more efficient and sustainable management.
- Streamline the investments required to deliver the services, focusing on the suitable sizing of new infrastructure and maintenance of that already existing.
- Continue to foster efficiency and develop integrated solutions for management of the urban water cycle.
- Continue to implement solutions that help to solve the tariff deficit problem, in terms of sustainability.
- Contribute to the sector's sustainable development by implementing solutions that reconcile essential economic growth with lower consumption of natural resources, social justice and quality of life for the public in compliance with the Commitment to Green Growth.
- Develop an integrated strategy for research and development and promote pilot projects in disruptive technologies with a potential impact in terms of sustainability and efficient use of resources in line with national goals in this field.
- Continue to implement projects in international markets with special focus on Portuguese-speaking countries and others of particular strategic interest to Portugal, by concentrating their international business on cooperation, capacity building, consultancy and technical support.
- Work in strict compliance with the sector's strategic plan for water supplies and urban wastewater treatment (PENSAAR 2020), which is the state's vision for the sector.
- Promote economies of process by integrating upstream and downstream systems in accordance with the freely expressed wishes of the municipalities involved, provided that the solutions are technically reasonable and clearly show the benefits by reducing unit costs.
- Improve operating efficiency of the management companies, which must adopt the most appropriate form of organisation, as required by law, especially in terms of workforce, job descriptions, information circuits, administrative routines, financial resources, planning, budget, control and guaranteed quality.

- Achieve the PENSAAR 2020 goals of people's access to public water services by building necessary infrastructures using appropriate solutions and technologies to reduce loss in the system.
- Improve the ecological and chemical status of bodies of water as set out in the National Water Plan and Framework Water Directive and take action to adapt to climate change and preserve nature.
- Achieve the goals of continuity and quality of service in the water supply by increasing the number of customers of the service and optimising the installed capacity of infrastructures and in wastewater treatment by ensuring compliance with discharge parameters, increasing the number of customers of the service and optimising the installed capacity of treatment infrastructures.
- Ensure they have the resources they need to guarantee a reduction in infiltrations and affluence of rainwater.
- Contribute to Green Growth and a low-carbon economy that will minimise waste and recover by-products and ensure efficiency of resources and use of renewable energies arising from their activity.
- Adopt collaborative governance models with the municipalities, standardise relations with local authorities and boost synergies from shared management and convergence of goals, with mutual advantages and to the benefit of consumers.
- Operate in strict compliance with legislation and their contracts, including the legal framework for the sector, environmental regulations, tariffs, quality of service and of water, consumer protection and competition.
- Act in strict compliance with any new concession agreements with the state and suggesting their revision whenever circumstances change, e.g. in terms of sharing risks and benefits.
- Work in collaboration with and respect for the public bodies involved in the sector, such as the regulator, environmental authority and water resources, health, consumer protection and competition authorities.
- Follow a price policy on the "user pays" and "polluter pays" principles in order to gradually recover costs in a highly efficient setting compatible with the public economic means, especially the most disadvantaged.
- Ensure optimised use of funding from POSEUR and give priority to projects that maximise the benefits of investments made, significantly improve quality of service and environmental performance and allow acceptable prices for the public's degree of economic and social development.
- Contribute to the qualifications of their human resources and innovation of the sector in cooperation with other entities, as these are essential factors in guaranteeing general quality, for example creating local knowledge, externalising AdP's know-how and ensuring Portugal's growing autonomy.
- Promote the development of Portuguese businesses by helping to develop national know-how, and thereby strengthening businesses by creating jobs and wealth.
- Help to develop local businesses through the three new management companies of the Norte, Centro Litoral and Lisboa e Vale do Tejo multi-municipal water supply and treatment systems, whose head offices are in Vila Real, Coimbra and Guarda, respectively, by creating and maintaining local wealth and employment and guaranteeing an effective, necessary presence throughout the country.
- Help to foster competition in the sector, which stimulates innovation and technological progress and thereby increases efficiency and quality of service and minimises monopolies in the sector and the risk of abuse of a dominant position and other anti-competitive practices contrary to customers' interests.
- Continue to foster the measures taken in the last three years as part of the Group's cost reduction programme in order to reduce the ratio between total operating costs and turnover against results in 2014.
- Closure or sale of all Group companies that are not related to the core business of Águas de Portugal.
- Reorganisation of all support areas, including human resources, quality control and R&D, procurement, legal services, communication, information systems, and the administrative and financial departments, only using outsourcing in circumstances in which it can be proven that in-house resources are clearly insufficient.

## Framework

### The Setting

#### Global

Global economic growth was disappointing in 2015 compared to expectations a year ago and remained anaemic in spite of all the stimulation measures taken, especially monetary policies in more developed countries. The second half of 2015 shows tenuous economic activity also as a result of problems and imbalances in several emerging economies that have boosted global business activity in the past. For example, the World Bank recently revised down to 3.1% its forecast for global GDP in 2015, mainly reflecting the poor performance of the largest emerging economies and poor growth in the main developed economies. The combination of the size and current economic integration of the largest emerging economies, such as Brazil, the Russian Federation, India, China and South Africa and their simultaneous deceleration had significant collateral effects on the rest of the world. This is based fundamentally on three main factors: **(i)** the slowdown of the Chinese economy, **(ii)** low prices of energy and other commodities and **(iii)** tighter monetary policies in the United States.

## European Union

In 2015, the European economy was once again supported by a number of positive factors, such as oil prices, the euro exchange rate and low financial costs. All these factors stimulated exports and private spending. On the other hand, investment remained low as a result of uncertain economic policies and, in some countries, over-indebtedness. This prevented a fall in unemployment, which is a crucial factor for the sustainability of the desired economic recovery. The euro area GDP is expected to end 2015 at 1.6% (1.9% in the European Union), below forecasts from a year ago. Inflation should be zero in 2015 and unemployment around 10%. These economic indicators are discouraging and reflect a generally unsustained economy in the European Union. This performance is the result of the above factors and vague European Union economic policies with negative impacts on confidence and therefore on demand and investment.

## Portugal

The Portuguese economy is expected to have grown by approximately 1.5% (as opposed to 0.9% in 2014), which is below recent, more optimistic forecasts. Figures in the first half-year raised hopes that GDP might accelerate, but this was not the case. In the second half, the economy stagnated and the YoY variation rate slowed down. Investment shows a similar trend and was volatile throughout the year.

Where the balance of trade was concerned, exports performed excellently during the year. Exports of transport material and industrial and consumer goods made the highest contributions in a year that also witnessed the recovery of refined fuels exports. Thanks to a focus on diversification, an analysis of countries of destination also shows substantial resilience in that this good performance occurred in spite of the fall in exports to Angola. Imports accelerated again, thereby having the effect of unbalancing the expansion pattern. Once again this was surprising and explained the economic growth rate which is expected to be 1.5%, short of the 1.8% that was forecast by some during the year. The contribution of imports to annual growth in GDP will likely be the most negative since 2010. The quantity of imports is expected to have shown a much higher annual increase, similar to that in 2014 (+7.2%), reflecting not only a recovery of domestic demand but also an increase in the imported component of exports (e.g. exports of fuel and motor vehicles).

The balance of the public administrations was negative by approximately EUR 4.8 billion (-3.6% of GDP, as opposed to -8.9% of GDP the year before or -5.1%, if we exclude the capitalisation of Novo Banco). Even so, there was an improvement of around EUR 1.74 billion against 2014. The upturn was due to the combined effect of a reduction in spending (-1.9%, if we include lower expenditure, vocational training grants, personnel costs unemployment benefits and interest. Interest positively offset the increase in investment and goods and services items) and a slight increase in tax revenue, partially offset by the fall in the other components). The fiscal balance for 2015 is more than -4% of GDP, as a result of the sale operation in the resolution of BANIF decided upon at the end of the year. Its impact on the state accounts should total EUR 2.25 billion (1.3% of estimated GDP in 2015). Around EUR 1.776 billion of this came directly from the Portuguese Treasury and about 490 million from a loan to the Resolution Fund.

The inflation rate returned to positive figures in 2015 and will end the year at close to 0.5% in average terms. It is still at an all-time low figure, however, which can be partially explained by the effects of the fall in oil prices on the international market. Taking account of the weight of fuel components in the CPI basket (6.2%), its contribution to the year-on-year inflation rate will be about -0.6 p.p. This means that the inflation rate in 2015 will be around 1.1% instead of the 0.5% forecast without the effect of the fall in oil prices.

The downward trend in unemployment in 2015 was surprisingly positive. A year ago it was expected to be around 14%. Nonetheless, according to INE information, the unemployment rate stood at 11.9% in the third quarter, the same as the previous quarter. On average, considering the seasonality that normally means a poorer performance in the first and last quarters of the year, employment can be expected to be around 12.6%.

Sources: FMI World Economic Outlook; European Commission Economic Outlook; BPI Research; Boletim Económico do Banco Portugal; Eurostat; INE.

## The Sector

### Water and wastewater treatment in the world

**“Water is the source of life, health and livelihoods across the world. The provision of safe drinking water is one of the basic responsibilities of national and local government. Water drives the decisions of businesses and, in many places, determines the rhythm of daily life.” (Ban Ki-moon, 2015).**

2015 was a historic year for greater awareness of the importance of taking concrete steps towards the goals of sustainable development, in which water is one of the most important, as everyone needs it.

The United Nations Summit in New York in September 2015 approved an agenda up to 2030 involving joint work by governments and people all over the world. Its goal was to create a global model to end poverty, promote the prosperity and wellbeing of all,

protect the environment and combat climate change. The agenda sets 17 Sustainable Development Goals (SDGs), one of which was about water and sanitation: Ensure availability and sustainable management of water and sanitation for all (SDG 6).

2015 marked the end of the UN Water for Life Decade 2005-2015 and also of the Millennium Development Goals (MDGs) which were proclaimed by the UN in September 2000 to promote development and eradicate poverty.

In its final report on the MDGs, the UN confirmed that these goals freed millions of people from poverty, empowered women and girls, improved health and wellbeing, provided vast new opportunities for a better life and halved the number of people living in extreme poverty. Where water was concerned, 2.1 billion people all over the world gained access to sanitation and the number of people obliged to defecate outdoors had fallen almost by half since 1990. Nonetheless, while 91% of the world's population had access to a source of drinking water in 2015 (76% in 1990), there are still 2.5 billion people without access to sanitation and an average 5,000 children die of preventable water-related diseases.

Other organisations highlight issues concerning water, such as:

- around 1.7 billion people live in river basins where they use more water than they put back (Gleeson et al., 2012);
- approximately 10% of the world's population, i.e. 663 million inhabitants, need better sources of drinking water and the population without access to drinking water is estimated at 80% in rural areas (WHO/UNICEF JMP, 2015);
- the number of people without access is increasing in urban areas and Sub-Saharan Africa and at least 1.8 billion people use a source of drinking water contaminated with faeces (Bain et al., 2014);
- one in every three inhabitants, or 2.4 billion people, still need better sanitation systems and one in every eight people, or 946 million people have no toilet facilities (OMS/UNICEF JMP, 2015).

Give the importance of this issue, based on the post 2015 agenda, the Heads of State from all over the world who met in New York for the 2015 Summit approved an ambitious "action plan for the people, planet and prosperity". It has expanded the scope of the MDGs and now covers all aspects of sustainable development with the 17 SDGs, which set out 169 targets. SDG 6, which reinforces the MDG on drinking water and sanitation, covers the entire water cycle, including management of water, wastewater and ecosystems and is associated with all the other SDGs.

Water scarcity was identified as the main global risk with an impact on society at the 2015 World Economic Forum. It confirmed that this and lack of sanitation were the main socio-economic problems on the global development agenda.

Moreover, compounding the risk of water shortage, the OECD expects world demand for water to grow 55% between 2000 and 2050. There will be an increase in competition for access to it between domestic and industrial users, ecosystems, agriculture, and electricity generators. The OECD forecasts that in 2050, more than 40% of the world's population will be living in river basins with high water stress (OECD Environmental Outlook to 2050, 2012).

Other relevant data in this context have been produced by other international organisations. For example:

- in the developing countries, the lack of access to better water sources and sanitation results in an estimated loss of 1.5% of GDP (World Health Organization, 2012). The priority given to public spending on water varies among many countries from less than 0.5% to over 2% of GDP (World Bank, 2009 & Glaas, 2014);
- water treatment systems in developed countries cover only 1/3 of their basic spending on management and operation (sample of 1,700 units) (IBNET-International Benchmarking Network for Water and Sanitation Utilities, 2014).

The UN also warned in its 2016 UN World Water Development Report, *Water and Jobs* of the fact that water is an essential component of national and local economies and is necessary for maintaining jobs in all sectors of the economy. According to this report, half of the world's workforce is employed in eight sectors that depend on natural and water resources - agriculture, forestry, fishery, energy, manufacturing with intensive use of resources, recycling, construction and transports. The sustainable management of water resources, water infrastructure and access to a safe, regular supply and proper sanitation services are decisive factors in improving standards of living, expanding local economies and ensuring greater social inclusion. The UN stresses that sustainable management of water resources is also an essential driving force behind green growth and sustainable development.

## Water and wastewater treatment in Europe

Although water is generally plentiful in Europe, the European Environmental Agency has warned that shortages and droughts affect some water basins at certain times of year, especially in the Mediterranean region and that most of the densely populated water basins in different parts of Europe have a high potential for water stress, with around 30 million inhabitants affected in winter and 70 million in summer. Around 20% of the total population in the Mediterranean region lives in permanent water stress and more than half (53%) is affected in the summer. Rivers (46%) and subterranean waters (35%) supply more than 80% of total water demand in Europe.

Agriculture is responsible for 36% of total annual water consumption in Europe, a figure that goes up to 60% in summer. In the Mediterranean region, agriculture alone is responsible for 75% of total water used in farming in Europe and the public water is the second largest segment, which is responsible for 32% of total water use, which puts pressure on renewable water resources, particularly in highly populated areas.

The WHO considers that access to better water sources, sanitation and wastewater treatment has increased in the last two decades. Nonetheless, in many western European countries, progress has been very slow. In 10 countries, over 50% of the rural population has no access to good quality water, which results in greater health problems.

Climate change scenarios predict huge changes in annual and seasonal precipitation, water systems, floods, coastal erosion and water quality and the distribution of species and ecosystems. Climate change will have an enormous impact on the quality of water sources, infrastructures and the type of treatment necessary to ensure acceptable quality.

Water management policies in Europe and the European Union have been progressively adapting to climate change in order to safeguard public health and ecosystems in the future.

In 2000, the Framework Water Directive, the main European Union water policy instrument, set out EU action for the protection of inland surface waters, transition waters, coastal waters and subterranean waters.

A plan aimed at preserving water resources in Europe was presented by the European Commission in 2012 and reiterated the need to view management of Europe's water resources from a broader perspective, addressing all water consumers and water's interactions with other resources such as land and energy. The plan proposes a toolbox that Member States can use to improve water management at national, regional and water basin level in the following areas: water pricing (including cost recovery) to encourage efficiency, reduction in water consumption, reduction in illegal withdrawal, reduction in losses, reuse of water and better calculation of costs and benefits (in conjunction with water pricing). The plan has the support of the European Innovation Partnership on Water, which set up in 2012, and is closely related to the EU Europa 2020 growth strategy.

The Europa 2020 strategy also highlights climate change and especially the need to reduce emissions and use new energy technologies, such as sun and wind, and the importance of strengthening economies against climate risks and giving them the capacity to prevent and respond to disasters.

## Water and sanitation in Portugal

The water supply and wastewater treatment sector has made a significant contribution to the country's economic and social development thanks to its capacity to generate economic activity and thereby create jobs and wealth and the growing improvement in people's living conditions. The sector has developed considerably in recent years, especially in terms of management companies, infrastructures and in a very decisive, visible way the quality of water and service provided to the public.

Data from the Portuguese Water and Waste Regulator (ERSAR) indicate that in 2014 95% of homes were covered by the water supply service and 83% by drainage of wastewater, while 82% included appropriate treatment of this water.

The sector comprises state-owned systems (multi-municipal systems) and municipality-owned systems (municipal systems) with different governance models:

- state-owned: direct management by the state, delegation by the state to third parties, concession by the state to third parties (multi-municipal systems given under concession to AdP Group companies)
- municipality-owned: direct management (municipal services), delegation of the service to a company set up in partnership with the state (public partnerships, like some AdP Group companies), delegation to an entity belonging to the business sector (municipal companies) or parishes or users' associations or concession to companies (municipal concession systems).

Multi-municipal systems are those that serve at least two municipalities and require an investment predominantly from the state on the basis of the national interest. The state has the power to set them up and grant their concession (state ownership).

## Water and wastewater treatment in Portugal in 2015

In April 2015, the Strategic Plan for Water Supplies and Wastewater Treatment for mainland Portugal for 2014-2020 was presented. It is called "PENSAAR 2020 — a new strategy for the water supply and wastewater treatment sector". It is the continuation of PEAASAR I and II.

The strategy took account of the national and EU framework and the European Commission's vision on EU support expressed in Position of the Commission Services on the development of the partnership agreement and programmes in Portugal for the period 2014-20 and European policy on innovation in the sector.

In order to provide the public with access to a quality public water and sanitation service that is suited to their needs at socially acceptable costs, the new strategy for the sector is based on a framework strategy that is divided into five aims and 19 operational goals for which indicators have been defined to be monitored every year, and an action plan consisting of 48 measures supported by 135 actions designed to achieve the operational goals. This new programme will focus on efficient management of resources and will focus on issues such as the restructuring of the sector and the financial resources to be used.

The sector's strategy for 2020, in articulation with a package of financial instruments aligned with green growth and an appropriate regulatory framework will guide public policy on quality services at a sustainable price.

In view of the context in the sector, the action taken by the Portuguese government as of 2013 was aimed at promoting balanced tariffs, solving tariff deficits, implementing strategies for vertical integration of municipal systems and combining existing multi-municipal systems into new, larger systems while maintaining the public nature of the concession holders.

The restructuring of the sector continued in 2015. PENSAAR 2020 and POSEUR were approved followed by approval of ERSAR's new statutes and itemised invoice law in 2014.

The aggregation of the multi-municipal water and sanitation systems was also completed. The new management companies resulting from these aggregations (belonging to the AdP Group) are Águas do Norte, Águas do Centro Litoral and Águas de Lisboa e Vale do Tejo. These companies provide overall water services (water supply and wastewater treatment) to around 80% of the Portuguese public.

The structural pillars of the aggregation of the multi-municipal systems were harmonisation of prices to promote equality between regions and extend regional solidarity and gains in efficiency to solve the economic and financial sustainability problems of the companies in the sector, including cost recovery deviations (or tariff deficits).

## Regulation

The AdP Group's companies engage in two regulated activities - water supply and wastewater treatment. These are services of general economic interest and are essential to people's well-being, business activities and environmental protection.

The operation and management of public water supply systems and wastewater treatment are based on the principles of the pursuit of public interests, the integrated nature of the systems, efficiency and the prevalence of business management.

With different regulatory models, the AdP Group operates in upstream activities through the multi-municipal systems, EPAL and AgdA – Águas Públicas do Alentejo, and in the downstream activities through EPAL, AdRA – Águas da Região de Aveiro and Águas de Santo André (AdSA), subject to different intervention by ERSAR (the regulator).

In 2015 there were important changes in legislation with an impact on the sector.

The government's line of action in Decree-Law 92/2013 of 11 July was based on promoting tariff balance, implementing vertical integration strategies for the municipal systems and, basically, aggregating existing multi-municipal systems into new, larger ones while maintaining the public nature of their concession holders.

In 2014 and the first half of 2015 studies were completed on the restructuring of the sector to fulfil by the strategy set out by Decree-Law 92/2013 of 11 July. The process culminated with the publication of Decrees-Law 92, 93 and 94/2015 of 29 May, which formed, via aggregation, the multi-municipal water supply treatment systems of Centro Litoral de Portugal (AdCL), Norte de Portugal (AdNorte) and Lisboa e Vale do Tejo (LVT) and awarded them concessions.

Decree-Law 94/2015 of 29 May also allocated to EPAL the management of the Lisboa e Vale do Tejo system and, in compliance with Article 8 of Law 10/2014 of March, amended Article 10 of Decree-Law 230/91 of 21 June to subject EPAL to ERSAR regulation of conduct in economic matters and tariff regulations, while safeguarding its specific management model.

The state-local authority partnerships for the operation and management of municipal systems for the public water supply, urban wastewater treatment and waste management and their regulation are subject to applicable legislation, such as Decrees-Law 90/2009

of 9 April and 194/2009 of 20 August, the provisions of the partnership and management contracts and the regulations, provisions and recommendations applicable to the municipal systems issued by ERSAR.

Operation of the municipal water supply and wastewater treatment system in Região do Noroeste, which are vertically integrated and run by Águas do Norte, began in April 2015. It is the result of a state-local authority partnership with the municipalities of Amarante, Arouca, Baião, Celorico de Basto, Cinfães, Fafe, Santo Tirso and Trofa.

At the last meeting of the ERSAR Advisory Board in December 2014, it presented draft tariff regulations for water services. At the April 2015 meeting of the ERSAR Advisory Board a new version of the document was presented. Pursuant to Articles 37 and 12 respectively, it is subject to an opinion from the ERSAR Tariff Board and a public consultation, as required by law. There were no further developments on the matter in 2015, though they can be expected in 2016.

## Economic regulation

The work of the AdP Group companies is regulated by ERSAR, pursuant to their articles of association, laws and their concession agreements.

### Multi-Municipal Systems

The tariffs charged by the multi-municipal systems are approved by ERSAR pursuant to Article 5 (3) (a) of the regulator's statutes and are calculated on the basis of efficient expenses provided for in the concession agreements, as accepted by ERSAR for this purpose, divided by the expected quantities.

Under the concession agreement expenses recoverable by tariffs are operating costs, including amortisation net of investment grants, financial expenses net of financial income, income tax and dividends.

The concession agreements determine that the remuneration of equity to be recovered by tariffs should be estimated on the basis of the share capital at a rate equivalent to that of 10-year Treasury Bonds plus a margin.

The legislation setting up the aggregated multi-municipal systems, Decrees-Law 92, 93 and 94/2015 of 29 May, established the methods for calculating, recording and recovering cost recovery deviations. This principle was also enshrined in the concession agreements, which also establish explicit approval of the amount by ERSAR, by reference of a scenario of productive efficiency.

Pursuant to the legislation and the systems' concession agreements the following were considered cost recovery deviations:

- the difference on the date of closure of the concession companies of abolished systems between the company's net profits from the operation and management of the system and the amount to which the company is entitled under the contract by way of remuneration of the capital invested
- the difference found annually up to the end of the second five-year period of the concession between the company's net profits from the operation and management of the system and the amount to which the company is entitled under the rules stipulated in the determination of tariffs.

Cost recovery deviations may be of two natures:

- deficits, if income is insufficient in relation to the result of compliance with the rules set out for calculated of tariffs
- surpluses, if income is greater than the result of compliance with the rules set out for calculated of tariffs.

For the aggregated multi-municipal systems, the cost recovery deviations recorded at time of signing of the concession agreements and those generated up to the end of the first tariff sub-period of the third concession tariff period (2025), as approved by ERSAR, will be recovered by the end of the fourth tariff sub-period of the third concession tariff period (2040).

On 31.12.2015 around EUR 574 million in cost recovery deviations arising from the activity of the multi-municipal systems were recorded in the AdP Group's accounts. As of 30.06.2015, around EUR 535 million of this amount were included in the operating companies' accounts. Only Águas do Algarve has no qualifying rule for recording.

For the aggregated multi-municipal systems, the changes in the calculation of remuneration of capital (shareholders) invested determined that dividends owed and not constituted in the form of a legal reserve would be capitalised at a lower rate.

The aggregation of the multi-municipal systems also established by law or agreement the tariffs in force as of 30.06.2015 for the following tariff period. For the transition period, between the above date and the end of 2015 and the convergence period from 2016 to 2020. This five-year period is to promote tariff unity throughout the multi-municipal system.

## Águas de Santo André (AdSA)

AdSA is not a multi-municipal system, although it is regulated in the same way as these companies.

The tariffs charged by the multi-municipal systems are approved by ERSAR pursuant to Article 5 (3) (a) of the regulator's statutes and are calculated on the basis of efficient expenses provided for in the concession agreements, as accepted by ERSAR for this purpose, divided by the expected quantities.

Under the concession agreement expenses recoverable by tariffs are operating costs, including amortisation net of investment grants, financial expenses net of financial income, income tax and dividends.

The concession agreements determine that the remuneration of shareholders to be recovered by tariffs should be estimated on the basis of the share capital at a rate equivalent to that of 10-year Treasury Bonds plus a margin.

However, unlike the multi-municipal systems, this remuneration is not the maximum and so cost recovery deviations are not estimated for this company.

## EPAL

EPAL is governed by Decree-Law 230/91 of 21 June, with amendments made by Decree-Law 94/2015 of 29 May.

These laws set out that water prices and prices for extra services provided by EPAL should cover operating expenses and ensure appropriate levels of self-financing, risk coverage and return on capital invested.

Without prejudice to tariff standardisation set up by Decree-Law 94/2015 of 29 May, it is up to ERSAR to approve EPAL's tariff, as required by Law 58/2005 (Water Law) of 29 December, as amended by Decrees-Law 245/2009 of 22 September, 60/2012 of 14 March and 130/2012 of 22 June and other legislation and regulations governing the specificities and risk of the system run by EPAL and the agreements concluded.

Pursuant to the law that governs EPAL, it is understood that appropriate remuneration of capital invested is ensured by a rate corresponding to the weighted average cost of reference capital over the value of tangible fixed assets and intangible assets directly related to the public service provided net of amortisation and investment grants. This rate should reflect the added specific risks associated with the running of the delegated management system, be based on the funding of equivalent projects financed on market conditions and take account of the company's funding capacity on the capital market.

Article 32 et seq. of Decree-Law 94/2015 of 29 May set out a tariff uniformity framework between the Lisboa e Vale do Tejo system and EPAL, which determines the standardisation of the price charged upstream between the two companies for each five-year period. These prices are subject to ERSAR approval. This framework results in compensation payable by EPAL to the Lisboa e Vale do Tejo system, which considers the amounts billed and actually charged.

Decree-Law 94/2015 of 29 May set out EPAL's prices to be charged from 2016 to 2020.

An agreement on EPAL's prices in 2015 was concluded by the DGAE and EPAL on 29 May 2015 and ratified on 29 June. The average overall increase in EPAL's prices, considering its different types of customer (direct customer and municipal customers supplied upstream, was 0%.

## State-Local Authority Partnerships

The system of partnerships between the state and local authorities for the operation and management of municipal systems for the public water supply, urban wastewater treatment and waste management and their regulation are subject to applicable legislation, such Decree-Laws 90/2009 of 9 April and 194/2009 of 20 August, the provisions of the partnership and management contracts and other legislation and regulations.

These companies are regulated by ERSAR pursuant to their Articles of Association and subject to the supervision of the Partnership Committee, a body set up under the partnership agreements. Its remit is to exercise powers of management, inspection and supervision of the municipalities of the municipal system managed in this framework.

Under the management contracts concluded for allocation of management to an entity, the tariff proposed for state-local authority partnerships is valid for five years after approval by the Partnership Committee. It is reviewed every year as defined in the contracts.

The tariff review cycle of the state-local authority partnerships begins on 15 October with the submission of a tariff proposal to the ERSAR for a non-binding opinion and is then approved by the Partnership Committee.

These companies are regulated by accepted costs. Expenses to be covered by the tariffs are operating costs, including amortisation net of investment grants, financial expenses net of financial income, income tax and appropriate remuneration of equity.

The management agreements determine that the remuneration of equity to be recovered by tariffs should be estimated on the basis of the share capital at a rate equivalent to that of 10-year Treasury Bonds plus a margin.

These companies are entitled to record and recover, through tariffs, cost recovery deviations calculated on the basis of the difference between the net profit generated and the remuneration of equity estimated for the year, in accordance with the agreement rules.

On 31.12.2015 around EUR 47 million in cost recovery deviations arising from the activity of the municipal systems operated by State-Local Authority Partnerships were recorded in the AdP Group's accounts.

## Regulation of quality of service

Pursuant to its statutes, the regulator must regulate the quality of the service provided to users by the management companies and assess their performance.

Quality of service in the public water supply, urban wastewater treatment and household waste management provided by the management companies is therefore assessed annually. A second-generation evaluation system is currently used with recourse to quality of service performance indicators. The results of this system are included in the Annual Report on Water and Waste Services in Portugal (RASARP).

Volume 3 of the RASARP was published in 2015. It contained the results from the service quality evaluation system for the management companies as at 31 December 2013.

## Regulation of drinking water

By law, the system management companies are obliged, under the authorities' supervision, to monitor drinking water quality in accordance with legal and regulatory parameters.

Pursuant to its statutes, the regulator acts as the competent authority for drinking water quality in relation to the water supply management companies.

Over the years, the quality of drinking water produced and supplied by the AdP Group companies has remained high.

Pursuant to Decree-Law 306/2007 of 27 August, every year water supply management companies must submit a Water Quality Control Programme (PCQA) for approval by the regulator, which is responsible for inspections to check implementation.

As required by law, water supply management companies implement the PCQA approved by the regulator. Any failure to comply with the parameters are reported to the authorities.

Every year, compliance with the standards for quality of drinking water under the approved PCQA is also part of the RASARP, volume 4.

In 2004, the World Health Organisation published its Guidelines for Drinking-water Quality (third edition), which proposed the use of Water Safety Plans (WSPs for the assessment and management of drinking water quality control risks). That year the Bonn Charter for Safe Drinking Water was also published by the International Water Association (IWA).

In order to supply high quality water that its consumers can trust, since 2004 a number of AdP Group companies, Águas do Noroeste – Sistema de Areias de Vilar, Águas do Douro e Paiva, Águas do Algarve and EPA have recognised the WSPs as a way of ensuring quality and safety in the public drinking water supply.

The AdP Group has had a detailed risk management methodology since 2011. It has a manual that makes the most of the experience of companies that already have WSPs in place and encompasses best practices and the latest methodologies for risk assessment and management, and assists in the implementation of these principles in other water supply systems.

## Regulation of business relations

Under its statutes, ERSAR is responsible for regulating business relations between management companies upstream and downstream and between downstream companies and their users. The rules cover access conditions and service contracts, metering, billing, payments and collection, provision of information, conflict resolution, legal framework regulations and protection of users of essential public services.

ERSAR issued Recommendation 1/2010 on the mandatory contents of bills for public drinking water supply, urban wastewater treatment and household waste management services provided to end users by the management companies.

In addition, Law 12/2014 of 6 March, which made the second amendment to Decree-Law 194/2009 of 20 August, changed billing and misdemeanour systems for management companies of municipal systems.

Decree-Law 114/2014 of 21 July determined that management companies were obliged as of 1 March 2015 to issue itemised bills to end users (downstream users) including a breakdown of cost components in the service provided, i.e. water supply, wastewater treatment or household waste management.

The “itemised billing” legislation obliges the management companies of municipal systems to transfer 50% of the amount of the invoice charged for water supply, wastewater treatment or household waste management services to the management company of the multi-municipal or inter-municipal system, though limited to the amount owed to this management company. The product of the charge cannot be used for any other purpose.

## Environmental regulation

The AdP Group management companies of water and household waste services are also subject to Agência Portuguesa do Ambiente (APA), the environmental regulator.

Among its other remits, the APA is the national water authority. Its duties are to issue water resource utilisation permits and check compliance, impose the economic and financial law on water resources and manage droughts and floods, coordinating exceptional measures in extreme situations, and settle disputes between users related to the obligations and priorities in the Water Law and other laws.

In order to cover its expenses, the APA charges a water resource levy, which, pursuant to Decree-Law 82-D/2014 of 31 December (Green Law) penalises systems with upstream losses higher than 5% and downstream losses of over 20%. This prevented the levy charged for these losses from affecting customers and obliged the management companies to bear it as an incentive to reduce losses.

## Business segments

### Water and wastewater treatment

#### Business activity

At the end of 2015, the AdP Group management companies' geographical distribution was as follows:



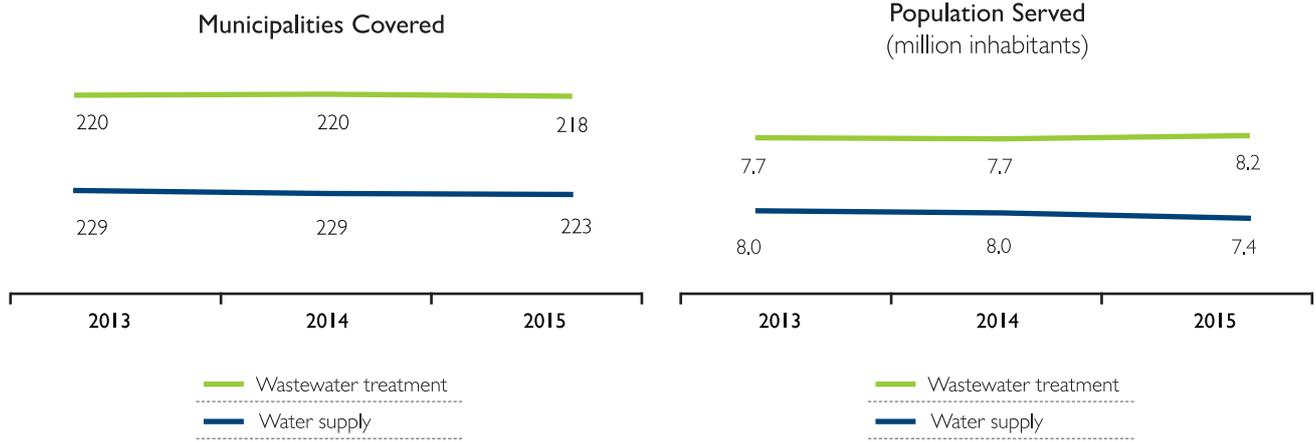
## Indicators

### Population and municipalities

At the end of 2015, the AdP Group comprised eight regional management companies (RGMs), which had 218 municipalities using their water supply and 223 municipalities using their wastewater treatment. For the purpose both upstream and downstream, the latter is considered to be performed by EPAL, AdRA and the Noroeste partnership (contract managed by AdNorte).

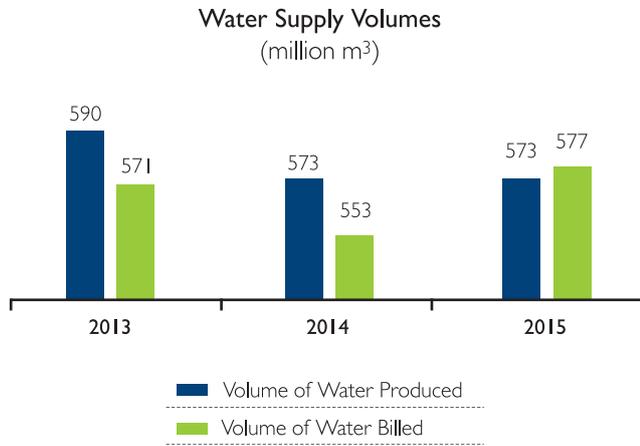
The water supply systems reach a population of around 8.1 million (including EPAL and the remaining distribution activity). Around 7.4 million people have access to wastewater treatment. This means that, at the end of 2015 a population of 7.33 million was served by a water supply 6.2 million by wastewater treatment.

The graphs below show progress achieved between 2013 and 2015.



### Volumes

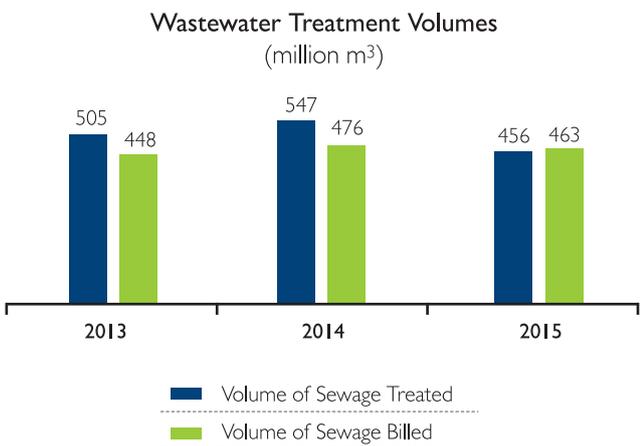
In 2015, there was a 4.3% increase in the volume of drinking water billed and the volumes produced remained the same. The water balance shows the following developments for all the systems:



In 2015 less water was produced in the systems than was billed. This can be explained by the fact that there are systems that purchase water from systems outside the AdP Group.

The figures shown, which include the distribution segment, allow us to estimate an average capitation in the municipalities served of around 216 litres per day per inhabitant for the drinking water supply, which is in line with 2014. However, this indicator should be higher than the actual one, as a result of the high loss rate in downstream systems (distribution) nationwide.

There was a slight (3%) reduction in the amount of wastewater billed in 2015 and a larger reduction of 16.5% in the volume treated. Developments in all the systems were as follows in the three-year period:



The variation against 2014 between the volume treated and billed and the fact that the flow billed was higher than that treated can be explained by a change in method for billing flows in some systems, in the second half of the year. The end of billing for contractual minimums and staggered flows (maintained only in the former Simria and Simlis).

Average capitation for wastewater in the municipalities already served was around 205, which was more than in 2014 (in 2014 it was close to 195 litres per day per inhabitant). In this case, the indicator must also be raised on the basis of rain flows, as most of the systems have no separative network and the flow arriving at the treatment plants includes rainwater.

The data on wastewater treatment do not include industrial effluent covered and actually treated.

## Infrastructures

There was a general increase in water supply infrastructures, mainly as a result of the opening of new facilities, which, in spite of restrictions on investment, reflected our constant improvement in services.

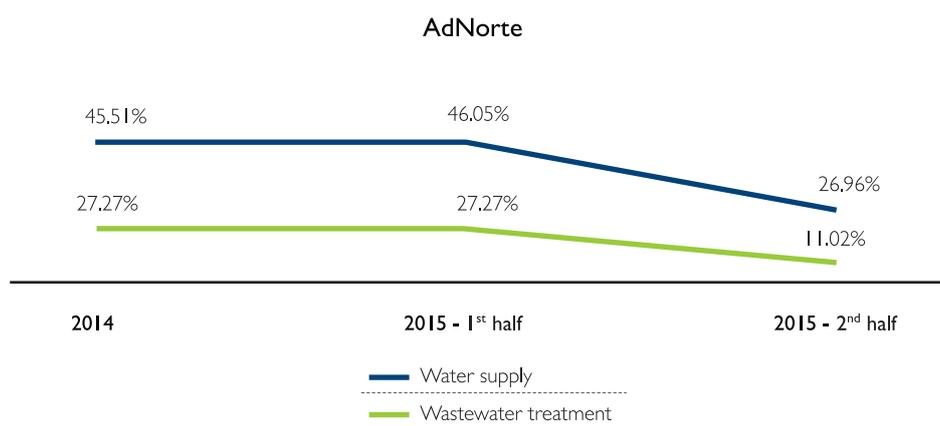
Indicators	2013	2014	2015
Nº water abstractions	882	879	1 130
Length of water supply network (km) – main pipes	12 834	12 956	16 386
Length of wastewater collection network (km) – main pipes	7 119	7 445	9 465
Nº water treatment plants	223	223	155
Nº wastewater treatment plants	938	958	965
Nº pumping stations – water supply	563	576	620
Nº pumping stations – wastewater treatment	1 705	1 774	1 920
Nº reservoirs	1 406	1 421	1 679

There was extraordinary growth in 2015 compared to the past. This was due to the inclusion of infrastructures belonging to Águas do Noroeste (whose management now belongs to Águas do Norte and includes a partnership downstream which went into operation in the first half of 2015. There was only a reduction in the number of water treatment plants due to the fact that chlorinating stations used to be considered equivalent to treatment stations.

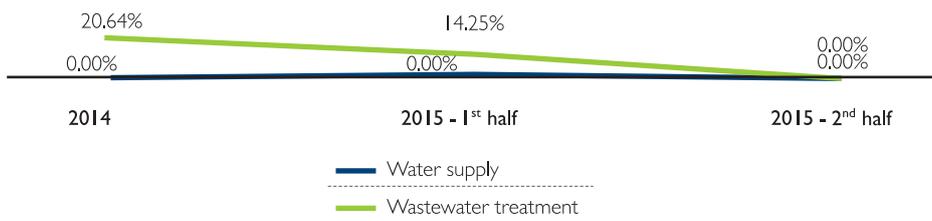
## Tariffs

The question of tariffs, and especially efforts to harmonise them, was one of the basic premises of the restructuring that took place in 2015.

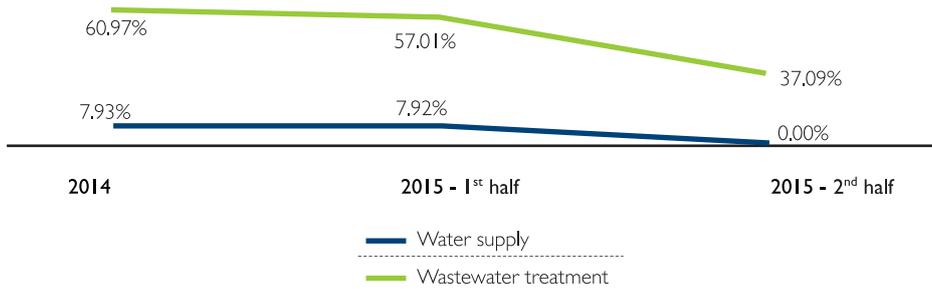
When the aggregation process took off in the second half of 2015, the tariff plan had an immediate impact. There were changes in the tariff differences in the systems, as shown in the graphs below for each aspect and each aggregated company.



### AdCL



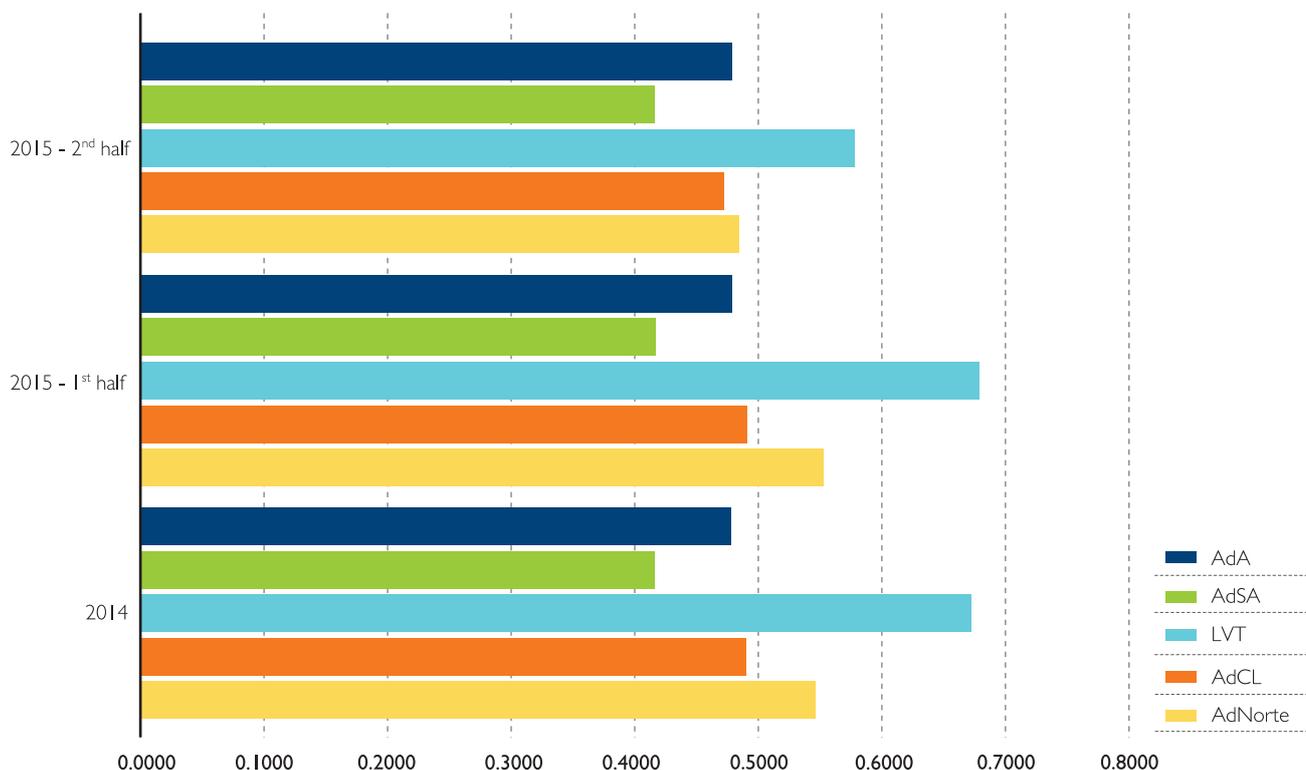
### LVT



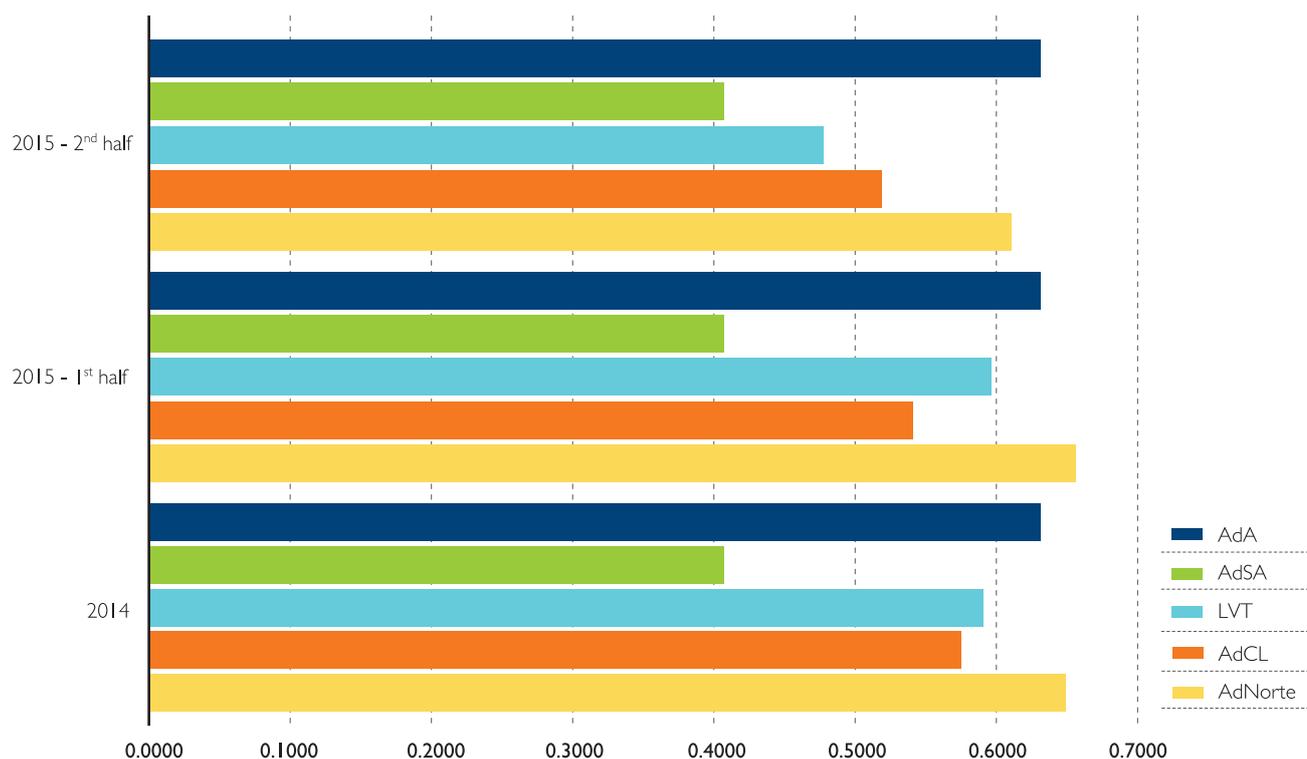
Indeed, the substantial differences between the companies that were wound up that could be found up to the end of June 2015 were justified by different amounts of investment and the populations served, highly diverse terrains and population densities and different levels of grants from the European Union. The reorganisation diluted these differences considerably in the second half of 2015.

Considering only the upstream systems in a medium price scenario, the impact is shown in the following graphs (un: EUR/m<sup>3</sup>).

### Average Tariffs - Water Supply



### Average Tariffs - Wastewater Treatment

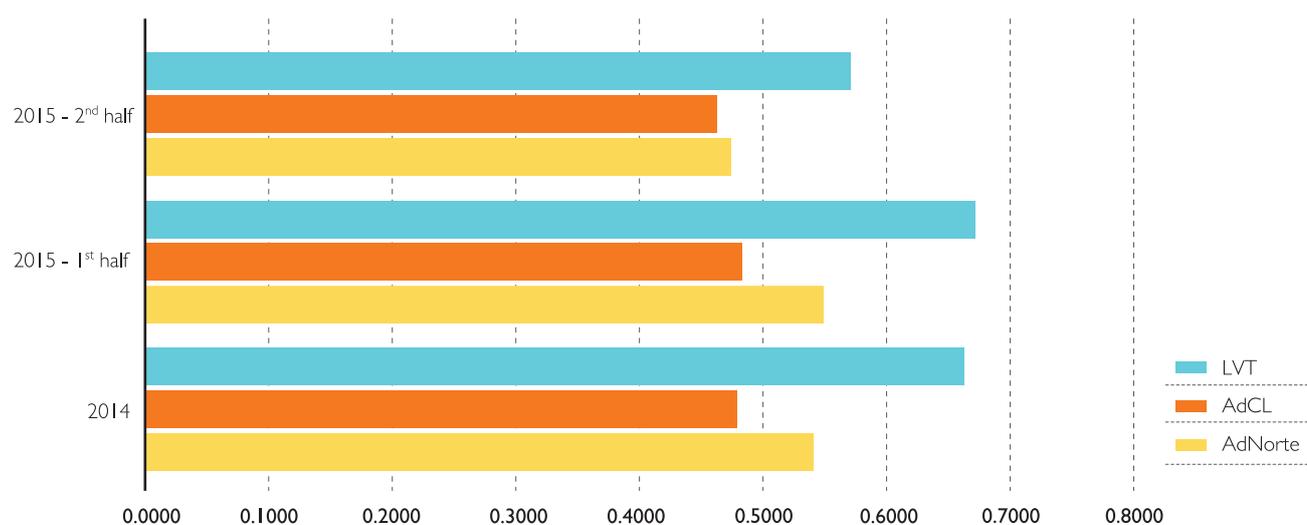


Excluding Águas de Santo André and Águas do Algarve, which were not directly affected by the 2015 restructuring, in the second half of the year there was harmonisation and reduction of prices between systems, thereby diluting the historical difference between coast and interior.

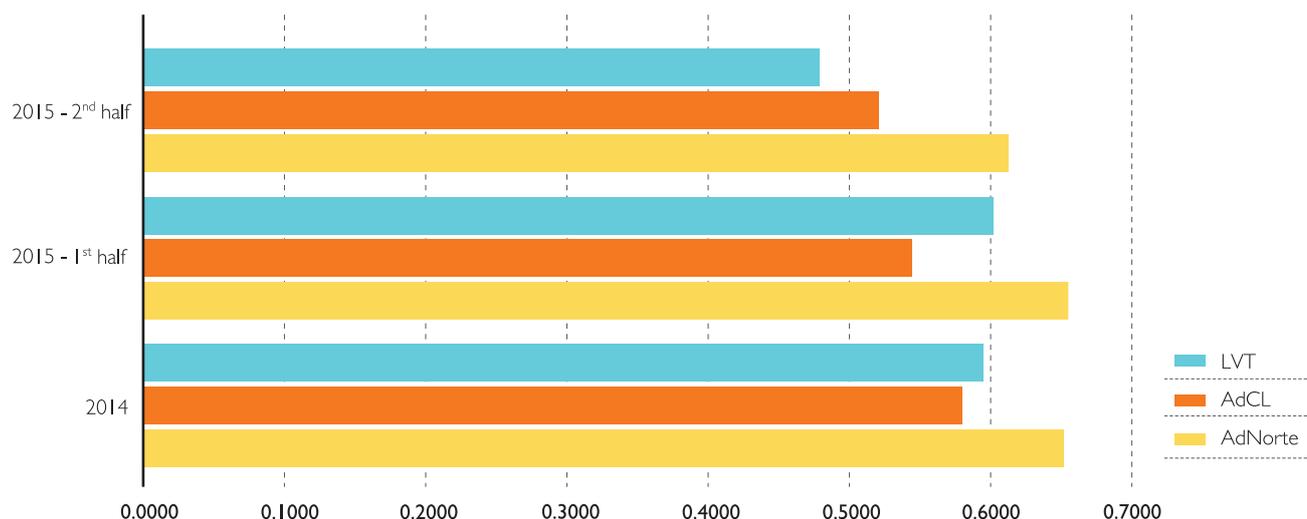
AgdA - Águas Públicas do Alentejo was not considered in this analysis given the specificity of its tariff structure, which consists of a fixed annual component that is charged in accordance with the potential population served and a variable one, which is a unit price based on use of the service.

The graph below shows the impact of tariff changes, while excluding the above-mentioned companies.

### Average Tariffs - Water Supply



### Average Tariffs - Wastewater Treatment



It is also important to mention the different impact of prices in 2015, for water supply and wastewater treatment. Both of these systems have a five-yearly tariff convergence process for cases in which prices remained the same in the second half of 2015.

In overall terms, the effect on water supply was greater in that upstream prices were reduced immediately in more systems or geographical areas. The tariffs of eight out of nine companies were reduced immediately. These reductions varied between 4% and 35.4%. The average reduction was 16.8%. Only Águas do Douro e Paiva had no tariff reduction as it was already charging the lowest price in the country (EUR 0.3803 /m<sup>3</sup>).

The tariffs of eight of the 14 wastewater treatment companies were reduced immediately. The reductions had a higher impact in this area and varied between 13.7% and 46.3%. The average reduction was 27.4%. The six sanitation companies whose prices remained the same will begin their convergence in 2016.

### Investment

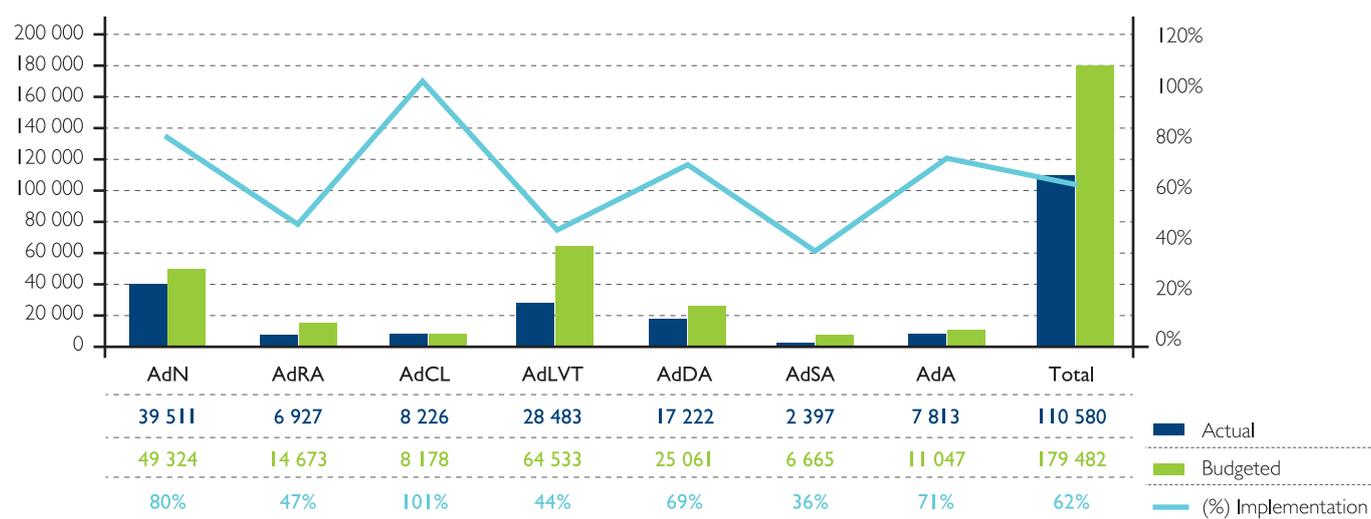
In 2015, the AdP Group invested approximately EUR 193.6 million in 2015, through its eight management companies.

Of this, EUR 110.6 million went to works and 14.7 million to payment of services directly related to these works conducted by the concession holders. As a result, investment in water supply and wastewater treatment infrastructures or facilities directly related or in associated items accounted for almost 70% of the year's overall investment.

At the same time, the Group took over municipal assets, as set out in the agreements, as they were necessary for the proper operation of both areas, to a value of EUR 34.7 million. Practically this entire amount went to Águas do Norte S.A.

Also with regard to the above amounts for works, the completion rate was 62% of the original target. We must remember the restructuring that took place in 2015, as it influenced some procedures involved in tenders and works. This completion rate was, however, based on a reference figure calculated before the aggregations and was therefore individual for each of the companies that were wound up.

The graph below shows progress in 2015 (un: EUR thousand).



EPAL is not included in the above analysis. Its investment was EUR 10.3 million, only 55% of which was to guarantee the reliability and security of the supply system.

### EU funds

As has happened in the past and indeed is one of the premises of the economic and financial models in the concession and partnership agreements, a part of the investments by the management companies in the water supply and wastewater treatment were co-funded by European Union financial instruments, such as the Cohesion Fund as part of the Operational Spatial Improvement Programme of the 2007-2013 NSRF, which ended in 2015.

At the end of 2015 28 applications were in the closing stages with the financial support of the OSIP, representing a total investment of EUR 609 million. Grants of EUR 363 million are expected from the EU.

In 2015, the last year of the projects co-funded by the 2007-2013 NSRF, there were a number of re-programmings to adjust the applications to the real situation. At the same time, as 2015 also witnessed the restructuring of the sector, these applications were also re-programmed due to the change in promoter. Of the EU total funding sent up to the end of 2015 - around EUR 346 million, representing 95.4% of expected amount for 2015, around EUR 36 million were received.

### Applications approved under the 2007-2013 OSIP

Company	Applications	Total investment	Grants forecast	Receivables up to 31-12-2014	Receivables up to 31-12-2015	%
AdNorte	8	241 545 979,62 EUR	155 196 680,52 EUR	136 682 977,37 EUR	<b>150 675 625,00 EUR</b>	97%
AdCL	2	18 280 632,36 EUR	10 245 604,92 EUR	9 993 767,25 EUR	<b>9 993 767,25 EUR</b>	98%
AdRA	5	44 220 862,88 EUR	26 700 113,59 EUR	24 631 094,47 EUR	<b>25 949 782,40 EUR</b>	97%
LVT	10	192 521 568,80 EUR	108 513 671,77 EUR	90 532 863,97 EUR	<b>101 125 425,93 EUR</b>	93%
AgdA	2	69 531 178,60 EUR	45 804 083,47 EUR	33 746 960,48 EUR	<b>42 597 053,30 EUR</b>	93%
AdAlgarve	1	43 219 571,15 EUR	16 554 156,11 EUR	15 360 793,74 EUR	<b>16 242 278,44 EUR</b>	98%

The reduction in the amounts received compared to 2014 (EUR 68 million) was mainly due to the fact that we are in the final phase of many NSRF applications and there are naturally fewer requests for payments and therefore fewer submissions of eligible expenses.

The amounts still to be received depend on the closure of applications and their audits. Six applications have been approved, though overbooked, by the OSIP, corresponding to an investment of EUR 97 million, which may yet contribute another EUR 54 million in EU financial support, if the funds are available when the operational programme closes.

In operational terms, the new community support programming framework opened in 2015, called Portugal 2020. Under the new POSEUR 2014-2020 (Operational Programme for the Sustainable, Efficient Use of Resources) 19 applications were submitted up to the end of the year totalling an investment of around EUR 68.5 million. Straight grants of around EUR 57.6 million have been requested, corresponding to an average co-funding rate of 85%.

Applications were made in response to two notices. One had regard to the settlement of disputes with the European Commission in terms of the Urban Wastewater Directive and the other was about defaults.

### Applications submitted to POSEUR 2014-2020

Company	Applications	Total investment	Grants forecast
AdNorte	2	2 355 470,00 EUR	2 002 149,50 EUR
LVT	5	6 411 819,57 EUR	5 450 046,63 EUR
AgdA	6	17 000 699,00 EUR	14 450 594,15 EUR
AdSA	1	3 468 927,00 EUR	2 948 587,95 EUR
AdAlgarve	5	39 314 858,00 EUR	32 756 781,87 EUR

By the end of 2015 only three applications had been approved, to a total of EUR 2.9 million in investment, which was around EUR 2.5 million of the straight grant approved.

## Águas do Norte

### Framework

Águas do Norte, S.A. was set up by Decree-Law 93/2015 of 29 May. It is responsible for operating and managing the multi-municipal water supply and treatment system of Norte de Portugal. This constitutes an exclusive public service provided for a period of 30 years and Sistema de Águas da Região do Noroeste, a municipal water supply and treatment system set up as a result of a partnership between the state and municipalities, which was formed under Decree-Law 90/2009 of 9 April.

Águas do Norte is thus responsible for managing two systems, one of which is an upstream multi-municipal system and the other a downstream municipal system. It is the first company in the country with this type of vertical activity.

The multi-municipal system covers drinking water abstraction, treatment and supply and the collection, treatment and discharge of domestic effluent, mixtures of household and industrial effluent and rainwater, called urban effluent and the intake of effluent from the emptying of septic tanks that comply with the operation and service regulations on wastewater treatment in effect in the multi-municipal system, its treatment and discharge, which must be carried out regularly, continuously and efficiently.

The multi-municipal system resulted from the aggregation of the following systems:

- Multi-municipal system for water abstraction, treatment and supply of south Greater Porto, set up by Article 3 (3) (e) of Decree-Law 379/93 of 5 November.
- Multi-municipal system for water supply and treatment of Trás-os-Montes e Alto Douro, set up by Decree-Law 270 -A/2001 of 6 October.
- Multi-municipal system for water treatment of Greater Grande Porto, set up by Decree-Law 260/2000 of 17 October, amended by Decree-Law 312/2009 of 27 October.
- Multi-municipal system for water supply and treatment of Noroeste, set up by Decree-Law 41/2010 of 29 April.

Based of Clause 1 (2) of the concession agreement, Águas do Norte, S.A. took over all the rights and duties of the concession holders of the systems referred to in Article 2 (2) of Decree-Law 93/2015 of 29 May, which were wound up pursuant to the said decree-law, including the infrastructures of the Ave Valley integrated decontamination system, the concession agreement for the operation and management of the Ave Valley integrated decontamination system concluded with Tratave - Tratamento de Águas Residuais do Ave, S.A., infrastructure operation and management contracts, management contracts of the municipal systems concluded by these concession holders under Decree-Law 90/2009 of 9 April and, without prejudice to Article 15 of Decree-Law 93/2015 of 29 May, any supply and collection contracts concluded.

### The system

The system's users are 80 municipalities:

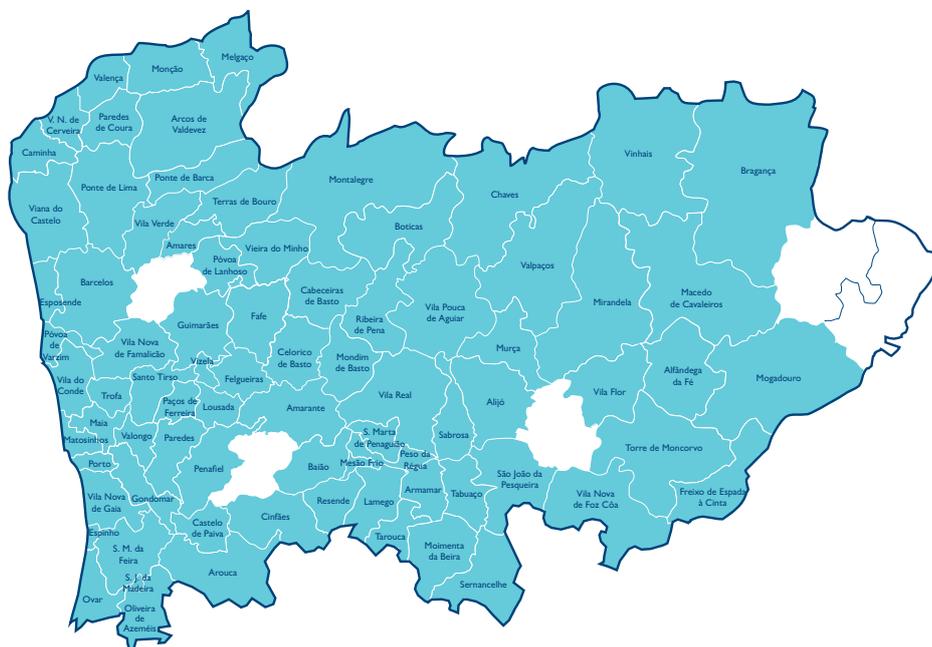
- 61 municipalities for water supply and wastewater treatment: Alfândega da Fé, Alijó, Amarante, Arcos de Valdevez, Armamar, Arouca, Baião, Boticas, Bragança, Caminha, Castelo de Paiva, Celorico de Basto, Chaves, Cinfães, Esposende, Fafe, Felgueiras, Freixo de Espada à Cinta, Lamego, Lousada, Macedo de Cavaleiros, Melgaço, Mesão Frio, Mirandela, Mogadouro, Moimenta da Beira, Monção, Mondim de Basto, Montalegre, Murça, Paredes, Paredes de Coura, Peso da Régua, Ponte da Barca, Ponte de Lima, Póvoa de Lanhoso, Póvoa de Varzim, Resende, Ribeira de Pena, Sabrosa, Santa Marta de Penaguião, Santo Tirso, São João da Pesqueira, Sernancelhe, Tabuaço, Tarouca, Torre de Moncorvo, Trofa, Valença, Valpaços, Viana do Castelo, Vieira do Minho, Vila do Conde, Vila Flor, Vila Nova de Cerveira, Vila Nova de Famalicão, Vila Nova de Foz Côa, Vila Nova de Gaia, Vila Pouca de Aguiar, Vila Real and Vinhais;

- 12 municipalities for water supply: Barcelos, Espinho, Gondomar, Maia, Matosinhos, Oliveira de Azeméis, Ovar, Paços de Ferreira, Porto, Santa Maria da Feira, São João da Madeira and Valongo;
- 7 municipalities for wastewater treatment: Amares, Cabeceiras de Basto, Guimarães, Penafiel, Terras de Bouro, Vila Verde and Vizela.

The multi-municipal system covers an area of 19,687 km<sup>2</sup>, 22% of the area of mainland Portugal and provides water supply and/or wastewater treatment to 3.7 million inhabitants.

Águas do Norte also took over from Águas do Noroeste in the operation and management of the water system, as a result of the conclusion of a public partnership agreement between the state and the municipalities of Amarante, Arouca, Baião, Celorico de Basto, Cinfães, Fafe, Santo Tirso and Trofa on 5 July 2013 and a management agreement between the state, the above municipalities and Águas do Noroeste, S.A. on 26 July 2013.

Under this partnership Águas do Norte, S.A. is responsible for the downstream urban water supply and wastewater treatment of the municipalities of Amarante, Arouca, Baião, Celorico de Basto, Cinfães and wastewater treatment of Fafe, Santo Tirso e Trofa. The company thereby guarantees a regular, continuous, efficient water services and the construction or renovation of the downstream networks for over 80,000 customers. The water system for the eight municipalities covers an area of 1,654 km<sup>2</sup> and 300,000 inhabitants.



## Tariffs

### Multi-municipal system:

Where prices are concerned, Clause 18 of the concession agreement states:

- The first period, called the transition period, is the time between the date the concession agreement comes into effect and the end of the corresponding calendar year – the second half of 2015.
- The second period, called the tariff convergence period, lasts five years from the end of the transition period and intended for the progressive convergence of the prices charged in the former systems to a common tariff – 2016 to 2020.
- The third period is divided into five-year sub-periods between the end of the tariff convergence period and the end of the concession agreement – after 2020.

The amounts set out, defined and estimated for the tariffs represent the minimum level at which the concession holder generates sufficient funds to meet its business commitments under the concession agreement and to pay dividends to its shareholders under the decree-law setting up the system.

In the first half of 2015, the aggregated companies charged their customers the price that had been approved by the regulator in the 2015 Tariff Budget and Plan. In the second half, the supply system charged a single price – 0.5207 EUR/m<sup>3</sup>, as set out in the concession agreement, while the former AdDP price - 0.3803 EUR/m<sup>3</sup> was maintained. The price for wastewater treatment charged by the former Simdouro and Noroeste remained the same, while the price charged by the former Águas do Trás-os-Montes e Alto Douro was changed to 0.6324 EUR/ m<sup>3</sup>, as set out in the concession agreement.

The tariffs charged in the first and second tariff periods are set out in Annex III of the concession agreement at 2015 prices, updated to the year they are charged in accordance with average annual variations of the harmonised consumer price index, which will be indicated by 31 July by the sector regulator based on the index published by the competent body.

The tariffs charged in the third tariff period are approved by the sector regulator as required by applicable law and regulations. By 30 April of the year before the start of the sub-period in which they will come into effect, the concession holder will submit a detailed price plan with a justification of the estimated income and expected operating, investment and financial costs per activity for the next five-year period.

The five-year tariff plan must revise the technical, economic and financial assumptions set out in the concession agreement. The proposed tariffs must fully cover the costs of the concession activities in a scenario of efficient production, in accordance with criteria predefined with the sector regulator.

### **Municipal system**

The tariff criteria set out in Clause 26 are as follows:

- the tariffs charged in any of the periods are those necessary for annual recovery of all yearly costs of the operation and management of the system's water services and to ensure the economic and financial sustainability of quality of service and public management status in the partnership activities;
- annual recovery of all the above-mentioned costs of the operation and management of the system's water services includes, among others, the minimum guaranteed amounts or the prices charged to flows of water and effluent measured or estimated by the municipalities under the concession agreements on the operation and management of the Noroeste multi-municipal water supply and treatment system;
- the prices payable by end users must be progressively standardised up to the end of the tariff convergence period on the basis of the principles that determine the convergence trajectories set out in the management agreement;
- the tariff convergence period comprises a number of phases and takes account of the municipalities' territorial areas. It begins with the standardisation of the tariff structure and ends with the same prices in each scale in accordance with the average tariff trajectory set out in the management agreement.

## **Performance**

### **Context**

Up to the end of 2015, efforts were made towards the reorganisation and rationalisation of resources, resulting in some improvements in efficiency, especially in terms of procedures and organisation, though they are difficult to quantify.

Thanks to the sharing of know-how and more efficient solutions at the former companies, Águas do Norte made a strong commitment to the sustainable development water supply and treatment services and showed its customers, shareholders and other stakeholders the implementation of policies, values and best international management practices.

In the context of energy management, the implementation of the system and respective certification allowed the continuation of a philosophy of performance, where energy efficiency has been a priority in order to reduce costs and energy consumption and to combat climate change through the reduction of greenhouse gas emissions.

The incorporation process required that all the employees involved extensively worked to adapt to the new organisational structure, both in organic terms and in terms of geographical mobility; full harmonisation of all accounting criteria and procedures, ensuring that the entire organisation is governed by the same rules, with the consequent amendment of the usual methods of each incorporated company.

The main activities of the aggregation process began in the incorporation preparation period (between October 2014 and June 2015), with subsequent implementation of many outputs. In fact, the aggregation process comprised a very strong body of work in the months that followed and also work that continues to be developed. It is guided by the notion that the efficiency to be achieved to ensure the company's sustainability requires a substantial focus on finding the best internationally recognised practices for the management of water and wastewater systems, with adaptation to national idiosyncrasies and the characteristics of the regional systems managed by the company.

The response to the constraints has been to ensure, with continuity and quality, the provision of the water supply and wastewater treatment services that constitute the mission and *raison d'être* of the company. The process of changing the organisational structure, both in organic terms and in terms of geographical mobility, was undertaken in an orderly and peaceful manner.

The effort to standardise common procedures and the resulting gains in efficiency are already becoming visible. The company has been able to promptly answer the requests of the different stakeholders.

### **Business activity**

The signing of the concession agreement on 30 June 2015 and the creation of the Águas do Norte ensured the continuation of a set of actions and tasks that were being developed by the four companies that have since been wound up. This work included the development and approval of studies and projects, the launch of tender procedures for infrastructure construction contracts planned under the Concession Agreement and also the construction of the same.

Following the public partnership concluded between the state and the municipalities of Amarante, Arouca, Baião, Celorico de Basto, Cinfães, Fafe, Santo Tirso and Trofa, and the Management Contract, the business activity of the Águas do Noroeste System began on 1 April 2015.

The processes related to the operation underwent certain changes during 2015, relating to their reorganisation, continuing their normal development according to the implemented models. Despite the considerable restructuring of the new company, drawn up under the incorporation process, the increased effort of the organisation is reflected in its adequate response to customers and by maintaining the excellent quality of service.

We can summarise the most important events as follows:

- The conclusion of the public procurement procedures for the acquisition of outsourcing services at the Trás-os-Montes Operating Centres – Douro Superior and Douro Sul
- The start of implementation of the process of billing the volumes of water supplied and wastewater treated, via the operating management application (NAVIA Project - Integrated Management System of Operations), and the use of new features of this software
- The continuous development of improvements in operational control databases of the Internal Water and Wastewater Analytical Control Laboratories, to unify information and optimise monitoring of the quality of service; The start of participation in the iPerdas – 2<sup>nd</sup> Edition project in partnership with LNEC; The start of the development of the Water Safety Plans (PSA) still not implemented in Águas do Norte, S.A. as well as the respective procedures both in terms of PSA and the PSAR; the processes of standardisation and convergence of practices and procedures resulting from existing experiences in each of the incorporated companies; monitoring of the budget execution of the contracts for the provision/acquisition of existing services, of the actual and billed volumes, compared with that forecast in the budget, and excess inflows to wastewater subsystems.

### **Investment**

Forty-three contract tendering procedures were commenced during 2015, in order to ensure the achievement of the investment plan established in the concession contract. 23 contract tendering procedures with regard to water supply were commenced and 19 contracts were signed, to a total of EUR 1.45 million. In the wastewater treatment field, 20 contract tendering procedures were commenced and 24 contracts signed for a total of EUR 1.65 million.

In 2015, the company also continued its investment plan for the Water System of the Águas do Noroeste region, launching 11 contract tendering procedures and signing 10 contracts, amounting to about EUR 3 million.

Overall, Águas do Norte invested close to EUR 40 million in water supply and wastewater treatment works contracts in 2015. EUR 10.6 million of that investment was in system infrastructure of the Águas do Noroeste region.

The highlights of 2015 were:

- In the wastewater treatment component, the conclusions of the main sewage pipe systems and WWTP of Esposende, Marinhãs, Neiva, Britelo, Ovelha, Vila Meã, Pedorido, Sardoura, Porto Antigo, Fornos and Cinfães, as well as the completion of the rehabilitation works of Areinho WWTP.
- In the water supply component, the completion of the Montesinho water reserve and implementation of the connection circuit to the existing system as well as the remodelling of França WTP, and
- The completion of the remote management system of the Minho region water supply and wastewater treatment subsystems was also one of the major goals achieved in terms of investments made.

### **Accounts**

The North Multi-municipal System results from the aggregation of four systems that were wound up on the same date (30 June 2015) as well as the companies that managed them. The assets and liabilities of the four wound up companies carried over to the new company on 30 June 2015 and, despite the fact that Águas do Norte only effectively existed from that date, from an accounting

and tax perspective, the operations of the wound up concession companies are considered to be made by the concessionaire, backdating the impact to 1 January 2015.

The opening financial statements of Águas do Norte corresponded to the arithmetic sum of the financial statements of the wound up companies, with the adjustments for the recognition of cost recovery deviations, revenue and expenditure on the construction of concession assets and adjustments in audit reserves carried out in the individual sphere of the incorporated companies. The figures shown for 2015 reflect the activity of the aggregated companies in the first six months with the aforementioned adjustments and the company's actual activity in the second half year.

Decree-Law 93/2015 introduced a significant change by considering the cost recovery deviations as a component of the financial statements of the companies. It should be noted that up to 30 June 2015, cost recovery deviations were only recognised in the consolidated financial statements of AdP SGPS.

The comparison with 2014 (pro-forma) is only made for analytical purposes. The figures shown for 2014 correspond to the simple sum of the values of the incorporated companies, with the necessary adjustments for the comparability of financial statements.

Águas do Norte ended the 2015 financial year with a net profit of EUR 13.4 million, corresponding to EUR 12.4 million of guaranteed revenue and EUR 1 million of 50% of the productivity gains obtained in the first half of the year (by Águas do Douro e Paiva).

2015 closed with a profit of EUR 13.4 million, considering cost recovery deviations.

Turnover decreased in both components compared to 2014. The reduction in water supply is due to the effect of the reduction of tariffs and the fact that minimum values were not charged. The reduction in wastewater treatment was from the effect of reduction of tariffs and the decrease of volumes treated. Turnover was restricted by the recognition of income from the construction of concession assets and cost recovery deviations.

The operating results of the Company, excluding the cost recovery deviations, show a decrease (less 74%) compared to 2014, due to the greater reduction in operating income and a higher increase in operating expenses.

Debt registered significant changes in its nature in 2015. The most significant were the increase in non-current loans (up 20%) and an increase in loans of AdP (up 52.0%), resulting in gains in financing conditions.

The matured and not yet matured debt of municipal customers and other users for services provided reached EUR 100.7 million (it was EUR 103.3 million at the end of 2014). EUR 22.1 million of that amount has matured, compared with EUR 57.5 million at the end of 2014, as a result of a huge effort to conclude payment agreements and transfer some credits to banking institutions (about EUR 40 million) without having to resort to credit from any entity belonging to the AdP Group.

## Outlook

The activity of Águas do Norte in 2016 should follow the model and the essential objectives of 2015 in all its areas of activity. It is envisaged that it will be a year marked by the consolidation of the company's activity, seeking to apply best practices throughout the area of operation the company, with benefits for workers, client municipalities, suppliers and other stakeholders.

In this context, the continued strengthening of the economic and financial sustainability of the company should be noted which, due to its scope, is a relevant factor in the sustainability of the water sector proper. The rationalisation of spending will also play an important role in the company's business activity in 2016, as will a climate of dialogue and cooperation with the municipalities involved.

2016 will also be marked by new and decisive developments in the sector, which will include, for example, studies with a view to establishing partnerships with the municipalities that want such, for the management of downstream municipal systems, a process that will receive additional impetus, by order of the government.

Maintaining the interest, commitment, involvement and dedication of all stakeholders, particularly our employees, shareholders, municipal clients and the state will decisively contribute to the success of Águas do Norte in 2016, in order to solidify the sustainability that is pursued and maintain the excellent quality of the public service that we have provided in the areas where we undertake our activity.

Nonetheless, Águas do Norte has the capacity, experience, resilience and flexibility necessary to accommodate and overcome some of the expected challenges and difficulties without reducing the quality of service that has been providing.

# Águas do Centro Litoral

## Framework

Águas do Centro Litoral, S.A. was set up by Decree-Law 92/2015 of 29 May. It is responsible for operating and managing the multi-municipal water supply and treatment system of the Centro Litoral (central coastal) region of Portugal. This constitutes an exclusive public service provided for a period of 30 years.

The multi-municipal system covers drinking water abstraction, treatment and supply and the collection, treatment and discharge of domestic effluent, mixtures of household and industrial effluent and rainwater, called urban effluent and the intake of effluent from the emptying of septic tanks that comply with the operation and service regulations on wastewater treatment in effect in the multi-municipal system, its treatment and discharge, which must be carried out regularly, continuously and efficiently.

The multi-municipal system resulted from the aggregation of the following systems:

- Multi-municipal system for water treatment of Ria de Aveiro, set up by Decree-Law 101/97 of 26 April, amended by Decree-Law 329/2000 of 22 December;
- Multi-municipal system for water treatment of Lis, set up by Decree-Law 543/99 of 13 December;
- Multi-municipal system for water supply and treatment of Baixo Mondego, set up by Decree-Law 172/2004 of 17 July.

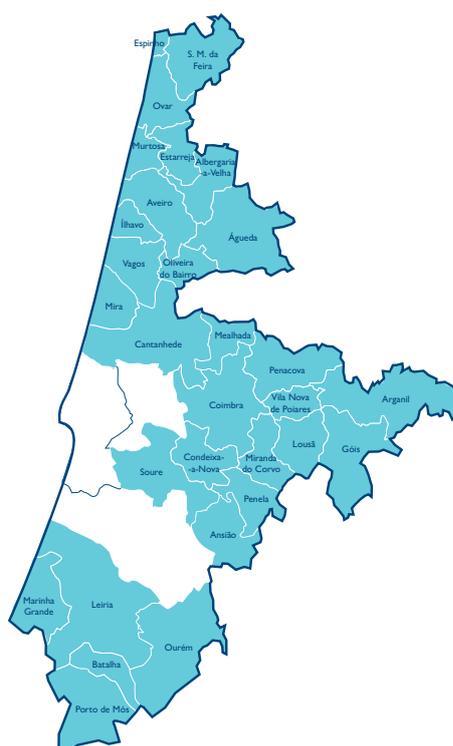
Águas do Centro Litoral took over all the rights and duties of the concession holders of the systems referred to in Article 2(2) of Decree-Law 92/2015 of 29 May, which were wound up pursuant to the said decree-law, including the holding of any permits, licences and concessions for the use of water resources and in the exercise of ancillary or complementary activities and the respective positions in all existing contracts, including employment contracts, transfer of personnel contracts, service contracts, financing agreements, contracts for the assignment and acquisition of infrastructure, infrastructure operating and maintenance contracts, without prejudice to Article 15 of Decree-Law 92/2015 of 29 May, and any supply and collection contracts concluded.

## The system

The system is used by 30 municipalities:

- 13 municipalities for water supply and wastewater treatment: Ansião, Arganil, Coimbra, Condeixa-a-Nova, Góis, Leiria, Lousã, Mealhada, Mira, Miranda do Corvo, Penacova, Penela, and Vila Nova de Poiares;
- 17 municipalities for wastewater treatment: Águeda, Albergaria-a-Velha, Aveiro, Batalha Cantanhede, Estarreja, Espinho, Ílhavo, Marinha Grande, Murtosa, Oliveira do Bairro, Ovar, Ourém, Porto de Mós, Santa Maria da Feira, Soure and Vagos.

The area covered by the system is the sum of the areas of the wound up companies, which is 5,485 km<sup>2</sup>, 6% of the area of mainland Portugal and it provides water supply services to 246,000 inhabitants and wastewater treatment services to about 734,000 inhabitants.



## Tariffs

Where prices are concerned, the concession agreement establishes the following tariff periods:

- The first period, called the transition period, is the time between the date the concession agreement was signed and the end of the corresponding calendar year – the second half of 2015;
- The second period, called the tariff convergence period, lasts 5 (five) years from the end of the transition period (2016-2020) and is intended for the progressive convergence of the prices charged in the former systems to a common tariff;
- The so-called third period is divided into 5 (five) year sub-periods between the end of the tariff convergence period and the end of the concession agreement (2021-2045).

The amounts set out, defined and estimated for the tariffs represent the minimum level at which the concession holder generates sufficient funds to meet its business commitments under the concession agreement and to pay dividends to its shareholders under the decree-law setting up the system.

In the first half of 2015, the three incorporated companies charged their customers the price that had been approved by the regulator in the 2015 Tariff Budget and Plan. In the second half, the supply system charged a single price – 0.4653 EUR/m<sup>3</sup>, already in force in the wound up Águas do Mondego, as set out in the concession agreement, while a single wastewater price of 0.5195 EUR/m<sup>3</sup> was charged, also set out in the concession agreement.

The tariffs charged in the first and second tariff periods are set out in Annex III of the concession agreement at 2015 prices, updated to the year they are charged in accordance with average annual variations of the harmonised consumer price index, which will be indicated by 31 July by the sector regulator based on the index published by the competent body.

The tariffs charged in the third tariff period are approved by the sector regulator as required by applicable law and regulations. By 30 April of the year before the start of the sub-period in which they will come into effect, the concession holder will submit a detailed price plan with a justification of the estimated income and expected operating, investment and financial costs per activity for the next five -year period.

The five-year tariff plan must revise the technical, economic and financial assumptions set out in the concession agreement. The proposed tariffs must fully cover the costs of the concession activities in a scenario of efficient production, in accordance with criteria predefined with the sector regulator.

### Staggered volumes model

The concession holder applies the staggered volumes model for billing the wastewater treatment service to municipal clients in the Ria and Lis areas.

In this situation, the tariff for the year, usually called the implicit tariff for this purpose, is calculated by dividing the annual costs and charges, determined pursuant to the provisions of the concession agreement, by the simple arithmetic average of the amounts of measured or estimated effluents for the group of municipal clients in the period corresponding to at least one of the previous 6 (six) consecutive half-years, between 1 July of the year n-4 and 30 June of the year n-1.

The billing of the service in each month and for each municipal client corresponds to one twelfth of the product of the tariff of the year by the simple arithmetic average of the accumulated volumes of measured or estimated effluents in the period, corresponding to at least one of the previous 6 (six) consecutive half-years of that client, between 1 July of the year n-4 and 30 June of the year n-1.

In the transition period, the measurement and billing method followed by each of the former multi-municipal systems was used, i.e. the staggered volumes model. In this case, it applied to the municipal users of the former multi-municipal systems under concession to Simria, S.A. and Simlis, S.A.

## Performance

### Context

Up to the end of 2015, efforts were made towards the reorganisation and rationalisation of resources, which are difficult to quantify, though they resulted in some improvements in efficiency, especially in terms of procedures and organisation.

After the geographical reorganisation, benefits arose from more efficient solutions shared with the companies that were wound up, which made it possible to use the teams' travel and mobility facilities. One example was Ansião (a municipality of former Águas do Mondego) whose infrastructures are more accessible from the Lis centres (both for AA and AR).

At the same time, we decided to undertake the geographical reorganisation of the operations centres, based on the centres at the aggregated companies with common duties and responsibilities.

As mentioned above, the aggregation process required all employees involved to adapt to the new organisational structure in terms of companies and procedures. There was a need to standardise all accounting criteria and procedures, ensuring that the entire organisation was governed by the same rules, with the consequent amendment of the usual methods of each aggregated company.

Many of the activities in the aggregation process began in the preparation period and had not yet been completed on 30 June 2015. This means that process is still under way, based at all times on the principles of sustainability.

The response to the constraints has been to ensure, with continuity and quality, the provision of the water supply and wastewater treatment services that constitute the mission and *raison d'être* of the company. The process of changing the organisational structure, both in organic terms and in terms of geographical mobility, was undertaken in an orderly and peaceful manner.

The effort to standardise common procedures and the resulting gains in efficiency are already becoming visible. The company has been able to promptly answer the requests of the different stakeholders.

### **Business activity**

The operation and management of the system began on 30 June 2015. First of all, it was necessary to implement a new organisational structure, including the new departments and workplaces. Work was done to standardise common procedures, ensuring that the entire organisation was governed by the same rules, with the consequent alteration of the usual methods at each aggregated company.

Operationally, water supply activity recorded a slight increase in volumes supplied during 2015, as a result of higher water consumption in the downstream network (end user), particularly in the municipalities of Coimbra and Condeixa-a-Nova.

There was a decrease in the volume billed as the billing of the municipality of Coimbra changed from volume supplied to minimum volume. Water not billed in the AdCL system was 3.8%, which represents an improvement on the 2014 figure.

In terms of the quality of water supplied, the compliance rate with the parametric values established by legislation was 99.92%, corresponding to "good service quality" according to ERSAR.

As regards the wastewater treatment infrastructure at AdCL, the inflows and treatment of sewage totalled 56 million m<sup>3</sup>. Sewage transportation activity is also significant. About 12 million m<sup>3</sup> of treated sewage was transported from the CELCACIA industrial unit in the Ria region.

The treatment of sewage produced 34,814 tons of dewatered sludge sent for composting, agricultural recovery and temporary storage.

The generation of electricity from biogas produced in wastewater treatment plants with co-generation represented an autonomy of 16.1%.

In 2015, AdCL adopted an energy management system in accordance with ISO 50001:2012. There are currently four plants producing electricity from their own resources (biogas) and this electricity is then sold to the grid (EDP): Cacia, Ílhavo, Espinho and Coimbra WWTPs. These facilities produced 5,371,526 kWh, which meant an income of EUR 680,000, up 15% on the 2014 figures.

The new water and wastewater management system of the coastal region performed very positively in its first six months. This result was driven, firstly, by the company's employees, whose efforts, commitment and dedication to this new utility we wish to highlight here.

Also, the good relationship with the municipalities of the region, as well as the regulator - ERSAR and licensor - services of the Ministry for Environment and Mobility, including ARH do Centro, contributed to the success and good performance of Águas do Centro Litoral in 2015.

### **Investments**

The Águas do Centro Litoral concession agreement establishes the investments to be made under the concession, with the objective of ensuring the good performance of the infrastructure, facilities and equipment necessary for the concession.

Several areas underwent intervention work in 2015, aimed at expanding or improving the operating conditions of the system.

The investment made by Águas do Centro Litoral was EUR 9.8 million in 2015, including the investment by the incorporated concession companies in the first half of 2015.

2015 was also marked by the completion of the following works:

- Installation of isolating valves at Câmara da Praia, according to DN 1600, installation of screening in the EEISII gravitational connection, renovation of the manholes of Levira main sewer pipe and renovation of the insulation of the coverage of two digesters at Cacia WWTP
- Contract for construction of main pipes and pumping systems of Semide and Foz de Arouce and Pedreira WWTP, Contract for construction of Barril do Alva, Vila Cova de Alva, Vinhó, Pomares and São Martinho da Cortiça WWTP and construction of main pipes of Barril do Alva and Vinhó, Contract for construction of the Moinhos WWTP and main pipes and Contract for construction of pipeline to Quinta Nova reservoir, all in the Mondego region
- Implementation of the final phase of the Contract for the construction of Paúl WTP (phase I), the Pressure tower and its connection to the North Sector Supply Pipe; Equipment and interconnection pipelines between bore holes L6, L7 and L10 and the Pressure Tower, as well as implementation of Amor pumping station and reservoir, which will increase the annual flow provided to Leiria municipality. The forecast increase in 2016 is 3.4 million m<sup>3</sup>.

The main constructions of new infrastructure were:

- Contract for construction of main pipes and pumping systems of Semide and Foz de Arouce and Pedreira WWTP, in the Mondego region
- Contract for construction of Barril do Alva, Vila Cova de Alva, Vinhó, Pomares and São Martinho da Cortiça WWTP and construction of main pipes of Barril do Alva and Vinhó
- Contract for construction of Moinhos main pipes and WWTP
- Contract for construction of the pipeline to Quinta Nova reservoir (EUR 960,000)

In the Ria region:

- The North Expansion contract began: Connection to Pardilhó was started, which will permit the connection of the effluent generated by the Avisabor industrial unit to the multi-municipal system, in a total amount of about EUR 0.5 million
- The installation of isolating valves at Câmara da Praia, according to DN 1600, installation of screening in the EEISI I gravitational connection, renovation of the manholes of Levira main sewer pipe and renovation of the insulation of the coverage of two digesters at Cacia WWTP, all in the Ria region

In the Lis region, the contract was for the construction of the E6.2 main pipe between Pero Neto and Trutas.

## Accounts

The Centro Litoral Multi-municipal System results from the merger of three systems that were wound up on the same date (30 June 2015) as well as the companies that managed them. The assets and liabilities of the three wound-up companies carried over to the new company on 30 June 2015 and, despite the fact that AdCL only effectively existed from that date, from an accounting and tax perspective, the operations of the wound up concession companies are considered to be made by the concessionaire, backdating the impact to 1 January 2015.

The opening financial statements of AdCL corresponded to the arithmetic sum of the financial statements of the wound up companies, with adjustments for the recognition of cost recovery deviations, revenue and expenditure on the construction of concession assets and adjustments in audit reserves carried out in the individual sphere of the incorporated companies. The figures shown for 2015 reflect the activity of the aggregated companies in the first six months with the aforementioned adjustments and the company's actual activity in the second half year.

Decree-Law 92/2015 introduced a significant change by considering the cost recovery deviations as a component of the financial statements of the companies. Up to 30 June 2015, cost recovery deviations were only recognised in the consolidated financial statements of AdP SGPS.

The comparison with 2014 (pro-forma) is only made for analytical purposes. The figures shown for 2014 correspond to the simple sum of the values of the incorporated companies that formed AdCL, with the necessary adjustments for the comparability of financial statements.

The net profit of 2015 was EUR 3.8 million, which corresponds to the guaranteed return on the shareholder capital invested, so it already incorporates the value of the cost recovery deviation that occurred in 2015 amounting to a loss of EUR 1.9 million.

Turnover was EUR 57 million, also limited by the recognition of income from the construction of concession assets (EUR 9.6 million) and by cost recovery deviations.

The operating results of the Company fell to EUR 14.6 million, a decrease of 18% compared to 2014, primarily due to an increase in operating expenses. Excluding the effect of the cost recovery deviation, this reduction would be around 29%.

Debt did not register significant changes in its nature in 2015. The most significant change was the increase in non-current loans (up 15%) at the expense of the reduction of short-term bank liabilities. Thus, the total financial liabilities of the company amounted to EUR 277.3 million on 31 December 2015, 0.3% lower than in 2014.

The matured and not yet matured debt of municipal clients and other customers was EUR 39.3 million (it was EUR 35.1 million at the end of 2014). The increase in this balance is primarily due to non-payment by Coimbra municipality. Despite the above, current billing payment obligations and signed payment agreements have been complied with. It should be noted that there is a commitment carried over from the former Simria company, which provides for the settlement of the amount of EUR 15.7 million, through the offsetting of accounts.

## Outlook

The continuous search for the best practices of the previous companies, in order to implement the new organisation, has allowed a response, at least in part, to the requirements it faces as part of its mission.

The creation of the company in June 2015 envisages that 2016 will be a year marked by the consolidation of its activity, seeking to apply best practices throughout its area of operation, with benefits for workers, client municipalities, suppliers and other stakeholders.

The rationalisation of spending will also play an important role in the company's business activity in 2016, as will a climate of dialogue and cooperation with the municipalities involved. In this context the company has been analysing in detail with all the municipalities several problems related to investment and debt collection. It is considered, based on the joint path that has been built, that most of the outstanding issues can be solved in view of the potential that naturally arises when the reshaping of companies takes place, as is the case stemming from a merger like this one.

2016 will also be marked by new, decisive developments in the sector, which will include, for example, studies with a view to establishing partnerships with the municipalities that wish to do so, for the management of downstream municipal systems, a process that will receive additional impetus, by order of the government.

## Águas de Lisboa e Vale do Tejo

### Framework

Águas de Lisboa e Vale do Tejo, S.A. was set up by Decree-Law 94/2015 of 29 May. It is responsible for operating and managing the multi-municipal water supply and treatment system of the Lisboa e Vale do Tejo (Lisbon and Tagus Valley) region of Portugal. The concession was granted for a period of 30 years and constitutes an exclusive public service.

The system covers drinking water abstraction, treatment and supply and the collection, treatment and discharge of domestic effluent, mixtures of household and industrial effluent and rainwater, called urban effluent and the intake of effluent from the emptying of septic tanks that comply with the operation and service regulations on wastewater treatment in effect in the multi-municipal system, its treatment and discharge, which must be carried out regularly, continuously and efficiently.

The system results from the merger of eight multi-municipal systems, which were wound up on the day of incorporation into the new system. Those systems were:

- Multi-municipal system for water supply and wastewater treatment of Norte Alentejano, set up by Decree-Law 128/2000 of 6 July
- Multi-municipal system for water supply and wastewater treatment of Alto Zêzere e Côa, set up by Decree-Law 121/2000 of 4 July
- Multi-municipal system for water treatment of Costa do Estoril, set up by Decree-Law 142/1995 of 14 June
- Multi-municipal system for wastewater treatment of the Setúbal peninsula, set up by Decree-Law 286/2003 of 8 November
- Multi-municipal system for wastewater treatment of Tejo e Trancão, set up by Decree-Law 288-A/2001 of 10 November
- Multi-municipal system for water supply and wastewater treatment of Raia, Zêzere and Nabão, set up by Decree-Law 197-A/2001 of 30 June
- Multi-municipal system for water supply and wastewater treatment of Oeste, set up by Decree-Law 305-A/2000 of 24 November
- Multi-municipal system for water supply and wastewater treatment of Centro Alentejo, set up by Decree-Law 130/2002 of 11 May.

The management of the system was delegated to EPAL pursuant to the Decree-Law incorporating the company. EPAL also commits to, under the delegated management of the system, the management of the infrastructure assigned to the system in forms that allow its operation pursuant to applicable law and the concession agreement.

Furthermore, EPAL also took on the contractual position of LVT in employment contracts and personnel transfer agreements, by including them in the organisational structure of EPAL, for the duration of delegated management. Hence, as at 31 December 2015, Águas de Lisboa e Vale do Tejo (LVT) had no employees.

Based on Clause 1 (2) of the concession agreement, Águas de Lisboa e Vale do Tejo, S.A. took over all the rights and duties of the concession holders of the systems referred to in Article 2 (2) of Decree-Law 94/2015 of 29 May.

## The system

The system is used by 86 municipalities:

- 70 municipalities in water supply and wastewater treatment: Aguiar da Beira, Alandroal, Alcobaca, Alenquer, Almeida, Alter do Chão, Alvaiázere, Arronches, Arruda dos Vinhos, Avis, Azambuja, Belmonte, Bombarral, Borba, Caldas da Rainha, Campo Maior, Castanheira de Pêra, Castelo Branco, Castelo de Vide, Celorico da Beira, Cadaval, Crato, Entroncamento, Elvas, Évora, Ferreira do Zêzere, Figueira de Castelo Rodrigo, Figueiró dos Vinhos, Fornos de Algodres, Fronteira, Fundão, Gavião, Gouveia, Guarda, Idanha-a-Nova, Lourinhã, Mação, Mafra, Manteigas, Marvão, Mêda, Monforte, Mourão, Nazaré, Nisa, Óbidos, Oleiros, Oliveira do Hospital, Pampilhosa da Serra, Pedrógão Grande, Penamacor, Peniche, Pinhel, Ponte de Sor, Portalegre, Portel, Proença-a-Nova, Redondo, Reguengos, Rio Maior, Sabugal, Sardoal, Seia, Sousel, Sertã, Sobral de Monte Agraço, Tomar, Torres Vedras, Vila Nova da Barquinha and Vila Velha de Ródão
- 16 municipalities for wastewater treatment: Alcochete, Amadora, Barreiro, Cascais, Lisboa, Loures, Moita, Montijo, Odivelas, Oeiras, Palmela, Seixal, Sesimbra, Setúbal, Sintra and Vila Franca de Xira
- One of the system's customers for wastewater treatment is Setúbal municipality. It became a customer the day after the termination of the concession agreement signed on 24 November 1997 for the operation of the system for the abstraction, treatment and distribution of water for public consumption and system for the collection, treatment and disposal of effluent of Setúbal municipality or from the date on which, by modification of the contract, it is possible for the municipality to fully exercise the rights and fulfil the obligations arising from its capacity as a customer of the system.



The multi-municipal system covers an area of around 1/3 of the total area of mainland Portugal and supplies water to approximately 900,000 people and treats the wastewater of about 3.2 million inhabitants.

## Tariffs

The concession agreement establishes the following tariff periods:

- The first period, called the transition period, is the time between the date the concession agreement comes into effect and the end of the corresponding calendar year – the second half of 2015;
- The second period, called the tariff convergence period, lasts five years from the end of the transition period and intended for the progressive convergence of the prices charged in the former systems to a common tariff – 2016 to 2020;
- The third period is divided into five-year sub-periods between the end of the tariff convergence period and the end of the concession agreement – after 2020.

The amounts set out, defined and estimated for the tariffs represent the minimum level at which the concession holder generates sufficient funds to meet its business commitments under the concession agreement and to pay dividends to its shareholders under the decree-law setting up the system.

In the first half of 2015, the eight companies merged into LVT charged their customers the price that had been approved by the regulator in the 2015 Tariff Budget and Plan. In the second half, the LVT supply system charged a single price – 0.5696 EUR/m<sup>3</sup>, as envisaged in the LVT concession agreement, while in terms of wastewater the prices charged by the wound up Sanest and Simtejo to their customers were maintained and all others were set at 0.5107 EUR/m<sup>3</sup>, as established in the concession agreement.

The tariffs charged in the first and second tariff periods are set out in Annex III of the concession agreement at 2015 prices, updated to the year they are charged in accordance with average annual variations of the harmonised consumer price index, which will be indicated by 31 July by the sector regulator based on the index published by the competent body.

The tariffs charged in the third tariff period are approved by the sector regulator as required by applicable law and regulations. By 30 April of the year before the start of the sub-period in which they will come into effect, the concession holder will submit a duly justified and detailed price plan per activity for the next 5 (five) year period.

The five-year tariff plan must revise the technical, economic and financial assumptions set out in the concession agreement. The proposed tariffs must fully cover the costs of the concession activities in a scenario of efficient production, in accordance with criteria predefined with the sector regulator.

## Performance

### Context

The merged companies developed their current and normal business activity up to 29 June 2015, the date on which their business activity terminated and they were incorporated into the LVT company. The business activity of the 1st half-year was naturally impacted by the preparations for the merger process that had been envisaged from the beginning of the year, as all the companies conducted their business with the aim of closing the accounts.

The response to the constraints has been to ensure, with continuity and quality, the provision of the water supply and wastewater treatment services that constitute the mission and *raison d'être* of the company. The process of changing the organisational structure, both in organic terms and in terms of geographical mobility, was undertaken in an orderly and peaceful manner.

The effort to standardise common procedures and the resulting gains in efficiency are already becoming visible. The implementation of the production reorganisation processes and streamlining of resources have already achieved savings in operating costs which were not forecast in the studies.

Moreover, benefiting from the joint EPAL / LVT management, there were advantages gained from the know-how existing in EPAL and also the sharing of more efficient technical solutions implemented in the wound up companies.

The work has produced obvious results, the most significant of which are the reduction in bank debt by 8.8%, i.e. about EUR 77.8 million, and net debt by EUR 47.3 million (-5.6%), in addition to settling outstanding litigation with municipalities and the reaching of some payment arrangements.

The company has been able to promptly respond to the requests of the different stakeholders.

## Business activity

The establishment and implementation of this new system and the LVT company, in which eight multi-municipal systems were incorporated, involved the administrations and workers of the merged companies and EPAL.

The start of the operation and management of the system was on 30 June 2015. The highlights are the activities related to the implementation of the new organisational structure, a sole one for EPAL and LVT, and the placement of workers in the new organisational areas and new workplaces, a process that was done in stages, especially between July and September.

Taking on the operation of the water supply and wastewater treatment systems of the eight incorporated companies at the start of July deserves, due to the size and complexity of the task, special attention.

In relation to water supply, the volume of water entering the system in 2015 was 81.2 million m<sup>3</sup>, 54.6 million m<sup>3</sup> of which refer to own abstractions and 26.6 million m<sup>3</sup> relate to water acquired from other operators. The volume billed to customers was 78.3 million m<sup>3</sup>.

In terms of quality of water, with control ensured by compliance with the PCQA - Water Quality Control Plan in the LVT Supply System, more than 6,000 water samples were collected and about 88,000 determinations of parameters made. In terms of the quality of water supplied/distributed to the utilities, there was a total of 15 non-compliances in a total of 15,466 determinations of parameters, showing a good performance with a compliance rate of 99.9%.

In wastewater treatment, the volume of sewage billed to customers was 244.0 million m<sup>3</sup>. Águas de Lisboa e Vale do Tejo treated 239.8 million m<sup>3</sup> of wastewater in its facilities, which is a daily average of 657,000 m<sup>3</sup>. The volume billed to customers was 241.1 million m<sup>3</sup>.

In terms of sewage quality, Lisboa e Vale do Tejo has several laboratories for its wastewater treatment business. In addition to the two laboratory units accredited by IPAC - Beirolas and Frielas – it also has process laboratories. The scope of accreditation of Beirolas and Frielas Laboratories is chemistry and microbiology testing of wastewater and sludge. The population served with satisfactory treatment reached 3,167,563 equivalent inhabitants, corresponding to 97% of the total.

The merger of the eight companies gave LVT an interesting dimension in terms of customers, with 86 client municipalities and 70 of these are simultaneously customers of the water supply service and the wastewater treatment service. The billing to customers during 2015 exceeded EUR 188 million and revenue amounted to EUR 216 million.

The effort in this regard to standardise all procedures common to LVT is also to be highlighted, ensuring that the entire organisation was governed by the same rules, with the consequent amendment of the usual methods of each incorporated company. Concurrently, where applicable, and since the management and organisational structure is joint, the procedures were also aligned between LVT and EPAL, particularly in terms of delegation of powers, and financial, administrative and logistics processes.

## Investments

The Águas de Lisboa e Vale do Tejo concession agreement establishes the investments to be made under the concession, with the objective of ensuring the infrastructure, facilities and equipment necessary for the concession.

In terms of implementation of the planned investments, the challenge focused, right away on the priority interventions aimed at ensuring legal compliance, completion of subsystems or repair works necessary to meet supply problems. In the medium term, the goal is to adapt the systems to the demand conditions, in order to achieve an efficiency scenario to cover the fixed costs and remunerate the capital employed while maintaining excellent levels of service to customers at reasonable prices.

The investment made by Águas de Lisboa e Vale do Tejo was EUR 37.0 million in 2015, including the investment in the first half of 2015 by the concession companies incorporated in LVT.

About EUR 23.8 million were invested in wastewater treatment activity and approximately EUR 12.8 million in the supply activity. The main contributors to the investment value implemented in 2015 were:

- Completion of Water Supply to the municipality of Mação;
- Water Supply to the municipality of Sardoal;
- Water Supply to the municipality of Mação – Sistema do Brejo;
- Duplication of Falagueira brook;
- Improvements to the pumping systems of the Alcântara-Phase I subsystem;
- Improvements to the Qta das Drogas pumping station.

## Accounts

The Lisboa e Vale do Tejo water supply and wastewater treatment multi-municipal system results from the merger of eight systems that were wound up on the same date (30 June 2015), as well as the companies that managed them. The assets and liabilities of the eight wound-up companies carried over to the new company on 30 June 2015 and, despite the fact that LVT only effectively existed from that date, from an accounting and tax perspective, the operations of the wound up concession companies are considered to be made by the concessionaire, backdating the impact to 1 January 2015.

The opening financial statements of LVT corresponded to the arithmetic sum of the financial statements of the wound up companies, with adjustments for the recognition of cost recovery deviations, revenue and expenditure on the construction of concession assets and adjustments in audit reserves carried out in the individual sphere of the incorporated companies. The figures shown for 2015 reflect the activity of the eight merged companies in the first six months with the aforementioned adjustments and the actual activity of LVT in the second half year.

Decree-Law 94/2015 introduced a significant change by considering the cost recovery deviations as a component of the financial statements of the companies. It should be noted that up to 30 June 2015, cost recovery deviations were only recognised in the consolidated financial statements of AdP SGPS.

The comparison with 2014 (pro-forma) is only made for analytical purposes. The figures shown for 2014 correspond to the simple sum of the values of the incorporated companies that formed LVT, with the necessary adjustments for the comparability of financial statements.

The net profit of 2015 was EUR 15.1 million, which corresponds to the guaranteed return on the shareholder capital invested, so it already incorporates the value of the cost recovery deviation.

Turnover was EUR 241,8 million, which represents an increase of EUR 19.8 million compared to the figure of 2014 (EUR 222.0 million), very limited by the recognition of income from the construction of concession assets and by cost recovery deviations.

Total expenditure amounted to EUR 245.0 million, which includes EUR 34.1 million for spending on the construction of concession assets. Total expenditures are however influenced by an extraordinary factor, recognition during the 1st half of impairment losses. These losses amount to EUR 20.6 million, a decisive contributor to which was the establishment of an impairment in the amount of EUR 19.6 million as a result of the signing of a Memorandum of Understanding between the Águas de Portugal and the former company Águas do Zêzere e Côa and the municipalities that were part of that system. This agreement provides for a downward revision of tariffs and billed in previous years and compensatory interest.

Expenditure on governing bodies and staff amounted to EUR 22.9 million which cover the expenses of the 1st half of the merged companies and in the 2nd half the amount related to the allocation of expenses incurred with the workers of EPAL directly assigned to LVT under the existing delegated management scheme.

Debt sharply contracted in 2015, more than EUR 74.0 million, resulting on the one hand from the receipt of signed customer agreements, and on the other by using the cash surpluses existing in some of the merged companies.

A significant reduction in customer accounts was recorded during 2015, even excluding the effect of the impairments generated. Matured debt decreased by around EUR 29.3 million (-16.2%) compared to 2014, and debt not yet matured decreased about EUR 3.3 million (-5.9%). Total debt decreased by EUR 32.6 million, which is a variation of -13.7%.

## Outlook

The creation of the Águas de Lisboa e Vale do Tejo company in June 2015 envisages that 2016 will be a year marked by the consolidation of the company's activity, seeking to apply best practices throughout the area of operation of the company, with benefits for workers, client municipalities, suppliers and other stakeholders.

In this context, the continued strengthening of the economic and financial sustainability of the company should be noted which, due to its scope, is a relevant factor in the sustainability of the water sector proper. The streamlining of spending will also play an important role in the company's business activity in 2016, as will a climate of dialogue and cooperation with the municipalities involved.

Since the management of the multi-municipal system of LVT was legally entrusted in EPAL, the space for dialogue, understanding and cooperation between the company and the municipalities served by it has been especially expanded and strengthened. The results achieved in this area in the first six months of activity already foresee the improvement of the relationship and the solution of inherited situations and differences.

2016 will also be marked by new and decisive developments in the sector, which will include, for example, studies with a view to establishing partnerships with the municipalities that want such, for the management of downstream municipal systems, a process that will receive additional impetus, by order of the government.

## AdRA - Águas da Região de Aveiro

### Framework

AdRA - Águas da Região de Aveiro, S.A. is a publicly owned limited company set up under Decree-Law No. 90/2009 of 9 April, which made a new model of management of public services of water supply and wastewater treatment possible, permitting a model of delegated management based on a partnership between the State and Local Authorities.

This new model of management enables territorial integration of municipal systems in order to maximise economies of scale and the integration of the public water supply and urban wastewater treatment systems in order to maximise economies of scope.

The partnership agreement was signed on 29 July 2009 between the Portuguese State and the municipalities of Águeda, Albergaria-a-Velha, Aveiro, Estarreja, Ílhavo, Murtosa, Oliveira do Bairro, Sever do Vouga and Vagos, and on 23 September AdRA - Águas da Região de Aveiro, S.A. is established and its articles of association and the shareholder agreement between the shareholders, AdP SGPS and municipalities are also agreed on that date.

The Company was incorporated with a share capital of EUR 15 million, already fully paid up, which is 51% owned by the company AdP SGPS and 49% by the member municipalities.

AdRA - Águas da Região de Aveiro, S.A. started its operations on 1 May 2010. During the year the municipality of Ovar also joined the partnership, on 30 June.

### The system

The integration of Ovar municipality on 1 January 2011 meant that AdRA, S.A. then managed the water and wastewater services of 10 municipalities: Águeda, Albergaria-a-Velha, Aveiro, Estarreja, Ílhavo, Murtosa, Oliveira do Bairro, Ovar, Sever do Vouga and Vagos covering a geographical area of 1,500 km<sup>2</sup> and a population of about 335,000 inhabitants.

The water supply network consists of the distribution system with about 3961 kilometres of network and pipelines and the mains pipeline system that includes 84 pumping stations, 91 reservoirs consisting of supported, elevated and underground structures, 63 water treatment systems, 77 own abstraction wells, 25 delivery points of the Association of Municipalities of Carvoeiro and 9 delivery points of Águas do Douro e Paiva. The wastewater drainage system consists of about 2401 km of network of mains sewage pipes; 235 km of pressurized wastewater drainage network; and 481 pumping stations. The outflow of these is done to the SIMRIA system, currently Águas do Centro Litoral and to its 7 own WWTPs.



### Tariffs

Pursuant to the provisions of clause 14 of the management contract concluded on 23 September 2009, the tariff structure of water supply and urban wastewater treatment services comprises:

- A fixed component of the tariff of water or wastewater services corresponding to a value applied according to each time interval, which aims to recover the costs incurred with the provision of services to the customers and comprises several brackets. This fixed component includes spending on the implementation of branch lines to homes of the water supply and wastewater collection systems and connection costs to buildings' systems, as long as the branch lines are no longer than 20 metres.
- A variable component of the tariff, which is the applicable unit value depending on the level of use of the service, at each time interval, aiming to recover costs incurred and not recovered through the fixed component of the tariff, and comprising various brackets.

The average tariffs for the first tariff period are listed in Annex IV to the Partnership Agreement and are subject to update by the relevant corporate bodies, pursuant to paragraph 2 of clause 16, without prejudice to the provisions of paragraph 2 of clause 7 of the contract.

The tariffs for the subsequent tariff periods are reviewed every five years, taking into account the principles set out in clause 16 of the Partnership Agreement and the basic assumptions of the economic and financial feasibility study (EVEF). The reformulation of this study is then undertaken, pursuant to paragraph 2 of clause 7 of the referred contract, and it is subsequently sent to the Partnership Committee for approval.

## Performance

### Context

AdRA, basing its intervention on a constant concern for efficiency and effectiveness, maintained the strategy of commitment to the promotion of a quality service for the community. It assumes the ongoing responsibility to ensure the public supply of water and wastewater services, essential to the quality of life, as well as working conditions appropriate to its employees and inter-relations with the surrounding environment and natural resources and all stakeholders.

The results over the five years of existence of AdRA are very positive, in terms of quality and the level of service provided, and in terms of consolidation of the improvement of internal processes, taking the responsibility to meet the expectations of our customers, partners and society in general. The results achieved are the result of the work done over this period. The application of Lean philosophy in AdRA allows it to do more for less, using continuous improvement measures in its activity that maximise the efficiency and effectiveness of the use of existing resources, through the development of people, processes and systems, culminating in the creation of value for the stakeholders.

2015 was another year of upwards trends in the business, verifying a significant increase in the number of customers and a strengthening of social responsibility and environmental policies. Energy certification according to NP EN ISO 50001:2012 was obtained, and a campaign was organised with the Banco Alimentar Contra a Fome food bank which involved merging the business objectives (our customers' data update) with the values of solidarity and sharing.

### Business activity

2015, in terms of customers, was marked as a year of completion of expansion of new wastewater networks in the municipalities of Águeda, Ílhavo and Ovar. Following the completion of the works, AdRA launched a notification campaign to its water customers for them to connect to the wastewater network to take advantage of the new service available.

9,119 new wastewater customers were achieved in 2015, compared to 2014, as a result of the investment and the campaign.

The water customers registered an increase of 944 new contracts from the previous year as a result of the survey and notification made of "vacant sites" during the campaign to notify wastewater customers. In other words, while AdRA was performing the notification campaign of wastewater customers, it identified sites where consumers were connected to available water networks but no customers were registered, and so it informed them of the obligation to connect to the two networks now available.

In the customer service area, and giving priority to the relationship with the customer, AdRA renewed the certification process of its customer service locations, which allowed it to keep the LAC title (leader in serving the customer).

AdRA made available to multichannel customers in 2015 an alerts service via SMS in order to further increase its proximity to the customer, with the aim of improving the services. This SMS service was to alert these customers of the pay-by date of their bill or any notice to disconnect them from the network.

In the complaints area, the continued efforts to improve the service and consequent reduction of written complaints led to a decrease of around 12.8% compared with 2014. It also continued to meet the deadline for answering all customer complaints within 22 business days. 12,396 written processes were handled in 2015, all of which were answered in a maximum time of 22 days.

Payments' collection continued to be a priority of AdRA. Some debt of previous years managed to be recovered. The collection rate reached 101.9%.

The following initiatives / projects in 2015 with great impact on the success of the business are to be highlighted:

- **Campaign for mass replacement of meters**

A campaign for the mass replacement of meters began during 2015, with the aim of renewing the entire stock of micro-measurement facilities of AdRA. This campaign is expected to extend over four years. This campaign has two aspects, one which is to reinforce the

resources for the replacement of meters over the entire area of AdRA and the other to contract a service for the renewal of facilities and replacement of meters in the area of Aveiro municipality.

Over 22,000 meters were replaced in 2015. This value is greater than the required renewal rate for the stock of meters to ensure it remains within the parameters established by law. The replacements were made in certain preselected areas in order to enable monitoring of the future evolution of water consumption in areas where the renovation of the meters was carried out.

Simultaneously, a computer application was internally developed to monitor the consumption of customers whose meter had been replaced. This will allow the assessment of the future impact of the campaign to be carried out and will also be an aid for managing the choice of future areas for intervention.

#### • Loss and Leakage Control Unit (UCPI)

AdRA continued in 2015 with its plan for the zoning and compartmentalization of the water distribution network. This process, which has been ongoing since 2012 is very important for the operation and maintenance of the water distribution network. It is an excellent management aid, helping to address the issues raised by the large scale and spread of the infrastructure managed by AdRA.

This year, through the systematic application of several appropriate methods for the early detection of water losses, it was possible to proactively detect 526 leakages in the water network corresponding to almost 12% of leaks repaired in the area of AdRA during the year. The repair of these leaks allowed the recovery of about 750,000 m<sup>3</sup>.

### Investments

In the first five years since the establishment of the company, the investments planned for the 1st phase have been completed, totalling EUR 58.5 million.

This five-year period was marked by constraints resulting from Ordinance No. 155/2011 of 28 April, of the Minister of State and Finance, by which the company is still bound. Only in the second half of 2012 was the resumption of public consultation procedures authorised for the undertaking of investments. This decision, exogenous to the company, forced a rescheduling of its entire investment plan envisaged in the Activities and Investment Plan (PAI).

The financing agreements for the five applications approved under the NSRF / Operational Programme for Territorial Enhancement (POVT), were concluded in 2015. The value of the investment grants applied for was EUR 43.8 million and the funding was EUR 27 million.

The value of the investment in 2015 was EUR 9.26 million, lower than expected, since under the rescheduling the beginning of the 2nd phase of investments was established for this year, which did not occur due to the delay in the opening of applications to Portugal2020 under the Operational Plan for Sustainability and Efficiency in Use of Resources (POSEUR), for the measure relating to the Urban Water Cycle – Water Supply and Wastewater Treatment Projects. The investment in 2015 was also limited by the unforeseen situations of the public tender procedure for the construction of the Sul WWTP in Sever do Vouga, which resulted in delaying the start of work to 2016.

The process of renovation and rehabilitation of existing infrastructure continued, with the objectives linked to the reduction in the volume of losses in the water supply distribution systems, reduction of uncontrolled inflows to wastewater drainage systems and improving energy efficiency. In 2015, an investment of EUR 0.7 million was made in the renovation of the water supply network.

### Accounts

Revenue from the water activity was more significant than that of the wastewater activity (service coverage and the number of customers is higher), despite increased investment in the wastewater service in recent years. The variable components of each business area are more significant than the fixed ones. Water supply accounts for about 46% of turnover; wastewater for 36% and construction services 17%, while the remaining services account for 1%, referring to various services associated with the business activity.

Net profit for the year was positive EUR 0.851 million and the cost recovery deviation recorded a surplus of EUR 2.6 million, which allowed the accumulated deficit to be reduced to EUR 2.4 million.

Operating cash flow (EBITDA) reached EUR 10.6 million in 2015, which represents an increase of 11% on the previous year. The EBITDA margin reached 19.3%, a decrease of 2.63 percentage points compared to 2014.

Despite the significant share of the value of depreciation in the operating cost structure (17%), operating income (without cost recovery deviation) amounts to EUR 3.3 million positive, 20% more than the previous year.

Turnover was EUR 55 million in 2015. This amount includes income related to construction services accounted for in accordance with IFRIC 12, amounting to EUR 9.3 million.

AdRA had a short-term debt at the end of 2015 in the amount of EUR 37.3 million with commercial banking institutions (EUR 36.9 million) and with EIB (EUR 0.4 million); medium and long term debt amounted to EUR 28.9 million, obtained from AdP, in the form of shareholder loans (EUR 13.3 million), EIB (EUR 10.6 million) and commercial banking institutions (EUR 5 million).

Financing was mainly to meet the advances on remuneration to municipalities and to meet investment requirements.

## Outlook 2016

It was concluded in relation to 2016, after having reviewed the Strategy Map - Balanced Scorecard (BSC), that the main strategic objectives of the company are to be maintained, only reinforcing the need for the integration in AdRA of a culture of the AdP Group, translating into obtaining mutual efficiencies at the level of the Group companies, from which AdRA shall also benefit.

Thus, it is the main objective of the company during 2016 to continue on the path of improving its efficiency and to capitalise on the positive effects of Lean philosophy, embodying the matrix of values that make up the Strategy Map.

The Daily Kaizen project will continue in the Operation and Maintenance department in 2016, as well as the implementation in the Customer department, in order to consolidate it and internalize it into the company culture.

In terms of spending, 2016 will continue to be predominantly marked by a strong and continued policy of containment of operating expenses, despite increased infrastructure from the investments made and finalised in the meantime (1st phase).

The first five-year review of the EVEF is intended to be completed in 2016, which envisages the AdRA business for the forthcoming years and which will consolidate the trend of economic sustainability of the company, continuing the recovery of the accumulated tariff deficit, which has been gradually recovered over the last three years (2013-2015).

An increase in the renovation of the water supply networks is expected with regard to investment, in order to decrease volume loss, the rehabilitation of pumping systems and reserve stations, and to ensure more efficient operations.

In 2016, AdRA will continue its investment in the renewal of the stock of meters, in the remote management system and in the expansion of the measurement and control areas.

## EPAL

### Framework

EPAL - Empresa Portuguesa das Águas Livres, S.A., is a state-owned public limited company that was originally founded in 1868 as CAL - Companhia das Águas de Lisboa. It has been 100% owned by AdP-Águas de Portugal, SGPS since 1993. EPAL is governed by Decree-Law 230/91, of 21 June, and by its Articles of Association, attached to this law. The qualification of consumers is established in Ordinance No. 6-A/92.

Changes in the legislative and organisational framework occurred in 2015, which significantly affected the activity of EPAL. Firstly, as regards the EPAL Mission, which now includes the management and operation of delegated multi-municipal water and wastewater systems of Lisboa e Vale do Tejo.

Following Decree-Law No 94/2015 of 29 May, EPAL began to manage, from 30 June 2015, in addition to its own supply system, the multi-municipal water and wastewater systems of Lisboa e Vale do Tejo (LVT), which covers the wound up multi-municipal systems of Sanest, Simtejo, Simarsul, Águas do Centro, Águas do Zêzere e Côa, Águas do Centro Alentejo, Águas do Norte Alentejano and Águas do Oeste. Overall, EPAL became responsible for the management of upstream systems covering 95 municipalities and 36% of the national population.

Under the delegated management of this system (LVT), EPAL not only took over the management of the infrastructure assigned to the LVT system, but also all other obligations inherent to system management.

EPAL also took on the contractual position of LVT in employment contracts and personnel transfer agreements, in other words the employees of the LVT company were integrated into the organisational structure of EPAL, for the duration of the delegated management.

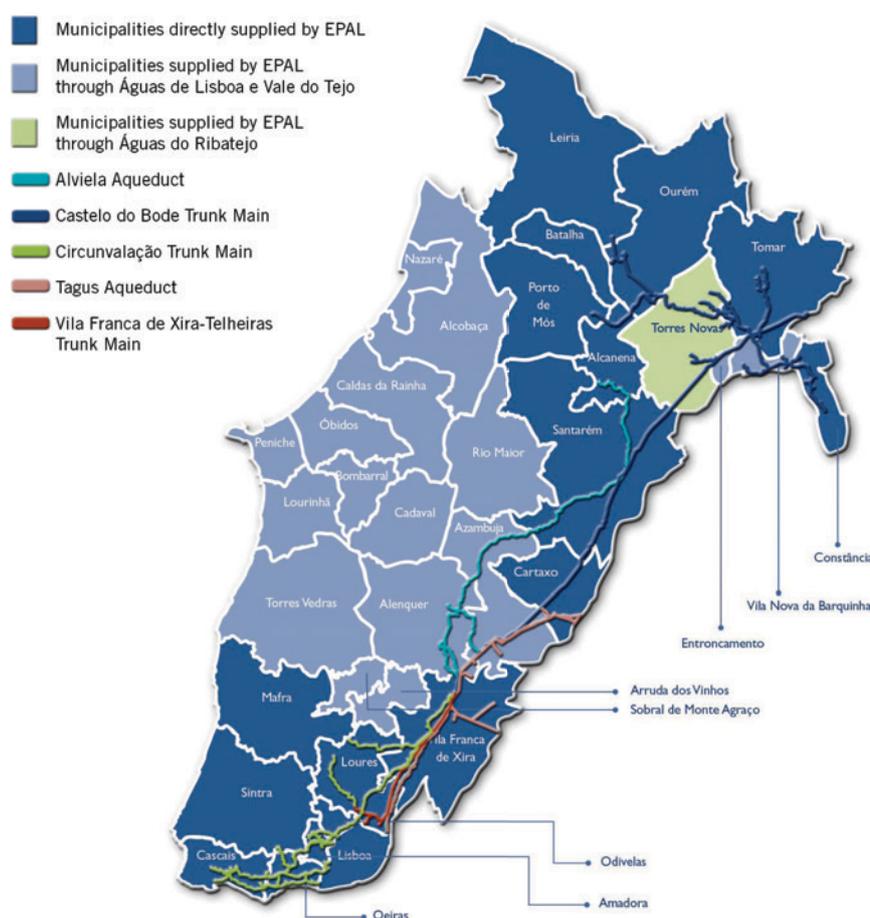
Having regard to the referred management duties, delegated to EPAL and the transfer of the LVT employees to EPAL, it was necessary to implement a new organisational structure, which reflects the joint management.

Although there is only one organisational structure, and bearing in mind that the assumption by EPAL of the management of the LVT system gives rise to the repayment by LVT to EPAL of the costs actually incurred by EPAL with the management of the system, without any associated profit margin, it was necessary to reformulate the analytical accounting system of EPAL, to ensure the segregation of the LVT system management activity from the other activities carried out by EPAL: upstream water supply (production and transport) and downstream water supply in Lisbon municipality (distribution).

## The system

Following Decree-Law No 94/2015 which delegated to EPAL the management of the LVT system, EPAL began to manage, from 30 June 2015, in addition to its own supply system, the multi-municipal water and wastewater systems of Lisboa e Vale do Tejo (LVT).

In relation to the management of EPAL's own system, it is directly or indirectly responsible for the upstream supply to 34 municipalities on the north banks of the River Tagus and for domestic distribution in the municipality of Lisbon, where it has around 350,000 direct customers. All together it covers around 2.9 million people, who represent more than 1/4 of the Portuguese population. Outside Lisbon municipality, the water is supplied to municipal and multi-municipal management companies that distribute water to end users.



EPAL uses the following sources for extracting water:

- Castelo do Bode Reservoir
- River Tagus
- Alenquer, Lezírias and OTA wells

### Supply system:

#### Production and transport:

- 2 treatment stations
- 695 km of mains pipelines
- 31 pumping stations
- 28 reservoirs with a capacity of 370,000 m<sup>3</sup>
- 125 delivery points

#### Distribution:

- 1,448 km of distribution network
- 101,000 trunk mains
- 10 pumping stations
- 14 reservoirs with a capacity of 441,000 m<sup>3</sup>
- 4 Altimetric zones

In terms of the multi-municipal water supply and wastewater treatment system of Lisboa e Vale do Tejo (LVT), EPAL ensures the management of the water supply and/or wastewater treatment services that were provided by the now wound up multi-municipal systems. The LVT system has more than 1,300 water supply infrastructure objects and about 3,800 km of main pipelines. The

wastewater system has about 1,200 facilities and over 2,200 km main sewers and outfalls. It is estimated that the resident population covered by the LVT system is 1.1 million in the water supply activity and 3.7 million people in the wastewater treatment activity.

## Tariffs

The activity of EPAL comprises two distinct activities: the upstream supply of water to utility companies and the downstream supply of water to end users in the municipality of Lisbon. There is a separate tariff for each of these activities.

In terms of tariff structure, the upstream tariff comprises only a variable component based on the volume consumed, while the downstream tariff includes, besides the variable component, a monthly fixed component known in EPAL as the "service fee".

The responsibility for the economic regulation of EPAL in terms of tariffs was transferred from the State (the tariffs were defined by the Convention concluded between the State, represented by the Directorate General of Economic Activities, and EPAL. The tariff then requires the joint ratification of the Ministries of Environment and Economy) to ERSAR. According to the new wording of paragraph 1 of Article 10 of Decree-Law 230/91, ERSAR is responsible for the behavioural regulation of EPAL in economic matters and the tariff regulations provided for in the articles of association of ERSAR.

It is noted that the tariffs levied by EPAL in the tariff convergence period (2016-2020), as well as the EPAL 2015 tariff are set out in Annexes IV and V of Decree-Law No 94/2015, at 2015 constant prices.

It should be noted that in relation to the upstream EPAL tariff, stated in Annex IV of Decree-Law No 94/2015, an "additional tariff component" is added to the base tariffs levied by EPAL. Likewise, the tariffs levied by EPAL to (downstream) end users include the impact of the upstream price, including that "additional tariff component".

It should also be noted that the downstream EPAL tariff rates has available, since 2013, a social tariff aimed at the poorest households, which provides discounts that can reach up to 94%, as well as a Family Water Rate, since 2012, for households with 5 or more persons.

## Performance

### Context

In terms of strategic guidelines, the policy of pressurisation continued aimed at reducing costs and increasing production efficiency. Of note in this regard was the effort to optimise the investment policy in a perspective of streamlining the capital employed and minimising operating costs, maintaining excellent levels of service to customers at reasonable prices.

The results achieved, in economic, financial, operational and customer service terms are the proof of this focus on efficiency and the optimisation measures. The management objectives set were met and exceeded. Economic performance in 2015 was extremely positive. The accounting result achieved, purging non-recurring effects of other years, is the best ever result of the Company over its lifetime. The water loss in the Lisbon distribution network maintains an international level of excellence.

Taking on the operation of the water supply and wastewater treatment systems of the eight incorporated companies at the start of July deserves, due to the size and complexity of the task, special attention. This operational incorporation implied functional adaptations with the redistribution of responsibilities between departments (since the same responsibility was assigned to different areas in the former companies). Notwithstanding this work to promote operational consistency previously divided among several companies, it was possible to create, of course, some synergies and promote some optimisation programmes. Such optimisation also occurred in terms of the management of human resources. Slight adjustments were made to the form of the structures to be able to better provide an operational response.

The effort to standardise all procedures common to LVT is also to be highlighted, ensuring that the entire organisation is governed by the same rules, with the consequent amendment of the usual methods of each incorporated company. Concurrently, where applicable, and since the management and organisational structure is joint, the procedures were also aligned at various levels.

### Business activity

2015 was marked by one Main Event: the delegation to EPAL of the management of the multi-municipal water supply and wastewater treatment system of Lisboa e Vale do Tejo (LVT).

In fact, the creation of the multi-municipal system of Lisboa e Vale do Tejo and corresponding delegation of the management of this system in EPAL, by the LVT company, had a significant impact on the business activity of EPAL. As a result, EPAL began to manage, from 30 June 2015, in addition to its own supply system, which covers 35 municipalities, the multi-municipal water supply and wastewater systems of Lisboa e Vale do Tejo, which covers 86 municipalities.

The establishment and implementation of this new system significantly engaged EPAL, impacting on the current business activity of the company. The start of the operation and management of the LVT system was on 30 June 2015. The highlights are the activities related to the implementation of the new organisational structure, a sole one for EPAL and LVT, and the placement of employees in the new organisational areas and new workplaces, a process that was phased in, especially between July and September.

Lastly, the contract signed by EPAL and Águas do Oeste (now incorporated into LVT) on 21 May 2015, relative to the Addendum to the Water Supply Agreement between the parties in 2003, will take effect at the start of 2016. This Addendum modifies the term of the previous contract, reviews the volumes supplied and the corresponding tariff and amends the scope of the service provided, in which EPAL takes exclusive responsibility for supplying water to the system, takes over the operation of the water supply system of the former Águas do Oeste, taking on all costs of operation and maintenance of the system and the staff of Águas do Oeste assigned to the water supply activity.

With regard to the operational activity proper of EPAL, it is worth noting that after 10 consecutive years of decline in volumes sold, an increase of 5.0 million m<sup>3</sup> was recorded in 2015, with an increase in both municipal and multi-municipal customers as well as direct customers.

Consequently, there was an increase of 3% in the abstracted volume, which totalled 218.9 million m<sup>3</sup>. The main water source continued to be the abstraction at Castelo de Bode dam, which accounted for 83% of the total. The completion of the remodelling work of the Valada Tejo Abstraction in 2015 means that this source could be exploited without any restrictions.

Water not billed in the distribution network remained at a level of excellence, 8.5%. In the water supply system the volume of water not billed was 6.0% of the water entering the system.

In terms of water quality, controlled by compliance with the PCQA - Water Quality Control Plan in the EPAL supply system, comprising the legal control defined by Decree-Law No 306/2007 of 27 August, the Operational control/monitoring of the quality of water in sources and water for human consumption in the EPAL Supply System, the control of treatment processes (water, wastewater and sludge) carried out in water treatment plants and the control of products used in the treatment performed throughout the EPAL Supply System, a significant improvement was recorded compared to 2014. This improvement is demonstrated by the reduction in the number of non-compliances recorded in the water samples collected to check compliance with legal requirements and for operational control and monitoring.

#### Quality of water supplied/distributed

- In Lisbon to end users:

The quality of water coming out of consumers' taps met the standards defined in national legislation, with the exception of some non-repetitive sporadic cases. Non-complying values were registered at 0.11% (15 cases of non-compliance) in terms of the testing for substances.

At fixed sampling points located throughout the distribution network, the number of tests made allowed it to be concluded that, except for some non-repetitive sporadic cases, the water met the quality standards required under Portuguese law. 0.12% of the total tests made were found to be in non-compliance (36 cases of non-compliance).

- "Upstream", in the Utility Companies:

The tests made on samples taken at the water delivery points to the water utilities of the Water Supply System found 0.07% to be not in compliance (13 cases of non-compliance).

In relation to customer service, the quality levels remained generally unchanged, proven by the degree of customer satisfaction with the EPAL service. This is demonstrated by the ECSI 2014-15 National Customer Satisfaction Index, a partnership between the Portuguese Institute of Quality (IPQ), the Portuguese Association for Quality (APQ) and the Higher Institute of Statistics and Information Management of the Lisbon Nova University (ISEGI-UNL), in which the EPAL obtained an overall score of 7.76.

In addition to the upstream and downstream water supply, EPAL also has other business interests, such as AQUAmatrix® (Information and commercial management system), WONE® (water loss reduction system), Waterbeep® (information system encouraging water use efficiency), the provision of monitoring services and diagnostic networks, an analysis laboratory, the Águas Livres Academy, among others.

ENEG also launched one more product in 2015, resulting from the innovation capacity of the company, designated WattWater. It aims to support the optimisation of energy management in water supply and wastewater treatment utilities.

In 2015, the second full year of activity, the Águas Livres Academy (AAL) held 80 training sessions, covering 1,069 trainees of EPAL, companies of the AdP Group, municipal companies, local authorities, regulatory bodies and private entities of the water sector and environment, of which we can highlight Águas do Algarve, AgdA - Águas Públicas do Alentejo, SMAS de Sintra and ERSAR. The total training embodied 19,753 hours and the turnover increased by 32% from the previous year, which reflects the recognition of the quality of services provided by AAL for training in the sector.

## Investments

The investment in 2015 was EUR 10.2 million, an amount that includes EUR 2.4 million resulting from the capitalisation of expenses.

	(EUR)
	<b>2015</b>
Capacity guarantee	464 806
Guarantee of reliability and security	5 578 246
Quality guarantee	302 731
Sustainability and innovation	702 567
Information and communication technology	640 677
Other investments	2 512 668
<b>Total</b>	<b>10 201 694</b>

The following were the most important investments:

- Renovation of the distribution network (distribution conduits and main pipelines)
- Work on facilities;
- Acquisition and replacement of meters;
- Renovation of the end section of Castelo do Bode water mains;
- Investment in information and communication technology;
- Asseiceira WTP - management system of dewatered sludge to ensure environmental compatibility;
- Rehabilitation of Prior Velho – Camarate mains pipe, in the Bairro Sovilar zone;
- Rehabilitation Água Bruta de Valada DN 1250 mains pipe;
- Expansion of distribution network;

## Accounts

Economic performance in 2015 was extremely positive. The accounting result achieved, purging non-recurring effects of other years, is the best ever result of the Company over its lifetime.

The net profit for 2015 was EUR 47.1 million, which was around EUR 6.9 less than the 2014 result, equivalent to a negative 13% change. However, excluding the extraordinary impact in 2014 that drove the result achieved (net extraordinary income of around EUR 8.6 million from the implementation of a protocol with Lisbon municipality), the comparable result would be about EUR 45.4 million, therefore the result in effective terms was an increase of about 4%.

EPAL has consecutively implemented spending constraint measures that contributed decisively to achieving this result with the maintenance in 2015 of the levels reached in 2014 in the ESS and Staff Costs items, combined with the increase of turnover, generate current results that surpass all those achieved in previous years.

Turnover, going against the systematic trend of recent years, increased about EUR 2 million (+ 1.4%), as a result of the combined effect of:

- Increase of about 5 million m<sup>3</sup> in the volume sold;
- Growth in the number of Direct Customers, with an increase of about 2,000 new customers/year.

Total expenditure was EUR 84.0 million. This reduction was almost EUR 1.2 million from 2014, which represents a variation of -1.5%.

In terms of the financial expenses item, the decrease in average interest rates on loans, combined with the reduction of the Company's debt, has driven a reduction of 20.4%.

At the financial level, EPAL maintains a balanced financial structure and there is an appropriate match in terms of maturities between its investment of funds and its financing resources. At the end of 2015, the company's borrowing totalled EUR 169.5 million, all of which was from EIB loans.

The company did not contract any new loan in 2015. It made repayments amounting to about EUR 17.9 million on the EIB loans, according to the envisaged amortisation plan, causing net financial debt to significantly decrease.

EPAL ended 2015 in a sound financial situation with a financial autonomy ratio of 67.6% and positive working capital of EUR 52.4 million. Net debt/EBITDA of 1.2 in 2015 confirms EPAL's sustainability in financial terms.

## Outlook

The 2016 financial year will be highly steered to the consolidation of the company's organisational structure and the improvement of processes and procedures for the management and operation of infrastructure and systems for which it is responsible. This aim is therefore an enormous challenge that will have to be overcome.

Increased efficiency is expected in this context, in particular resulting from the identification and optimisation of economies of scope and synergies, the adoption of best practices and streamlining the operating conditions of the infrastructure. Developments regarding the wastewater network in Lisbon are also expected. This is a process in which EPAL has always expressed its strong interest, given the advantages for the company and the city.

The strong focus on innovation and development has already been integrated in the culture of EPAL and therefore 2016 will again produce good results, as has been the case in recent years.

EPAL will continue its focus on the internationalisation of its expertise and capabilities, aware of the conditions it possesses for the purpose and benefits that shall arise, in terms of prestige, experience and strengthening its know-how.

In relation to the referred outlook, grounded in the solid economic and financial sustainability of the company, EPAL will continue in 2016 to promote the development of its expertise and excellence of the public services provided to the population it serves.

## Águas de Santo André

### Framework

Águas de Santo André, S.A. (AdSA) is a state-owned company established by Decree-Law 171/2001 of 25 December Through the Concession Agreement signed on 27 December 2001 with the Grantor (Portuguese State - represented by the Minister of Environment and Spatial Planning), the concession of the management and operation of the water abstraction, treatment and distribution system, collection, treatment and disposal of sewage and collection, treatment and disposal of solid waste of Santo André, serving ZILS, the urban area of Vila Nova de Santo André and parts of the municipalities of Sines and Santiago do Cacém was awarded on an exclusive basis for a period of 30 years. At the same time, it is the responsibility of this company to meet the drinking water, industrial water, wastewater and industrial waste needs of the industries located in the Sines Industrial and Logistics Area (ZILS).

The Concession Agreement was signed on 27 December 2001, awarded on an exclusive basis for a period of 30 years, for the management and operation of the water supply and wastewater and solid waste systems of Santo André, serving ZILS, the urban area of Vila Nova de Santo André and parts of the municipalities of Sines and Santiago do Cacém.

In 2015, AdSA reinforced closer relations with its customers, particularly with the industries of ZILS, the municipal councils of Santiago do Cacém and Sines, with the various national and regional authorities, and the other stakeholders of the region.

### The system

The Santo André system covers three areas: water supply, wastewater and industrial waste. This system serves the Sines Industrial and Logistics Zone (ZILS) and also, in part, the municipalities of Santiago do Cacém (Vila Nova de Santo André and coast of Santo André) and, occasionally, whenever requested, the city of Sines and Porto Covo.

The water for human consumption is abstracted in the designated Sines aquifer system, north of Vila Nova de Santo André. This system comprises a set of five active groundwater abstraction points. The abstracted water is pumped by pump stations to one reservoir at Santo André and the other at Monte Chãos. The drinking water network covers two supply zones: the Santo André area and the Sines Industrial and Logistics Zone.

The industrial water system comprises the abstraction on the River Sado at Ermidas do Sado, followed by adduction to Morgavel reservoir. The water is subsequently transported to the reservoir at Monte Chãos. There the distribution of industrial water to the ZILS industries starts, using its own distribution network independent of the drinking water network, although with the same layout and routes.

The wastewater treatment system of Santo André comprises the collection, transport and treatment of industrial wastewater at the Ribeira de Moinhos Wastewater Treatment Plant (WWTP). The water is then discharged into the sea through an outfall.

In terms of industrial waste, the duty of AdSA is to receive industrial waste from industries located in the Sines Industrial and Logistics Zone (ZILS) and also from the Ribeira dos Moinhos WWTP and water from the Morgavel treatment plant (WTP).

AdSA has also treated leachates at the Ribeira dos Moinhos WWTP since 2006. This activity has been authorised by the concession grantor continuously, up to a maximum of 5% of the average inflow to the treatment plant.

The municipalities, as in previous years, accounted for less than 10% of company turnover. The activity of AdSA is thus primarily focused on the large industries of ZILS and only residually in water supply and the collection and treatment of urban wastewater.



## Tariffs

The tariffs are calculated annually based on the economic and financial feasibility studies approved by ERSAR, pursuant to Article 5 (3)(a) of the regulator's statutes and are calculated on the basis of efficient expenses provided for in the concession agreements, as accepted by ERSAR for this purpose, divided by the estimated quantities.

There are 7 different tariffs in the case of Santo André, corresponding to the different areas of business as follows, ranging from the supply of drinking water upstream and downstream; industrial water supply, treatment of urban waste, industrial and saline water and even of industrial waste.

The downstream water tariff is broken down by brackets. However, for purposes of comparison with the average necessary tariff, an average tariff was calculated based on the tariff of each bracket and the corresponding volume of water sold. This analysis was made for the whole of the downstream supply, and further broken down to the Santo André Supply Zone and Supply Zone to the Sines Industrial and Logistics Zone. The tariff for industrial effluent is broken down by type of effluent and class. In relation to the Industrial Wastewater tariffs, AdSA is trying a change of the tariff that is to propose an increase of the lower classes (Class I, II and III) in order to tend to move them closer to the actual cost of treatment, while lowering the IV and V classes.

## Performance

### Context

AdSA, aware that a strong corporate culture is a determining factor for the affirmation and progress of the company, has strongly invested in improving its performance on several fronts in 2015.

During 2015 the company quite effectively implemented the streamlining and control of operating costs. It should be noted in this regard that in terms of External Supplies and Services (ESS) a reduction was achieved compared to the 2014 figure. This reduction was not made on the basis of exceptional cuts, but a streamlining and control of costs, so it is sustainable.

Also, significant steps were made in 2015 in the areas of maintenance and management of assets, energy efficiency, safety, certification and technical information systems, in order to continuously improve the services provided and foster an internal culture based on efficiency and sustainability.

### Business activity

AdSA, in addition to the current management, continued with various projects that had begun in 2014, and also developed in 2015 a very broad range of studies and projects and promoted the launch of work contracts, many of which are already completed and some which will only be completed during 2016.

In 2015, AdSA renewed its certification in the quality management (NP EN ISO 9001:2008) and environment systems (NP EN ISO 14001:2012), extending the scope of certification of these two standards to all its activities, and it also obtained certification of the Occupational Health and Safety Management system (OSHAS 18001:2007 / NP 4397:2008), Energy system (NP EN ISO 50001:2012) and Social Responsibility system (SA 8000).

As regards the quality of the services provided, particularly the water supplied and distributed, AdSA made quality tests of water (upstream and downstream) that ensured compliance with the parametric values established by Decree-Law No. 306/07 of 27 August. It did not find any samples failing the established parameters, corresponding to a compliance rate of 100.00% of the quality of water supplied by AdSA.

Regarding compliance with the parameters of wastewater discharged to the recipient environment, and according to ERSAR the calculation methodology for the ARI5 performance indicator - the treatment is satisfactory (100% compliance with the emission limit values or removal percentage) for 100% of the equivalent population served by Ribeira dos Moinhos WWTP.

The company's activity in 2015 resulted in an increase in turnover and a decrease in costs, particularly External Supplies and Services (ESS). Consequently, there was an increase in net income.

AdSA developed some noteworthy projects in 2015, the stand out ones being:

- completion of the Master Plans for Water Supply and Wastewater;
- development of the Water Safety Plan, which is estimated to be completed by the end of the first half of 2016;
- completion of the project for the "Rehabilitation of Ribeira dos Moinhos WWTP pumping station and sludge extraction;"
- completion of the project for the "Acquisition and Installation of electrical pumps at the Morgavel Abstraction, of Águas de Santo André, S.A.:"

### Investments

The value of investments in 2015 was about EUR 2.397 million. The following works contracts were initiated or completed:

- Remodelling the inflow facility at Ribeira dos Moinhos WWTP.
- Pipeline between the Petrogal Node and North ZILS - Phase II.
- Repair of Underwater Outflow of Ribeira dos Moinhos WWTP.
- Remodelling the inflow pipeline of Santiago do Cacém.
- Remodelling the junction box of Barbuda.
- Changing the oily sludge deposit of TROG (Oil and fat removal tank) at Ribeira dos Moinhos WWTP.
- Replacement of flow gates at Ribeira dos Moinhos WWTP.
- Construction of grating, verandas and protective barriers at Ribeira dos Moinhos WWTP.

During 2015, priority was given to the resolution of critical situations in the wastewater system, including the improvement of collection and transport conditions, the treatment of odours and improving the efficiency of Ribeira dos Moinhos WWTP.

### Accounts

Águas de Santo André concluded another year of activity providing quality services and with a positive economic performance, having achieved a net profit of EUR 5.12 million, with a turnover of EUR 13.4 million and investment of EUR 2.8 million without recourse to debt.

There was an increase in turnover from 2014 of EUR 0.741 million, mainly justified by the quality of the effluent inflowing and the consequent billing in higher classes and billing of escalations/penalties.

External Supplies and Services (ESS) decreased in the amount of EUR 0.312 million, mainly due to reduced spending on electricity, driven by the decrease in the volume abstracted for restoring the level of Morgavel reservoir.

The company received the amount of EUR 0.450 million in 2015 from FIA relative to the settlement of environmental liabilities. Since the beginning of the project AdSA has received the total amount of EUR 9.4 million (FIA and POVT).

### Outlook 2016

Business activity in 2016 comprises, of course, the continued implementation of the company's strategy to develop in the medium and long term a set of investments which provide high quality services and ensure environmental sustainability, contributing to the harmonious development of the region.

As the Water Supply Master Plan and Wastewater Master Plan are completed and the Water Safety Plan is expected to be completed by the end of the first half of 2016, the company will have physical and financial investment plans, prioritised according to risk analysis and therefore scheduled to cover the remaining period of the concession.

In this context, it is urgent to update the EVEF to allow optimal adjustments to be made to the investments to be performed. 2016 will also be another year in which the company will devote special attention to improving planning, management and control processes, either by revisiting all existing processes, or in their operational implementation when this has shown itself to be in its infancy at that time, and providing training whenever that becomes necessary.

Also education and environmental awareness will be part of the company's concerns in this area, in partnership with the municipal councils of Santiago do Cacém and Sines, promoting a cycle of sessions and visits directed at the school population of these two municipalities.

AdSA is developing the necessary activities in order to obtain the certification of its Food Safety Management System (NP EN ISO 22000:2005) for the drinking water product, which it is expected to obtain in the first half of 2016.

## **AgdA - Águas Públicas do Alentejo**

### **Framework**

AgdA - Águas Públicas do Alentejo, S.A., was established on 25 September 2009, with the shareholders AdP SGPS and AMGAP- Association of Municipalities for the Management of Public Water Alentejo.

AgdA arose from the Public Partnership Contract for the management in an integrated manner of the services of water supply for public consumption and wastewater treatment, concluded on 13 August 2009 between the Portuguese State and the municipalities 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.

This partnership aims to ensure the quality, continuity and efficiency of upstream water services, in a region with special needs, including problems of scarcity of water resources and population dispersion. Effectively the Public Partnership Contract aims to:

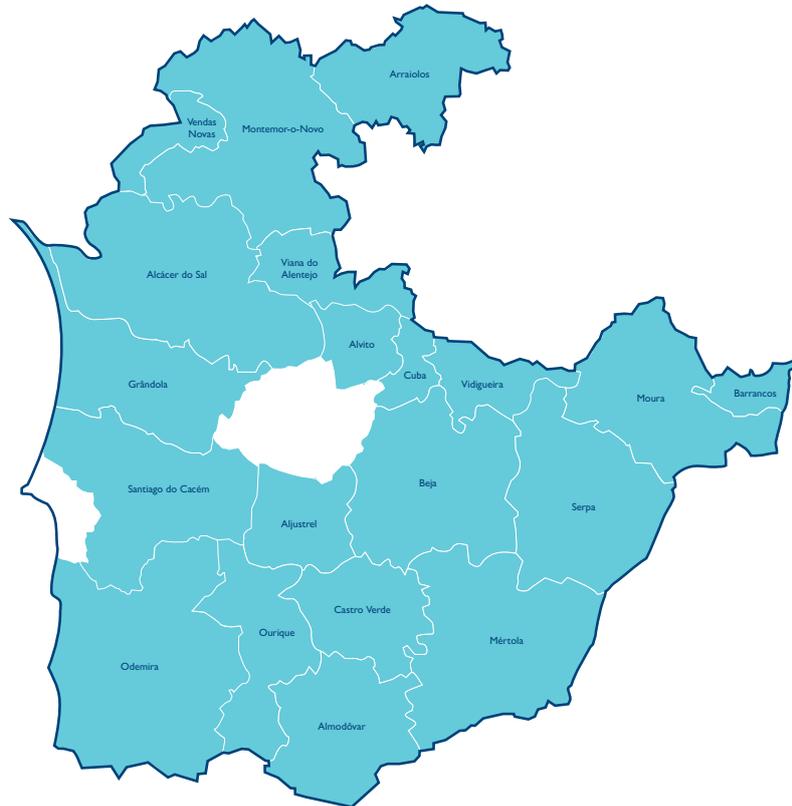
- ensure in a regular, continuous and efficient manner, in terms of quality and quantity, the supply of water for public consumption and urban wastewater treatment to the entire population covered;
- promote the design, repair and renewal and ensure the construction and operation of infrastructure, facilities and the equipment necessary to abstract, treat and supply water for public consumption and for the collection, treatment and disposal of wastewater;
- ensure the quality, continuity and efficiency of the public services of water supply and wastewater treatment to the resident population in order to promote public health, people's well-being, increased local employment, environmental protection and the economic and financial sustainability of the sector;
- contribute to regional development and regional planning.

### **The system**

This Partnership Contract leads to the creation of SPPIAAlentejo - Public System of Integrated Partnership of Águas do Alentejo, which breaks down into the Integrated Water Supply System and Integrated Wastewater System. It covers and serves about 245,000 inhabitants, which corresponds to 17.5% of the national territory.

It was established by the Management Agreement and respective addendum that water be supplied upstream to population clusters with more than 100 resident inhabitants, head towns of parishes and also clusters with more than 50 and less than 100 resident inhabitants, and which are no more than 500 metres in distance from the sections of the main pipes. The technical solution adopted for supply is based on a structure of 9 water supply systems: Minutos, Bica Fria, Alvito, Guadiana Sul, Roxo, Monte da Rocha, Santa Clara, Alentejo Litoral Sul and Alentejo Litoral Norte.

With respect to wastewater treatment activities, it was established by the Management Agreement and respective addendum that the wastewater generated in SPPIAAlentejo be collected upstream and treated, in population clusters where population projections estimate more than 300 resident inhabitants in 2025. In this respect, the solution is based on a structure of 20 systems, one per municipality. The adopted technical solution is to build or rehabilitate treatment plants that can adequately treat the collected wastewater and provide for its disposal in conditions and with the characteristics prescribed by the applicable law and the competent authorities, 245,000 inhabitants, covering 17.5% of national territory, in order to promote public health, people's well-being, increased local employment, environmental protection and the economic and financial sustainability of the sector.



## Tariffs

The tariffs to be charged by AgdA are established by that envisaged by the Economic and Financial Feasibility Study for the respective tariff period, defined in five-year periods, and seeking to ensure the annual recovery of all direct and indirect costs to which shareholder remuneration must also be added.

In the first tariff period, 2010-2015, the tariff structure comprised a fixed annual component that is charged in accordance with the potential population served, which aims to recover the costs of providing the services, and a variable component, which is a unit price charged on a monthly basis, applied depending on the level of use of the service, and which aims to recover the costs incurred by the company and not recoverable by the fixed component.

For 2016, and due to the signing of the Addendum to the Management Agreement on 22 December 2015, the fixed tariff component will include a billing unit corresponding to 50% of the population potentially served plus 50% of households potentially served applied to a unit value. The assumption will remain that the fixed component of the tariff will recover the costs of providing the services, while the variable component will recover the costs not borne by the fixed component.

## Performance

### Context

The activity of AgdA - Águas Públicas do Alentejo in 2015 was determined by a set of internal and external factors that implied a remarkable effort by all management staff and commitment from all officers, employees and directors. The company promoted the rationalization and control of operating costs very effectively which maintained total operating costs at the level of the previous year, although a significant number of water supply and treatment infrastructure have been brought into operation.

### Business activity

The first tariff period ended in 2015, so in obedience with that established in the Partnership and Management Agreements it was necessary to revise the Economic and Financial Feasibility Study (EVEF) of the Partnership for the establishment of tariffs for the five-year period 2016-2020. Considering the experience gained during the first five years the partners also decided to take the opportunity to promote the adjustment of the clauses of the Partnership and Management Agreements.

The process was started in 2014 but it was in 2015 that the configuration of the technical solution of the system was revised, excluding the municipality of Ferreira do Alentejo, as well as the preparation of the revised EVEF and proposed Addenda to the Partnership and Management Agreements that after in-depth and fruitful iteration culminated with the signing of addenda to the contracts by the State and Municipal Partners, in December 2015.

The tariffs, the objectives, compensation for the municipal assets assigned to the Partnership and the investment plan were therefore established for the period 2016-2020. Therefore, AgdA now had, from January 2016, an updated contractual framework within which to perform its activity in this period relative to the implementation of investments and the supply of water and wastewater treatment to the adherent municipalities.

2015 was characterised by being a very dry year, particularly in the Alentejo Region. This caused great pressure on consumption and on the water sources with productivity reductions in underground sources and the decline of water levels at the surface, which together with long-lasting high temperatures impacted on the quality of the raw water. This forced the Company to redouble efforts to ensure supply in quantity and quality to the municipalities that make up the Partnership. The described situation had particular relevance in the quality of water coming from the Roxo System in some summer months and the availability to supply some of the smaller autonomous systems with water of guaranteed quality. However, and according to the ERSAR indicator of water quality, SPPIAA kept the safe water classification overcoming the barrier of 99%, in line with what had occurred in previous years. It should however be emphasized that, nonetheless, the indicator value for SPPIAA is below the national average for upstream systems, which reinforces the need to promote the necessary investments to overcome the situation described.

Despite the improvements in the recent past, an increase in the levels of treatment of wastewater is envisaged due to the entry into full operation of some facilities that were being tested during 2015, including the Vidigueira and Alvalade WWTPs. Also to be noted is the entry into operation of the Alcácer do Sal pipeline system that, complementing the existing collection system, allows the WWTP to treat all the wastewater of Alcácer do Sal. The challenge of AgdA regarding maintenance derives from the fact that the company has to operate old infrastructure, which is obsolete in some cases, inherited from the municipalities alongside newly built or rehabilitated infrastructure.

Moreover, the WWTPs of Alcácer do Sal, Alvalade, Cercal, Ourique, Aljustrel, Castro Verde and Almodôvar came into full operation in 2015, which allowed the number of processes at the Community litigation phase for breach of the Urban Waste Water Directive to be reduced. In this wastewater treatment component, an investment is also envisaged which will be focused on the construction of the Beja, Montemor-o-Novo, Grândola and S. Teotónio WWTPs and the rehabilitation of the Amareleja and Sr<sup>a</sup> d'Aires - Viana do Alentejo WWTPs. This investment will allow the processes of Community litigation for breach of the Urban Waste Water Directive to be closed.

### **Investments**

2015 coincided with the end of the 1st cycle of investment, corresponding to the 2010-2015 period, and also coinciding with the completion of the applications submitted to POVT for funding from the Cohesion Fund of the Water supply and Wastewater treatment components.

Total investment amounted to EUR 18.7 million, of which EUR 10.6 million related to the water supply component and EUR 8.0 million the wastewater treatment component. This amount is EUR 5.7 million less compared to the total of the previous year. This fact is due to 2015 being the end year of implementation of applications with the consequent focus of efforts on completion of the contracts financed at the expense of launching new ones without guaranteed Community funding.

In the context of investments completed, the entry into force of the new Monte da Rocha WTP is to be noted, and coupled with the implementation of pipelines to Ourique and Almodôvar, ensures supply in quantity and quality to these two traditionally problematic municipalities in terms of quality of provided water. It simultaneously increases the quality assurance of the water supplied to the Castro Verde municipality.

### **Accounts**

In 2015 there was a significant reduction of the municipal credits resulting from the effort to settle the credits to the municipalities by entering into multi-year payment arrangements as well as the effective payment of water supply and wastewater treatment services provided by AgdA. The amount effectively received in 2015 amounts to EUR 17.4 million compared to EUR 13.1 million received in 2014, which if we consider that the turnover reached EUR 11.3 million, we can conclude that there was an effective reduction of the value of municipal credits which greatly contributed to the fact that AgdA could fund its operational activities without using bank financing.

2015 closed with a net profit of EUR 0.146 million, which is a positive development compared with the previous year.

The company's turnover in 2015 amounted to EUR 10.4 million, corresponding to the value of the sum recorded in water sales amounting to EUR 11.3 million and the surplus of EUR 0.946 million.

Operating expenses amounted to EUR 12.7 million. Of note are External Supplies and Services, with the largest weight in the cost structure, accounting for about 57%.

## Outlook 2016

It is forecast that in 2016 the sale of water will maintain the levels seen in the recent past judging from the investments that the municipalities will make to renew their downstream systems in order to reduce losses of the water supplied and which will only have a significant impact in subsequent years. Nevertheless, AgdA forecasts an increase in turnover resulting from the application of the contractual tariffs for the treatment of wastewater in the new WWTPs, in those acquired from the municipalities and in those rehabilitated and those that do not require any works.

It is anticipated that the development of municipal credits will continue the downward trend of recent years by paying not only the agreements but also the values for the supply of water and wastewater treatment that may arise in the year 2016.

In 2016 the 2nd cycle of investments in the water supply and wastewater treatment components will be initiated, requiring the updating of projects for the implementation of most of the subsystems.

This context requires, on the one hand, extensive corrective maintenance efforts and, moreover, identical preventative maintenance efforts in older systems and equipment.

Given the size of the area, number of systems and resources, an outsourcing solution will be promoted to ensure the corrective and preventive components of the maintenance of the systems for water supply, since it is envisaged that the maintenance of wastewater treatment facilities be carried out under an outsourcing system, comprising the operation and maintenance components of such facilities.

## Águas do Algarve

### Framework

The Water Supply Multi-municipal system of Águas do Algarve S.A. was created on 8 November 2003 with the publication of Decree-Law No. 285/2003.

With the creation of the Multi-municipal system by Decree-Law No. 167/2000 in conjunction with Decree-Law No. 172/B-2001 of 26 May, Águas do Algarve, S.A. was assigned the concession for the operation and management of the referred system. The respective Concession Contract between the Portuguese State (through the Ministry of Agriculture, Sea, Environment and Spatial Planning) and the Company was signed on 26 May 2001. The concession by the Portuguese State establishes a period of 30 years.

Águas do Algarve, S.A is a public limited company governed by private law and majority State-owned, created by Decree-Law N.º 168/2000 of 5 August, by merger of the companies Águas do Sotavento Algarvio, S.A. and Águas do Barlavento Algarvio, S.A.

These companies were respectively formed by Decree-Law N.º 130/95 of 5 June, and No. 136/95 of 12 June, with responsibility for the fulfilment of the two concession agreements granted on 10 August 1995 with the Portuguese State relating to the multi-municipal systems of abstraction, treatment and supply of water to the southern and western Algarve, created by Decree-Law N.º 379/93 of 5 November.

### The system

The multi-municipal water supply and wastewater treatment systems of Algarve geographically cover the 16 municipalities of the region: Albufeira, Alcoutim, Aljezur, Castro Marim, Faro, Lagoa, Lagos, Loulé, Monchique, Olhão, Portimão, S. Brás de Alportel, Silves, Tavira, Vila do Bispo and Vila Real de St.º António. The main customers are the respective municipal councils, which are also shareholders of the company.

The current multi-municipal system of water supply in the Algarve can provide, over the horizon of the project, up to 180 million m<sup>3</sup>/year, serving a population of around 500,000 inhabitants in the low season and over 1,000,000 inhabitants in the high season.

The total investment in infrastructure already built in the supply system, exclusively under the responsibility of the company - Águas do Algarve, SA – totals more than EUR 271 million. The investment already made in the wastewater system, exclusively under the responsibility of the company - Águas do Algarve, S.A. - totals more than EUR 215 million, which includes about EUR 40 million of infrastructure acquired from the municipalities. The expected investment by the end of the concession period is about EUR 125 million, of which EUR 21 million are related to rehabilitation.

The operation of the entire water supply system is provided by internal staff of Águas do Algarve and maintenance is provided by a contracted service provider for a period of three years, which ensures not only preventive and systematic maintenance, but also curative maintenance.

In the case of the wastewater treatment system, the operation and maintenance are generally carried out by contracted service providers also for periods of three years. Internal staff are only used for monitoring and controlling the outsourced services that are provided in the system.

There are some variants within this mode that apply to each of the four wastewater treatment zones into which the Algarve region is divided.

Hence, in zones 1 and 4 covering the municipalities of the western and eastern ends of the region, the responsibility for operation and maintenance lies with Águas do Algarve, although the manpower is contracted from service providers.

In zones 2 and 3, which cover the remaining municipalities of the centre of Algarve, the operation and maintenance of the facilities is fully guaranteed by service providers and Águas do Algarve is responsible for monitoring and controlling the supply of those services, not only in physical quantitative terms but also in qualitative terms.



## Tariffs

The tariffs charged by the multi-municipal systems are approved by ERSAR pursuant to Article 5 (3)(a) of the regulator's statutes and are calculated on the basis of efficient expenses provided for in the concession agreements, as accepted by ERSAR for this purpose, divided by the expected quantities.

Águas do Algarve, S.A., despite not having been covered by the mergers process is nonetheless subject to the strategy defined for the sector, particularly with regard to tariff bands under that strategy.

The updated rates applied to tariffs in 2015 correspond to the inflation rate expected in 2016. It is also to be noted that the 2015 tariffs were approved by the concession grantor and were equal to those levied in 2014.

The 2015 tariff was EUR 0.4710/m<sup>3</sup> for the supply activity and EUR 0.6304/m<sup>3</sup> for the wastewater activity. The tariffs are identical to those levied in 2014, in both cases.

## Performance

The highlight in terms of efficiency is the installation of photovoltaic power generating plants for self-consumption at the Tavira and Alcantarilha WTPs, which allow the energy consumption of these large facilities to be reduced by approximately 30%.

Águas do Algarve continues committed to the continuous improvement of the services provided, to minimise and control the environmental aspects and impacts of our activities and to promote a safe and healthy work environment, maintaining existing certifications, in particular all the components of the Corporate Responsibility System: Quality, Environment, Safety, Social Responsibility, Food Safety Certification of Product and also the accreditation of the laboratory. The extension of the Corporate Responsibility System to ISO 50001 (Energy Management Systems) is also envisaged.

The demands for reduced spending imposed on the enterprises of the state-owned sector, were successfully answered, mainly by increasing efficiency.

## Business activity

### Águas do Algarve multi-municipal water supply system

2015 was characterised by the paradigm shift in the production and use of renewable energy through photovoltaic panels at the Water Treatment Plants (WTP) of Tavira and Alcantarilha.

In Loulé municipality, the supply of water to the new Pedra d' Água Delivery Point began on 1 June. The total water supply billed to users in 2015 was 68,463,071 m<sup>3</sup>, representing an average daily flow rate of supplied water of 187,570 m<sup>3</sup>/day. This is 5.6% higher

than the 2014 figure. For the first time in two years, the total supply of water billed exceeded the sum of annual volumes provided for in the Concession Contract for the year 2015, by 0.08%.

In 2015 there was the transfer of treated water flows by the Barlavento - Sotavento interconnection, using the two reversible pumping stations, with a total volume transferred in the Sotavento – Barlavento direction of 4,321,118 m<sup>3</sup> of water, which represents an increase from the previous year of around 7.2% in water transferred. The transfer of water in the Barlavento – Sotavento direction was started, totalling 66,281 m<sup>3</sup> from 17 December 2015.

The utilization rate of water treatment plants (WTP) of SMAAA in 2015 reached in August, an average of 60% corresponding to 293,134 m<sup>3</sup>/day, up 0.25% on 2014. The total volume treated was 68,954,875 m<sup>3</sup> of water in 2015, which is a 5.4% increase of the volume of water treated in relation to the previous year.

The quality of water treated and supplied to the users served by SMAAA in 2015 can be considered excellent, with a compliance rate of 99.9%. Five (5) situations of non-compliance of the quality of water supplied were registered under the PCQA – Water Quality Control Plan approved by ERSAR. These were, in particular, related to the Enterecocos parameters, coliform bacteria (three times) and Bromates, according to the parametric values (PV) established by Decree-Law No. 306/07 of 27 August.

#### Algarve multi-municipal wastewater system

The volume of wastewater treated during 2015 was 43,144,345 m<sup>3</sup>.

There has been a gradual increase in the wastewater volume treated comparing the volumes of 2014 and 2015 with the volumes obtained in 2012 and 2013, which may be explained by the situation of crisis / slowdown in economic activity recorded from 2011 to 2013.

As regards the volume of treated wastewater, it is noted that 88% occurred in WWTPs to the secondary treatment level and 11% at a level of tertiary treatment.

In terms of microbiological disinfection, 97% of the effluent was treated in treatment plants with UV radiation disinfection system, associated chlorination system or maturation ponds (maturation ponds with lower microbiological removal levels correspond to 40% of total volume).

10,011 measurements for the control of wastewater at the treatment plants and in the respective recipient environments were made in 2015, in accordance with that stipulated in the discharge permits.

The value of the indicator of compliance with the discharge parameters is largely influenced by the infringements found at the Companheira, Faro Nascente and Olhão Poente WWTPs, processes are ongoing for the construction of new wastewater treatment plants, with different treatment processes to the current ones.

#### Investments

Investments in the year totalled EUR 13.5 million. The highlights were as follows.

In the supply activity:

- Entry into operation of photovoltaic plants at the Alcantarilha and Tavira WTPs.
- Strengthening the Loulé main pipeline - Connection to Pedra da Água reservoir.
- New delivery point in Aljezur.

In the wastewater activity:

- Construction of the Vila do Bispo e Sagres WWTP, and respective pumping system.
- Works contract for the construction of the new Companheira WWTP (Portimão municipality).
- Wastewater treatment system of S. Marcos da Serra (Silves).
- Construction of the CE3 Pumping conduit and requalification of Salgados lagoon (Albufeira municipality).
- Works in the Portimão Tunnel.
- Albufeira Poente, and Algoz Tunes pumping systems.
- Connection of Monchique Norte to the Algarve wastewater treatment system.

## Accounts

Águas do Algarve, S.A. concluded another year of activity with the provision of high quality services and a rise in turnover resulting from the increased volume of billed flows, both in water and in wastewater, in a year characterised as dry and hot.

Trade receivables fell almost EUR 5 million between 2014 and 2015. Only EUR 1.2 million of this reduction corresponds to the sale of credits to the financial system. The age of customer balances decreased to 209 days and the situation of the vast majority of customers is for payment within 60 days.

In parallel, the economic and financial performance of 2015 demonstrated:

- The subscribed capital was fully paid up in 2015.
- Turnover grew 4% from 2014, up to almost EUR 56 million in 2015.
- The company obtained a net profit of EUR 6.9 million in 2015, up 35% from 2014.
- EBITDA amounted to EUR 28.8 million and net cash flow was EUR 19.5 million, representing, respectively, 51.5% and 34.9% of turnover.
- Customer debt was reduced by around EUR 4.9 million, reaching the amount of EUR 39.6 million at the end of 2015.
- Financial liabilities fell by EUR 4.4 million compared to 31 December 2014.

## Outlook

Águas do Algarve, S.A. expects to deliver to the concession grantor during 2016 a proposal to update the concession agreements and respective EVEF's in place for each business area. The proposed deadlines will be 30 years starting from the date of delivery of the proposed revision.

Start of construction of two of the most important wastewater treatment plants of the Algarve region, Companheira WWTP in Portimão municipality and Faro-Olhão WWTP, in Faro municipality.

Águas do Algarve intends to continue to meet future challenges with the same force and the same courage that has always guided it, making sure of the continuity of the supply and quality of the public service of the supply of water and collection and treatment of wastewater in the best conditions, with regard to quality and price in the area served by us, reflected in the high number of blue flag beaches along the Algarve coast.

## Waste

In Decree-Law 45/2014 of 20 March, the government approved the reprivatisation of EGF by selling 100% of its share capital, which was held by AdP – Águas de Portugal, SGPS, S.A. The Decree-Law also determined that the divestment would be done by internal public tender. It set out the phases and the workers' right to acquire 5% of the share capital of EGF. It determined the sale option and pre-emptive rights to be granted to the municipalities holding shares in the multi-municipal systems in which EGF is a shareholder. In Council of Ministers Resolution 30/2014 of 3 April, published in Diário da República of 8 April, the government approved the specifications that regulate the terms of the public tender for the sale and determined its issue.

On 31 July 2014, four of the seven bidders invited to tender for acquisition of the EGF shares submitted their bids. Council of Ministers Resolution 55-B/2014 of 19 September selected the Agrupamento SUMA consortium, formed by the companies Suma - Serviços Urbanos e Meio Ambiente, S.A., Mota - Engil Ambiente e Serviços, SGPS, S.A, and Urbaser, S.A., as the successful bidder in the public tender for the reprivatisation of EGF.

On 6 November 2014 the purchase and sale contract for 95% of the share capital of EGF was signed by AdP SGPS and Suma Tratamento, S.A., the company set up by the members of the Agrupamento SUMA consortium.

The remaining 5% of the share capital is reserved for purchase by EGF employees after the completion of the transaction. At the end of July 2015, after a favourable decision from the competition authority, shares representing 95% of this company's capital were transferred to SUMA Tratamento, S.A. for the amount of EUR 154 million. The book-value capital gains generated in individual and consolidated accounts are shown in the following table:

	(EUR million)	
	Consolidated	Individual
Assets	898.57	-
Liabilities	(759.25)	-
Minority interests	(54.29)	-
<b>EGF Group</b>	<b>85.03</b>	<b>-</b>
Financial investment	3.03	57.62
	<b>81.99</b>	<b>57.62</b>
Net income first half 2015	2.98	-
	<b>79.01</b>	<b>57.62</b>
Value of sale	154.41	154.41
<b>Book-value capital gain</b>	<b>75.39</b>	<b>96.79</b>

Note: The capital gain generated in the individual financial statements differs from that shown in the table below as a result of different accounting practices (in the individual accounts the shareholding was valued at deemed cost on the date of transition to IFRS - 2010).

## International

### Framework

AdP – Águas de Portugal Internacional, Serviços Ambientais, S.A. was set up in 2001 to support the Group's international strategy. The mission of AdP Internacional is to manage the AdP Group's businesses outside Portugal in an economically sustainable manner. It acts as a showcase abroad for the Group's capabilities and a lever for its internationalisation.

Cooperation is also an important part of its work, as underlying the support or continuation of some initiatives it promotes is a perspective of cooperation and social responsibility as opposed to a philosophy that is exclusively commercial in nature. Economic sustainability is however a fundamental driver in its work.

Its work is aimed at economic and environmental sustainability of its missions and projects. AdP Internacional's main guiding lines are as follows:

- consolidate the existing projects, favouring expansion to new businesses in markets in which it already has a significant presence or important experience;
- sustain growth in the area by obtaining new business, while minimising investment risks and adopting a fee-based perspective;
- strengthen the organisational structure, focusing management on the creation of value for shareholders and consequently the development of new economically sustainable business areas;
- support the internationalisation of other Portuguese companies of the environmental sector.

### Main activities and events

#### Mozambique

Following the strategic reorientation that has been followed for the business in Mozambique in 2011, AdP Internacional restarted the business activity of Aquatec, which became the instrumental company in the area of technical assistance consulting services for the water, wastewater and waste sectors in Mozambique.

During 2012 the company achieved its first technical assistance contract with Águas da Região de Maputo, while the years of 2013 and 2014 meant a period of reduced activity for Aquatec as the result of a set of policy indecisions regarding the water and wastewater sectors. Only in 2015 was the company able to get a contract to prepare the CRA (Water Regulatory Board) Water Safety Plan.

#### East Timor

The Timorese market reported significant momentum during 2014, with the investee AdP Timor Leste recording widespread business activity as regards technical assistance for the implementation of the Master Plan for drainage and sanitation of Dili. In 2015, there were even 2 addenda to the original contract, although there was a decrease in business activity, which is expected to reverse in 2016.

#### Angola

2015 was marked by a paradigm shift in Angola. The APEC and APSO and technical assistance monitoring contracts ended and the award of two new contracts under PDISA was achieved, financed by the World Bank, which are in Huambo and Uíge. New opportunities for technical assistance contracts in the provinces of Angola are expected to arise in 2016, which will be subject to funding from the African Development Bank (ADB).

### Economic and financial indicators

The economic and financial indicators shown reflect the instrumental nature of AdP Internacional, which transfers the resources needed for its subsidiaries' work and the direct performance of projects in the markets in which it operates and also through its subsidiaries in Angola (AdP Angola), Cape Verde (AdP Cabo Verde) and Guinea Bissau (AdP Guiné Bissau).

(EUR thousand)

Financial indicators	2013	2014	2015	Variation 2015/2014
Turnover	4 339	2 195	3 235	47%
EBITDA (1)	(933)	(2 239)	(488)	78%
Net assets	8 338	9 088	11 601	28%
Liabilities	9 135	11 613	12 942	11%
Financial income	(322)	(393)	(302)	23%
Net income	(884)	(2 613)	(1 428)	45%

<sup>1</sup> Operating income + amortisation + provisions

The company showed a net loss of EUR 1.4 million, which corresponds to a EUR 1.2 million improvement YoY.

Turnover increased 47% in 2015, due to the start of projects with greater weight in billing, including projects under PDISA, in Huambo and Uíge provinces.

The improvement in EBITDA in 2015, standing at negative EUR 488,000, was due to the company's improved operating performance. This improvement is due, on the one hand, to the increase in operating income from the new projects mentioned above and on the other, to the decrease in operating expenses, via ESS and Personnel Expenses, based on lower general spending with 2015 projects and the exit of employees assigned to completed projects. These facts are reflected in the improvement of the indicator: Spending reduction plan, taking it from 201% in 2014 to 114% in 2015.

AdP Internacional's liabilities increased by around EUR 1.3 million in 2015, directly related to the increase in short-term debt and an increase in the balance of trade payables. Additionally, provisions were increased by EUR 750,000 (Aquatec and contractual contingencies).

Assets show an increase by EUR 2.5 million compared to 2014, mainly explained by the variation of Trade Receivables and by reducing the Cash and cash equivalents item. These facts are embodied in the absence of payments in the business activity in Angola and the need for setting up term deposits as collateral guarantees for the new projects.

## Outlook for 2016

AdPI plans to continue the sustained growth of its activity and consolidate the image of the AdP Group in its current markets and in new ones such as Azerbaijan, North Africa (especially Morocco, Tunisia and Algeria). Accordingly, the start of projects in Guinea-Bissau and Sao Tome and Principe is expected in 2016.

Hence, the consolidation of the existing activity is expected in 2016, in particular the consolidation of its presence in the Angolan market. In parallel, and in the development of new businesses, the aim is to:

- Grow the business in the Angolan market, by strengthening support for the National Water Directorate, through the World Bank, in view of the continued implementation of the Institutional Development Programme for the Water Sector (PDISA) and participation in projects in the provinces of Cabinda, Bengo, Kwanza Sul, Namibe, Lubango, Luanda Norte and Luanda Sul through African Development Bank funding, with the forecast aid. The European Union has also provided funding of EUR 65 million for the water sector under the 11th European Development Fund.
- Intensify contacts in the sectors of water supply and wastewater treatment in North Africa, particularly in Morocco, with a view to concluding service contracts or establishing partnerships.
- The beginning of a Twinning project in Azerbaijan, aimed at training its technicians of the water and wastewater sector, with funding from the Asian Development Bank;
- In East Timor, with the prospect of signing two new assistance agreements with the East Timorese Government in the areas of supervision of works and the continuation of the technical assistance to DNSB.
- In Cape Verde, through the 2 contracts "Preparation of a Waste Road Map in Cape Verde", started in December 2015 in partnership with the companies Ecovisão and Tese, with funding from the Fast Start Program (Portuguese Cooperation) and the "Water Supply System Development Project on Santiago Island" subcontracted by the Nippon Koei company and funded by the Japanese Cooperation Agency (JICA);

## Shared services

### Framework

AdP - Águas de Portugal Serviços Ambientais S.A. (AdP Serviços) is the centre for shared services of the AdP Group. Its mission is to provide the Group's business units and their subsidiaries with the common support services that they need to operate efficiently and at competitive prices, obtaining economies of scale, providing cutting-edge solutions, incorporating good management practices and making a decisive contribution to the pursuit of the Group's corporate goals in its different areas.

In the constant search for aligning its operations with the corporate objectives of the Group, the strategic positioning of AdP Serviços is based on the following guidelines:

- contribute to the increase of the Group's synergies through standardisation and coordination of business processes, aligned with the needs and priorities of the AdP Group;
- create and consolidate a partnership relationship with the profitable subsidiary companies, providing an effective response to business needs;
- ensure the alignment of the expertise of AdP Serviços with the needs of its internal customers;
- create conditions for the development of that expertise, giving employees the resources and processes that contribute to the recognition of the excellence of the service provided;
- play a key role in the development of a solid Group culture and recognised by the stakeholders.

The operating activities of AdP Serviços are ensured by seven functional departments that simultaneously provide activities of a corporate nature and shared services.

Department/Area	Mission
<b>Centralised Procurement Department</b>	It achieves advantages from the Group's size and is responsible for centralised negotiations in strategic areas. In combination with the online procurement system it achieves process gains and operational capital gains that each company would not be able to achieve separately.
<b>IT Department</b>	It implements strategies and guidelines defined by the holding company regarding information systems. Its job is to standardise and uniformise the information systems, manage the Group's ERP, manage the network infrastructure and software of the instrumental companies.
<b>Human Resource Department</b>	It centrally handles human resource matters, such as contract management, pay processing, training, recruitment and selection, among others.
<b>Engineering Department</b>	It provides support services to the Group companies and holding company in order to consolidate a technical culture in the Group, increase efficiency and flexibility of processes and create synergies and economies of scale that are inherent to a Group. It also serves as channel for transmitting accumulated technical knowledge in the Group companies.
<b>Financial Services and Accounting Department</b>	It provides accounting services to the holding company and instrumental companies and consolidates the accounts of the AdP Group, standardising principles, procedures and tools and contributing to a growing improvement in the business processes of the Group companies.
<b>Marketing and Communication Department</b>	It provides the Group companies with an integrated strategic marketing, communication and graphic design service. Its fundamental values are creativity, efficiency and quality.
<b>Legal Department</b>	It provides legal consultancy to the different Group companies in lawsuits and on company law, regulation, public procurement and environmental law.

### Main activities and events

The activity of AdP Serviços was of particular importance during 2015 in two structural areas: The implementation and improvement of group-wide processes with potential for generating optimisation and operating efficiency for the AdP Group companies, and support to AdP SGPS in the processes of incorporation and vertical integration of the multi-municipal systems.

In parallel, AdP Serviços supported the process of development and coordination of some Functional Coordinating Groups (FCG). The main objective is to promote greater integration and coordination between functional and support areas, thus contributing to the capture of synergies in business processes, the streamlining of costs and for the group-wide dissemination of best practices.

Also to be highlighted is the update of the Established Service Levels (NSE) that took place in July. This is a document setting out the conditions for the provision of services between AdP Serviços and the companies of the Group.

The AdP Serviços departments undertook the following projects and initiatives in 2015:

- Preparation of public procurement procedures and centralised management of the respective contracts, in partnership with the regional utilities for the procurement of highly specific goods and services: electricity, fuel, reagents, insurance, communications and operating vehicles, among others, with the annual value of contracts in this field of EUR 108 million.
- Fostering, within the Procurement and Logistics FCG, the Annual Procurement Plans of each EGR, which will permit the development of the Annual Integrated Procurement Plan for 2016, identifying new items to be centralised during 2016 by DCL, such as surveillance and safety of facilities and hygiene and cleaning services.
- Co-orientation of several master's theses and research, in collaboration with the companies of the Group, and one of them was awarded the Water and Energy Exchange award for innovation on the theme "Water - Energy".
- Under the Infrastructural Asset Management topic, conduct and support the inventorying processes, integration of assets and their financial reconciliation in the different EGR, aimed at the standardisation of the approach and inventorying under a common reference for the entire AdP Group.
- Functional evaluation of various infrastructures in different EGR, highlighting the assessment of the condition of more than 170 wastewater treatment plants of the former AdZC system, through expeditious assessment tools wholly developed by the Engineering Department.
- Extending salary processing to EPAL.
- Development of inventorying of asset applications for several companies of the Group, to assist the infrastructure inventory process, resulting in a significant reduction in the time spent by the work teams. The application runs on open source databases and it was developed for the Web environment and for tablets, allowing its use in offline network locations, in which case it is subsequently synchronized with the databases of the various teams.
- Support to the operational activity of Águas de Santo André, in the areas of Engineering and Asset Management, operation and maintenance and management of works contracts.
- Coordination of the working group that defined the guidelines for implementing ISO 50001:2012.
- Completion of the implementation of water safety plans in non-AdP Group utilities, such as Águas do Porto and Conselho de Regulação da Água in Mozambique
- Technological upgrade in the data storage area of the AdP Serviços servers (primary and secondary) allowing for greater reliability in the delivery of corporate services to all employees of the AdP Group.
- Strengthening perimeter security of information systems by implementing redundant firewall systems.
- Unification of all e-mail addresses in a single domain (@adp.pt).
- Implementation in EPAL of the new Analytical Accounting model of SAP (CO module) and travel expenses modules and settlement on receiving the salary as an alternative to settlement by cash.
- Planning and execution of Marketing and Communication Strategy for the downstream of AdNorte.
- Operational implementation of the Communication Plan for the incorporated companies.
- Support at the start-up of the Water System partnership of Águas da Região do Noroeste and the review of contractual arrangements of the Public System of Integrated Partnership of Águas do Alentejo, in the legal field.
- Legal support to companies of the AdP Group in the implementation of concession agreements of partnership / management, and implementation and consolidation of group-wide processes generating optimisation and operational efficiency.
- Improving group-wide accounting processes for the companies of the Group.

## Benefits

In AdP Serviços in 2015, the basic premises for the central negotiation of high, medium and special low voltage electricity were set out. Since they began in 2012, their contracts totalled an overall expense of around EUR 223 million, 60% of which arose from the tariffs resulting from the tender procedures issued by AdP Serviços. The benefits for the Group are estimated at EUR 16.6 million in the 2012-2015 period. Also with regard to negotiation of electricity, taking advantage of our experience and tools, we successfully conducted a highly complex procedure in 2015 for contracting normal low voltage electricity. This supply had previously come from EDPSU (seller of last resort) with no competition for the entire universe of over 4,200 facilities that use electricity. The total expenses for this contract in 2015 was around EUR 38.6 million, 38% of which arose from the tariffs resulting from the tender procedures issued by AdP Serviços. The benefits for the Group are estimated at EUR 0.6 million.

The direct benefits for the subsidiaries during 2015, resulting from the procedures conducted by DCL, which resulted in the aggregation of their acquisition needs, were estimated at EUR 7.1 million, plus the indirect benefits by extrapolating the costs of preparation by the number of awarding entities, amounting to about EUR 3.2 million, giving a total of EUR 10.3 million.

Other indirect benefits are the tools developed while processing the information and automatic integration of bills. Together they allow more specialised processing of information, taking advantage of tools existing in the Group, leading to gains in efficiency in the

use of available resources as regards the management of contracts and the preparation of future procedures, leveraging the consolidation of information closer to the companies' specificities.

In the information systems area there is the significant reduction in the number of system licences (server to host e-mail and exchanges), reducing the number of exchanges from 21 to 9. That figure is expected to be reduced to 4 when the unification is completed. The 43% cost reduction for the companies of the Group is to be highlighted, resulting from the review of the NSE's of Microsoft licensing.

The implementation of the new procurement module model in SAP is also to be noted. These new definitions will allow greater savings and control of the expenses incurred in the Group.

## Economic and financial indicators

In 2015, AdP Serviços made a net profit of EUR 2.1 million, which is 53% higher YoY. It essentially reflects a reduction in external services and supplies.

The EBITDA of EUR 4.2 million in 2015 showed a good operating performance with a 31% increase from the previous year.

Services provided registered a slight decrease of 2% over the previous year mainly due to the downward revision of NSE's with regard to unit prices of services provided to companies. Two facts are to be highlighted in this regard: the expenditure with Microsoft licensing, registered in 2014 and which was moved in 2015 to fixed assets and expenses associated with the upgrade of SAP that will be made and only recognised in 2016.

Other income and gains, of EUR 1.56 million (referring to the use of offices) registered a decrease since there was an exit from the building of EGF in 2015 due to the company's reprivatisation, as well as the downward revision of the price per m<sup>2</sup> charged to Aquasis.

Assets registered growth as a result of increased customer debt, despite the decline in fixed assets (reflecting the depreciation of the building and Microsoft licences).

Liabilities totalled EUR 19.2 million, reflecting a reduction in loans (amortisation of loan on the building) reduction of debts to suppliers despite the increase in current loans (loans from the SGPS).

(Unit: EUR thousand)

Financial indicators	2013	2014	2015	Δ 2015/2014
Services	9 726	9 793	<b>9 583</b>	(2%)
Other income and gains	1 891	1 693	<b>1 560</b>	(8%)
Operational cash flow (EBITDA) <sup>1</sup>	2 902	3 226	<b>4 236</b>	31%
Operating profit	1 806	2 254	<b>3 032</b>	34%
Financial income	(293)	(235)	<b>(215)</b>	8%
Net profit for the year	1 013	1 414	<b>2 157</b>	53%
Financial investment	207	207	<b>157</b>	(24%)
Net assets	25 979	27 479	<b>28 738</b>	5%
Current assets	4 530	4 405	<b>6 882</b>	56%
Non-current assets	21 449	23 074	<b>21 856</b>	(5%)
Current liabilities	6 194	7 715	<b>8 472</b>	10%
Non-current liabilities	13 843	12 409	<b>10 754</b>	(13%)

<sup>1</sup> Operating profit+Amortisation+Provisions

## Outlook for 2016

The activity of AdP Serviços in 2016, from an external perspective, will focus on the following lines of action:

- Standardise business processes (within the Functional Coordination Group).
- Better implement the mission vehicle of sharing best practices in the Group.
- Increase the use of SAP as the routine base of implementation for the core business processes, maximising mobility.
- Strengthen support processes for companies in the development and implementation of the integration of downstream systems.

The following are the priorities from an internal perspective: **(i)** increase the use of SAP as the routine base of implementation for the core business processes, maximising mobility; **(ii)** review the Established Service Levels (NSE) in some service lines to better align these with the expectations of the companies; and **(iii)** improve the systematic demonstration of the results/ benefits obtained for

the Group by the activity of AdP Serviços. Overall, the following activities are highlighted as priorities:

- update of the ERP used by the AdP Group to a new version, with the total investment envisaged in the 2016 budget;
- focus on the Downstream Projects, technical responsibility for which was attributed to AdP Serviços;
- update of the document management solution;
- implementation of the Procurement Process, taking advantage of the ERP in use in the Group, in order to promote best practices, maximising the efficiency/ compliance binomial, with the consolidation of the integrated fleet management tool and monitoring of the Integrated Annual Procurement Plan of the AdP Group;
- update of the technical model for the projection of the critical variables of economic and financial feasibility studies for all multi-municipal companies and which form the basis for the integration projects of downstream systems;
- continuation of the inventorying project of the infrastructural assets of the multi-municipal companies, the responsibility for which was assigned to AdP Serviços;
- creation of a legal database, shared with general access to documents, including concession agreements, contracts, opinions, judgments, and other relevant documents and preparation of a Legal Newsletter;
- improvement in the quality of financial information about the Group through the review of the Analytical Accounting Model, the implementation of the accounting classifier and the implementation of an "automatic" system of inter-group billing;
- operational implementation of Dam Safety Management, Water Resources use contracts, Technical modelling, Defaulted treatment facilities;
- development and launch of the AQUAMOD solution (upstream and downstream versions);
- development of water safety plans in AdP Group and non-AdP Group utilities;
- strengthening the institutional relationship with APA, ERSAR and other stakeholders.

# Energy

## Framework

AdP Energias - Energias Renováveis e Serviços Ambientais, S.A. (AdP Energias)'s object is the performance of environmental management activities, such as the generation, harnessing and supply to external consumers of different forms of renewable energy, the establishment of systems for collecting, transporting, treating or reclaiming sludge for use or final disposal, development of processes or facilities for improving energy efficiency, and consultancy and services in the same and similar areas and other sectors of environmental industries.

## Main activities and events

AdP Energias continued to develop during 2015 the work to strengthen the strategy defined for the company, not only in renewables, maximising the harnessing of energy from the AdP Group's endogenous resources but also in terms of energy efficiency, rationalising energy consumption and reducing or offsetting its greenhouse gas emissions by drafting an integrated energy efficiency plan (PIEE).

At the end of 2015, the work for the preparation of energy audits was concluded, which gave rise to measures for optimising energy consumption under the integrated energy efficiency plan (PIEE).

AdP Energias maintained in 2015 its 40% shareholding in MIESE, Vila Real/Alijó – Sistemas Energéticos a Biomassa, Lda. AdP Energias continued to work towards the sale of this shareholding.

## Photovoltaic – Mini-generation

The partnership between AdP Energias and the different utilities of multi-municipal systems began in 2009 for the development and installation of solar photovoltaic micro-generation plants, is still ongoing. The plants are in their fifth year of generation and sale to the public service electricity grid (RESP). 2015 showed significant improvement over the previous year, but there were still some disturbances in the normal functioning of some plants, caused by questions of a meteorological nature, which led to the failure of some equipment and therefore causing natural reductions in production.

## Photovoltaic – Mini-generation

10 solar photovoltaic mini-generation plants are currently in production. These plants were built in partnerships with the utilities and multi-municipal systems, like in the case of the mini-generation plants.

- 4 mini-generation plants are in their third year of production and form part of a partnership developed in 2012 between AdP Energias and group companies.
- The other 6 plants were built in an energy services company (ESCO) type partnership involving AdP Energias, Group companies and the partner, selected in a market consultation, Galp Power, S.A. The latter six plants completed their second full year of production and sale of RESP energy in 2015.

## Micro-hydro plants

The construction of the Beiriz Small Hydroelectric Plant was completed in June 2015 and it was connected to the Public Service Grid in July. This facility results from a partnership between AdP Energias and Águas do Noroeste, which has been called Águas do Norte since 1 July.

## Benefits

As part of the joint strategy of AdP Energias and the subsidiaries of the AdP Group for development and implementation of the PIEE, work is being done to optimise consumption via rational energy use. This work began in 2012 and it intends to stimulate and promote energy efficiency and special scheme energy generation by the AdP Group companies.

The first phase of work for the implementation of the PIEE consists of an energy diagnosis that will enable us to set harmonised targets and goals that foster lower energy consumption through efficient use in the AdP Group, particularly the utilities of the MMS for water supply and wastewater treatment.

All the work was carried out in partnership with the various utility companies of the MMS.

## Economic and financial indicators

(Unit: EUR thousand)

Financial indicators	2013	2014	2015	Δ 2015/2014
Turnover	707	679	<b>786</b>	16%
Operational cash flow (EBITDA) †	409	391	<b>362</b>	(7%)
Operating profit	141	132	<b>93</b>	(30%)
Financial income	(87)	(68)	<b>(41)</b>	100%
Net profit for the year	51	57	<b>47</b>	(100%)
Financial investment in subsidiaries	327	327	<b>327</b>	0%
Net assets	4 205	4 244	<b>4 438</b>	5%
Liabilities	1 323	1 306	<b>1 453</b>	11%
Debt – shareholders' loans	1 200	1 200	<b>1 200</b>	0%

† EBITDA = Operating profit+Amortisation+Provisions

AdP Energias ended the 2015 financial year with a profit of EUR 47,000 which comprises a 17% decrease from the 2014 figure (EUR 57,000). In 2015, AdP Energias made a profit for the fourth year running.

The reduction in operating profit (EUR 93,000 in 2015 as opposed to EUR 132,000 in 2014) contributed to this result in 2015. This increase resulted from a higher growth in operating expenses in relation to operating income, compared to the year 2014. Turnover declined by EUR 28,000 (EUR 678,000 in 2014 and EUR 786,000 in 2015, equivalent to 16%) is due primarily to the micro-generation activity.

In 2015, EBITDA totalled EUR 362,000, EUR 28,000 (7%) lower than in 2014.

### Outlook for 2016

One of the major challenges for 2016 and forthcoming years is the implementation of an Integrated Energy Management Plan in the Group companies. Thus, AdP Energias intends to develop a strategy based on:

- the production of energy for self-consumption and optimisation
- the optimisation of energy consumption
- the energy recovery from available local resources.

To achieve that proposed AdP Energias will use the existing legal framework and seek concerted forms of financing, whether from the European Union or through ESCO partnerships.

## Sustainability and performance

### Framework

We continued our commitment in 2015 to continue to contribute significantly to the promotion of a sustainable future by combining economic growth with environmental responsibility, social justice and people's quality of life today and that of future generations.

The AdP Group, as an actor with an active role in society and the environment, is committed to the sound management of its resources in order to promote a more efficient operation, guaranteeing better service quality and the best prices for the community.

The AdP Group believes that sustainability is achieved by creating biunivocal relations - symbiosis - with the environment, with shareholders and employees, the community and other stakeholders, in a close interdependent relationship.

The sustainability strategy of the AdP Group results from, among others, the analysis of management guidelines and business strategy, the PENSAAR sector plan, the reflection on the expectations of stakeholders, the consolidation of best practices, the commitments from subscribing to the Global Compact under the United Nations and the objectives of sustainable development. This work helped to identify the main challenges for the Group in the field of sustainability and it aided the definition of the Principles and Commitments.

The Group revised its sustainability strategy during 2015, adjusting the principles and commitments and setting new goals and targets.

# Sustainability Strategy

## Symbiosis with Environment

**Principle:** We manage the urban water cycle in equilibrium with the cycles of nature

**Commitments:**

- Preserve and enhance the bodies of water
- Minimise waste production and recover by-products
- Conserve biodiversity and promote ecosystem services
- Invest in Research and Development

**Principle:** We contribute to the fight against climate change

**Commitment:**

- Ensure the eco-efficiency of the Group

## Symbiosis with Shareholders and Customers

**Principle:** We guarantee the continuation of sectoral policies consolidating a business group of reference in the environment sector

**Commitments:**

- Guarantee economic and financial sustainability of the Group, creating value for shareholders and other stakeholders
- Guarantee the credibility, transparency and accuracy of the Group's management model
- Contribute to the development of a responsible local economy

**Principle:** We provide a public service of excellence, with direct impact on improving the quality of life

**Commitments:**

- Guarantee accessibility to water and wastewater treatment services, ensuring social justice and quality of life of local populations
- Guarantee the efficiency, reliability and quality of service and product safety
- Personalise, simplify and innovate in the relationship with the customer, based on greater proximity

## Symbiosis with Employees

**Principle:** We value the relationship with employees, ensuring the growing know-how of the Group

**Commitments:**

- Invest in the development of employees
- Ensure equal opportunities
- Ensure occupational health and safety
- Promote a balance between professional and personal life
- Guarantee cross-cutting and effective internal communication

## Symbiosis with the community

**Principle:** We promote the growing proximity to the community

**Commitments:**

- Promote the sustainable use of the essential water and wastewater treatment services
- Take an active role in engaging with the population on social issues
- Share knowledge through cooperation, capacity building and technical support projects
- Invest in the relationship and sharing of values in the supply chain.

Communication with stakeholders uses many direct and indirect channels. Our Sustainability Report is the main evidence of this policy of transparency.

This report, which has been published annually for seven years, includes the consolidated balance sheet of the holding company and the companies held directly or indirectly by AdP SGPS. It describes the strategies followed, fulfilment of targets and good practices followed by the subsidiaries whose operations cover the country from north to south and east to west.

The 2015 Sustainability Report, as in previous editions, follows the GRI – Global Report Initiative guidelines and ERSAR references, which can be accessed on the AdP website [www.adp.pt](http://www.adp.pt).

The most important aspects of 2015 were pursuit of our policy of developing and constantly improving our processes, in order to provide a high-quality public service and diversifying with a view to increasing efficiency. A great contribution was made by certification

of our quality, environment, safety and social responsibility systems following principles of transparency and credibility. In 2015, 92% of the Group's companies received ISO 9001 certification, 85% ISO 14001 certification, 85% OSHAS 18001 certification and 69% SA8000 certification.

We also upped our commitment to the Global Compact principles, which cover human rights, labour practices, environmental protection and anti-corruption mechanisms.

Where social responsibility was concerned, the Group continued to bet on corporate policies and its programme of awarding study grants to help the development of its employees' children. Twenty higher education grants were awarded in 2015, each of EUR 1,200, and 15 special education grants in the amount of EUR 1,000. It should be noted that, in the context of higher education grants awarded, seven represent the renewal of support from previous years, thereby encouraging the continuation of studies.

The Bootcamp initiative in Águas de Portugal Social Entrepreneurship is also to be noted. This initiative, in partnership with IES/SBS, is where 40 employees of all companies of the AdP Group linked to the area of sustainability and social responsibility left for an intensive training course on Social Entrepreneurship. The initiative aimed to promote meeting and sharing between them and simultaneously provide a training component relevant to the development and implementation of new projects in the area of social responsibility. Many were the ideas shared during the 48 hours of training, culminating with the presentation of 10 social entrepreneurship projects in various areas such as environment, health, education, culture, and community development.

A number of other initiatives were also highlighted under the Group's volunteer programme, including the blood donation campaign and registration as a bone marrow donor and "Drop by drop we brighten up Christmas" campaign, which consisted of collecting food, toiletries and toys for disadvantaged families. The gifts showed the sharing spirit of AdP employees and put a different shine on Christmas for 20 families, around 71 people, referred by Associação de Moradores do Bairro da Boavista residents' association. Volunteers also got together and created the clothes bank of the Integrative Unit for People in a situation of homelessness of the Associação de Assistência de São Paulo association. Teamwork with the involvement of the internal service providers Saniambiente and Sotécnica allowing Associação de Assistência de São Paulo and Novos Rostos Novos Desafios to act quickly and efficiently on activation of the Contingency Plan for the Homeless in a situation of cold weather, within when they are responsible for providing aid to the population of Lisbon.

## Stakeholders

Stakeholder means a person or group that influences or is influenced by the achievement of the objectives of an organisation.

The engagement of stakeholders in the AdP Group activity consists of an exercise of sharing and transparency of the company in its relationship with society and, in particular with the entities that have an impact or are impacted on by the companies of the Group.

The AdP Group identified the following groups as the main stakeholders:



Through the Planning and Management Control areas and Regulation Area, the AdP Group intends to maintain an appropriate institutional and informative relationship with the universe of stakeholders described above.

These areas act as interlocutors between the executive committee and stakeholders, ensuring engagement and professional and constant communication with them. They are responsible for the speed, reliability and robustness of all the available information.

Efforts are made and expertise established, to this end, to ensure the constant flow of communication with all stakeholders and to provide all the necessary information, observing all applicable formal rules, laws and regulations. Only in this way can replies be provided for all the requests for information addressed to it.

The responsibility of the AdP Group in this area is increased and particularly sensitive because it provides a public service, and its core business makes a decisive contribution to the sustainable development of the country.

### Special duties regarding the disclosure of information

The AdP Group meets all legal, statutory and contractual obligations for the disclosure of information, always based on the principle of transparency and ensuring the duties inherent to an adequate relationship with the universe of stakeholders.

### Risk management

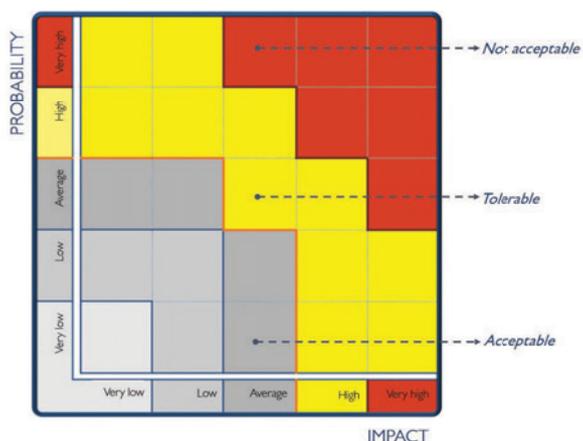
The AdP Group and the Board of Directors of AdP SGPS in particular, pays great attention to the risks inherent to its activity. It does this by regular monitoring of the main risks of the activity resulting from daily operations.

The business risk management process implemented in the Group provides an integrated risk assessment, allowing a common language in the definition and concept of each risk to be created, together with the alignment of objectives with the risks and respective controls in place in the company in order to protect its investments and assets.

The risks are organised according to a class and categories structure defined according to the COSO methodology (Committee of Sponsoring Organizations of the Treadway Commission), which we present below:



Risk assessment is performed from the perspective of the likelihood and impact, considering the respective inherent and residual risk. Hence, the effectiveness of the internal control system established is sought in order to maintain the level of risk at an acceptable level in accordance with the following matrix.



The risk assessment in the perspective of impact analysis includes the following analysis dimensions:

- Financial;
- Reputation;
- Legal or regulatory; and
- Level of alignment with business goals.

The probability of risk occurrence is evaluated considering also a wide range of factors, including:

- Existence and effectiveness of controls;
- Previous occurrence of the risk;
- Complexity of the risk; and
- Installed capacity to manage risk (people, processes, systems).

The mission of the Internal Audit and Risk Control area is to identify the risks to the Group's business, to conduct internal audits of the companies in which it has a majority interest, to identify the key control elements necessary to minimise their impact and to conduct compliance tests to assess the results.

Reporting directly to the Board of Directors of AdP - Águas de Portugal SGPS, S.A., its independence is strengthened before the managements of the audited companies and it is provided with an adequate degree of autonomy to carry out the work, optimising the available resources and avoiding duplication of structures.

Following the guidelines issued by the government, the AdP Group underwent restructuring in 2015, with the winding up of several utilities managing multi-municipal systems and the creation of three new companies. It was the understanding of the Board of Directors of AdP SGPS not to assess the risk of the AdP Group and respective subsidiary companies for the year in question, due to the complexity and criticality of the process. This assessment will resume in 2016.

Nevertheless, considering that the responsibilities, rights and operation of the wound up companies were transferred to the newly established companies, it is considered that the main risks to which the Group and AdP SGPS were exposed in 2014 generally remained in 2015, namely:

- Catastrophe
- Political, economic and financial environment
- Financial sustainability
- Talent management
- Relationship with municipalities
- Reputation and Image
- Conformity of collective decisions with the law
- Technical and human capacity, and
- Regulation.

Subsequently, periodic monitoring of the main risks will again be taken up in order to monitor their progress and assess the level of control. These are being carried out as planned.

## Human capital management

Our employees contribute decisively to the success of the AdP Group. This is why we invest in human resource policies and management practices oriented towards the development of skills and to strengthen motivation, actively contributing to their professional development.

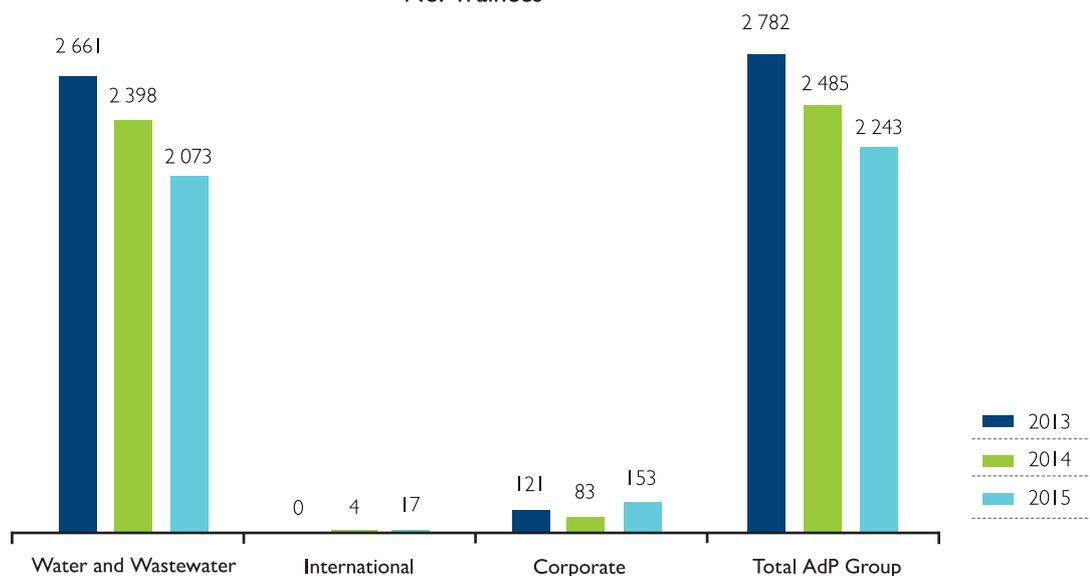
### Training and development

Our strategy embodies a culture of ongoing improvement and we believe that it is essential to provide our human resources with the skills they need to fulfil their potential, thereby contributing to AdP's success. It is with this assumption that the Group addresses the issues related to training and personal and professional development of each of its staff.

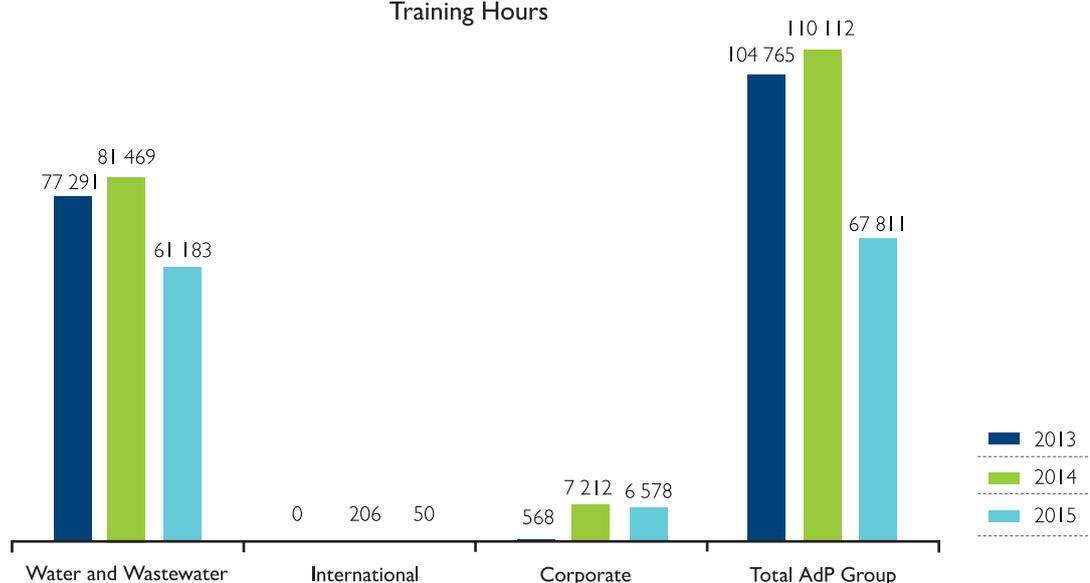
Our planning, management and training assessment processes are designed to meet training needs identified and guarantee the quality, effectiveness and their assessment. We arrange for strategic across-the-board training courses to foster organisational development, as well as the strengthening and consolidation of shared values and work and aligned and joint development.

The number of training hours in 2015 was lower than in previous years as a result of the restructuring process undertaken in the AdP Group. The complexity of this process required the change in functional structures, and the design and implementation of new human resources management processes, verifying the need to reassess the employee development needs.

No. Trainees



Training Hours



### Career management

The internal mobility of employees is a practice that we value and encourage in the Group, as it is an important factor in the professional development of our human resources. In-house recruitment of personnel to allocate to projects or meet specific know-how needs is a process that adds value to AdP and gives employees exposure to new situations and challenges that encourage them to learn and acquire cross-cutting skills.

The Corporate Geographical Mobility Policy, implemented in 2015, has made an active contribution to the promotion of functional mobility processes to ensure a range of support to employees in mobility, to facilitate and support the transition and installation process at the new place of work.

### Gender equality and balance of personal, family and professional life

The AdP Gender Equality Policy is based on two pillars:

- Equal treatment and opportunities
- Balance between personal, family and professional life

An Equality Plan was implemented based on this policy, organised in six aggregator areas:

- Strategy, mission and values;
- Equal treatment and opportunities
- Conciliation between personal, family and professional life;
- Social dialogue and engagement;
- Training and raising awareness;
- Communication and image.

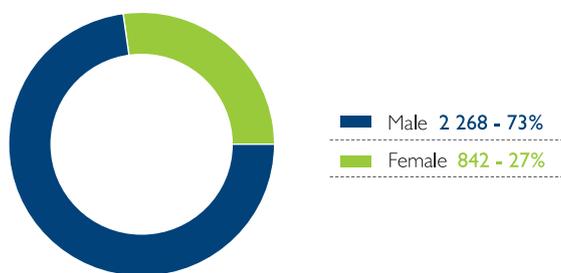
The Equality Plan consists of initiatives and targets that contribute to achieving the following objectives:

- Inclusion in the strategic planning of explicit and measurable objectives for the promotion of equality between men and women.
- Development or review of codes of conduct with inclusion of the principle of gender equality.
- Promoting equality in gender representation on juries and committees.
- Adoption of new employee welcome manuals that facilitate the process of integration of new workers.
- Creation and maintenance of information processed by gender, relative to personnel recruitment and selection processes.
- Regular dissemination of information concerning the rights and duties of male and female workers in relation to equality, non-discrimination, health, citizenship and maternity/paternity.
- Making use of information technology to create new forms of organisation and management of work, accessible to workers who facilitate work-family balance.
- Disclosure of resources existing in the geographical area of the company to facilitate work-family balance.
- Signing agreements with external entities that bring added value to employees in the management of their needs.
- Undertaking initiatives to debate ideas on the promotion of equality between men and women and the balance of personal, family and professional life.
- Creation and dissemination of communication channels that allow the presentation of the suggestions of employees.
- Consultation of workers on the degree of satisfaction with the implemented policies and gender equality measures.
- Promotion, in partnership with the Commission for Citizenship and Gender Equality, of awareness-raising/training initiatives on Gender Equality.
- Promotion and implementation of awareness-raising/training on issues related to the balance between personal, family and professional life.
- Use of neutral, inclusive and non-discriminatory language (written, non-written and images) in internal and external communication processes.

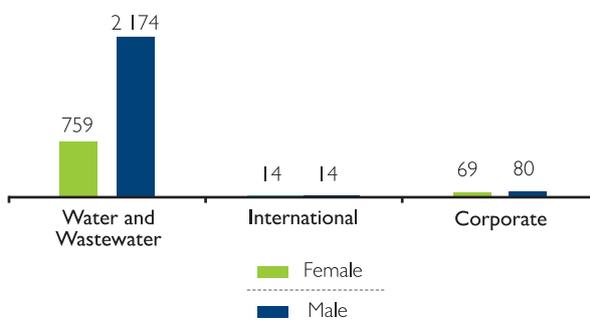
The analysis of the distribution of human resources by gender reveals a greater representation of the male gender in the activities of a more operational nature. There is a balance between sexes in admin and back-office work.

Most of the Group's employees occupy technical posts in the operation and maintenance areas. The lower representation of females is related to the low attractiveness that the duties in these areas have for women. The fact that only 8% of staff in the operation and maintenance areas are women greatly influences the overall statistics.

Gender Distribution



Gender Distribution

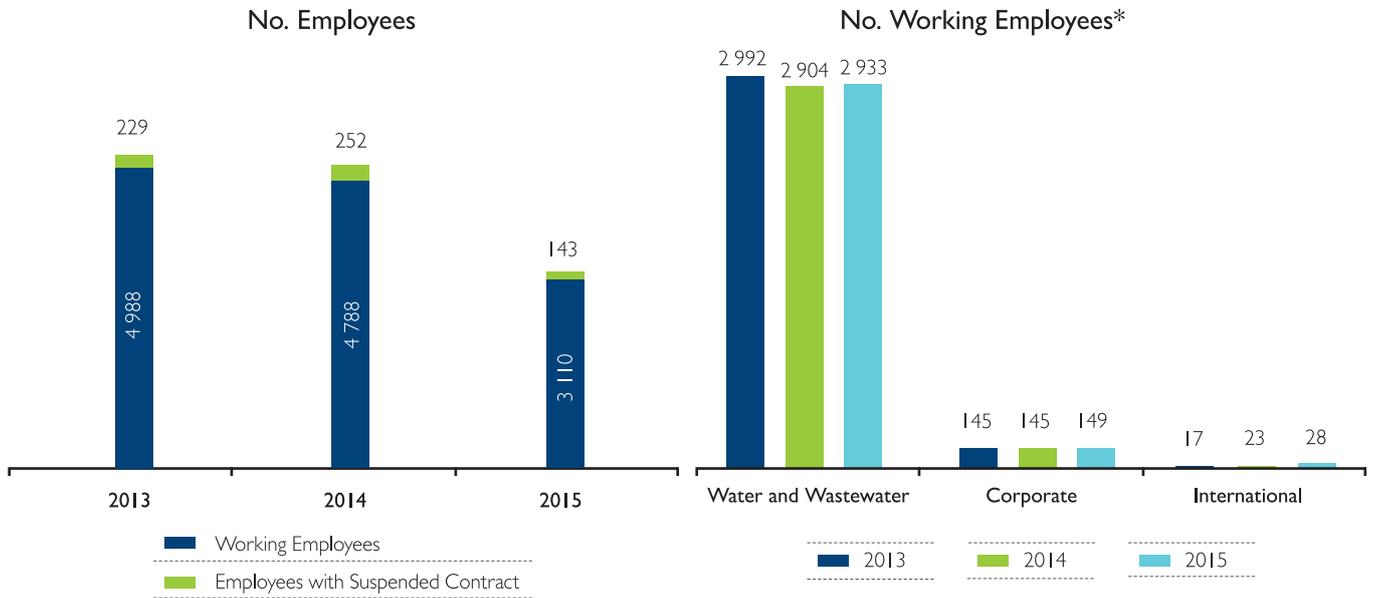


In compliance with the provisions of paragraph 2 of Council of Ministers Resolution No. 18/2014 of 7 March, and following the procedures implemented in the AdP Group, AdP SGPS promotes, disseminate and makes internally available on the website, information on the remuneration paid to women and men through its annual sustainability report.

## The Group's human resources on 31 December 2015 were:

Compared with 2014, the total number of active employees was reduced by 35%, mainly due to the privatisation process of the waste area. This process resulted in the exit of about 1,700 employees of the AdP Group.

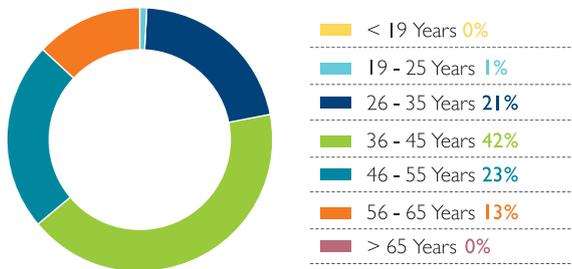
Excluding the waste business from a comparison of previous years, there was a variation of 1.2% in Group human resources.



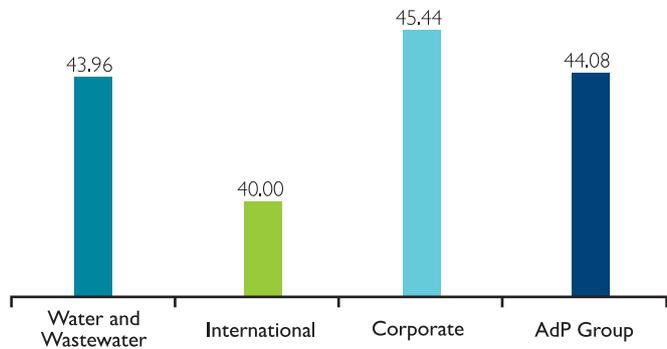
\* The figures do not include the information on the waste area to allow a comparable basis.

The average age of employees was 44 years. The most representative age bracket in the Group is that which includes employees aged between 36 and 45 years (42%).

### Age Groups of Working Employees

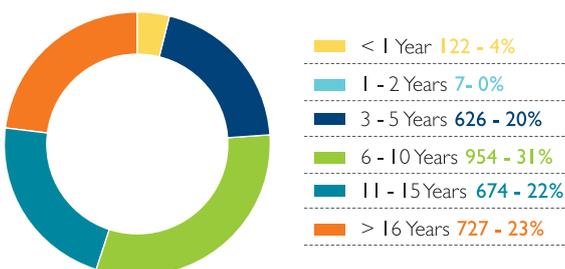


### Average Age of Working Employees

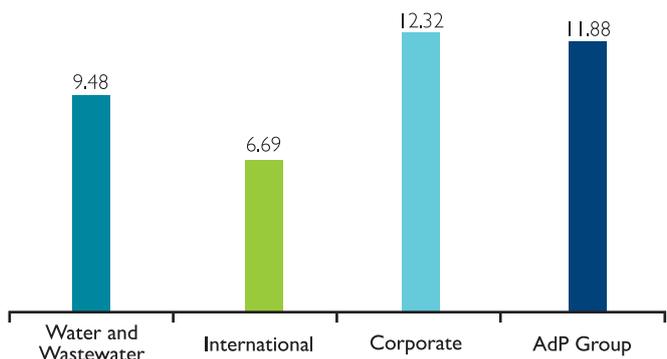


Average years of service of Group employees is 11.88 years. Although the AdP Group was established in 1993, the integration of pre-existing companies, like EPAL, has influenced this indicator. The average length of service in EPAL is the highest of the companies of the Group, at 22 years. The interval between 6 and 10 years accounts for 31% of total human resources.

### Years of Service of Working Employees

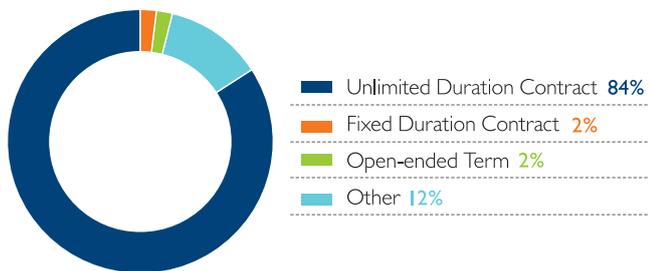


### Average Years of Service of Working Employees

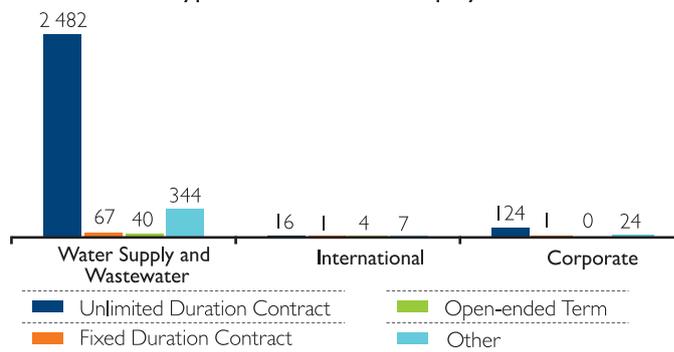


he most common type of employment contract at AdP is the indefinite contract, representing 84.3% of the total existing individual employment contracts. The "Other" section comprises employees on secondment arrangements within the Group and employees transferred in the public interest. Since these employees also have permanent contracts with their parent company, in practice this contractual scheme represents 96.4% of the total existing individual employment contracts.

Type of Contracts of Working Employees

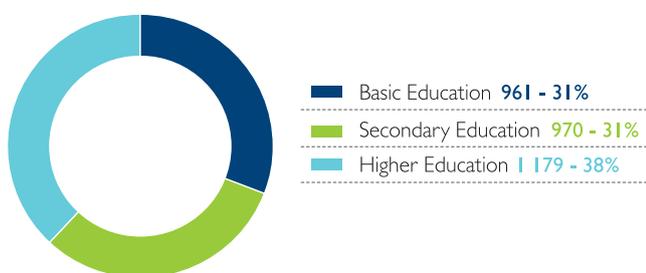


Type of Contracts of Employees



The analysis of the level of education shows that 38% of the Group's employees hold a higher education qualification.

Academic Qualifications of Working Employees



Productive and non-productive hours in the Group are within normal parameters for the sectors. Absent hours represented 5% of potential workable hours in 2015.

Time Worked



## Economic and financial analysis

### Executive committee

In 2015, the Group's activity sector was affected by an extraordinary set of factors of a strategic, legislative/regulatory and macroeconomic nature. In this context of challenge and change, the Group demonstrated adaptability and reaction, also translated into the economic and financial performance that the results reflect.

The net profit of the AdP Group was around EUR 166 million, which is EUR 63.6 million up on the 2014 financial year.

This result was driven by the operational performance of the Group and the impact of the sale of the waste business.

The highlights of operational performance in 2015 are:

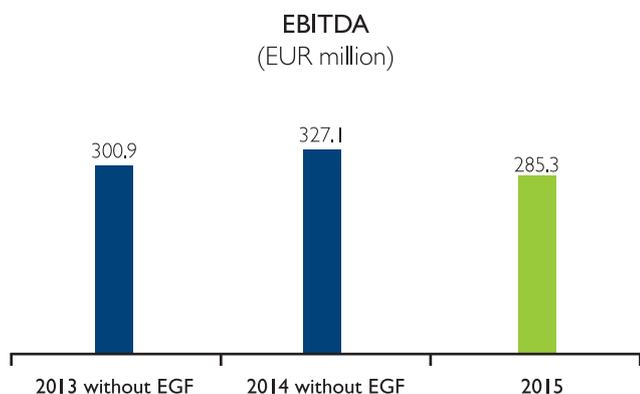
- assumptions inherent to the restructuring carried out and implemented in the 2nd half, in the core segment of the Group's activity;

- improved average financing conditions and the overall volume of debt of the Group;
- incorporation of recommendations and guidelines concerning ESS, notably those arising from the State Budget Law for 2015.

It can be said that in 2015, despite the fact it was an extraordinary year, the consolidated results achieved by the Group are consistent with what has been recorded historically.

## Analysis of results

EBITDA of the Group was EUR 285.3 million in 2015. This was a reduction of EUR 41.8 million from 2014, which represents a variation of 12.8%.



This indicator is impacted by the reduction of the Group's turnover, much caused by the overall reduction in tariffs charged by the new incorporated companies. It is important to stress that these new companies represent more than 70% and 90% of the volume of activity in the upstream water supply and wastewater treatment areas, respectively.

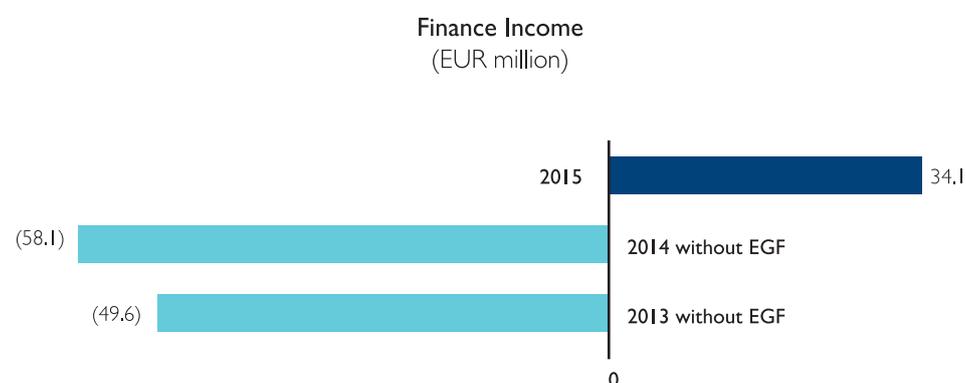
Also of note, and as a result of restructuring carried out in 2015, is the increase in depreciation associated with the investment, because of the variation of the term of the concessions and an increase of the cost recovery deviation caused by recognition in accounts associated with the former companies. Impairment is to be noted in this context, amounting to EUR 19.6 million associated with the wound up company Águas do Zêzere e Côa (vide note 18.3 to the consolidated accounts).

The combined effect of the mentioned factors, together with the continued effort to contain costs, resulted in an operating income of EUR 208 million in 2015, representing a reduction of roughly EUR 8 million compared to 2014.

This same variation can be found in note 35 of the notes to the accounts.

The revenue and expenses associated with construction services were added to the accounts of the current year. The impact on the operating profit and the net profit is nil.

Financial losses without the inclusion of gains from the sale of EGF totalled about negative EUR 41.3 million. This was an improvement of EUR 16.7 million from 2014, driven by the reduction of average cost of capital and the reduction of debt.



The improved financial function was embodied in the EUR 21.4 million reduction in financial expenses resulting from the reduction of the debt of EUR 324 million and the reduction of the Group's average interest rate by about 18%. Simultaneously, there was a reduction of EUR 4.7 million in revenues from financial applications, a result of the simultaneous reduction of the amounts invested.

## Debt analysis

Total gross debt of the AdP Group was EUR 2.4148 billion in 2015, which was reduced by EUR 323.7 million from 2014. The contributors to this result were the amount received for the sale of EGF with respective financial debt, the reduction of surpluses and debt recovery from customers. If we consider the value of net debt of cash and permanent investments (notably the contractual capital reconstruction fund), we obtain the value of EUR 2.1413 billion, a decrease in the year of EUR 206 million.

Long-term financing reached around 85.5% of the Group's gross borrowing, or 96.5% of net borrowing.

Medium and long-term borrowing (EUR 2.0657 billion) is based on loans from the European Investment Bank (EIB) and loans obtained through the issue of bonds in private placements.

## Financing structure

The AdP Group's prudential financial management has ensured that more than 60% of its medium and long-term debt is negotiated at fixed rates. The average spread of medium and long-term debt is lower than 50 bps, whether on the variable index rate or the fixed rate, at the time it was established.

Total financial cost in 2015 was 2.8%. 2.85% of that cost is from EIB funding and 0.97% medium and long-term funding placed directly on the market by AdP SGPS in the form of private placement of debt in the form of loans or bonds.

The proceeds from the sale of the EGF, associated with better efficiency in the management of the surplus provided by the territorial reorganisation allowed the reduction of the external debt of the Group by more than EUR 320 million during the year.

This fact, associated with the credit spread for the short-term component of financing, permitted a EUR 21 million reduction of financial costs. Notable in this amount is the reduction of the cost of short-term financing by EUR 16.9 million as a result of the combination of the factors mentioned (significant reduction of debt, the reference rate and the associated credit spread).

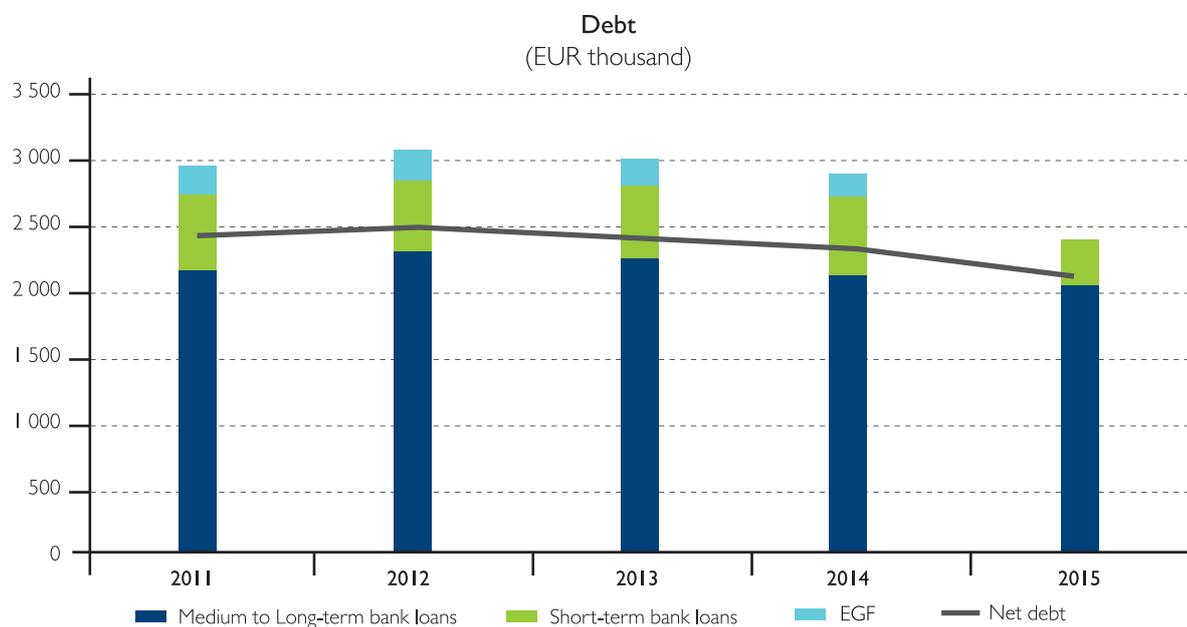
Another bond issue of 12 years (issued in 2016) began in 2015, with the aim of reducing the liquidity risk. This bond issue has lower costs than those currently in force for short-term lines.

The reduction of the Group's exposure to credit risk and the continuation of the debt reduction trend associated with lower average bank spreads will lead to the continuation of the downward trend of this cost in 2016.

The financial expenses of medium and long-term borrowing from the EIB increased slightly as a result of our choice of fixed-rate loans. The average rate increase was 2.85% Long-term financing obtained by AdP SGPS, via direct placement on the Japanese and European markets, recorded a total average cost of 1.3%, including total costs and the component of contracted derivatives.

Also to be added to the financial results is the positive value of the change of value of the derivatives market, at about EUR 3.9 million.

Interest paid represents a cost of around 2.8% of the Group's average total borrowing.



The financing structure set up in recent years to fund investment has enabled us to reduce the volatility of financial expenses, by the weight that long-term borrowing has on total debt, or by the significant component of fixed rates. Accordingly, the fixed rate component of total bank debt reflects the maintenance of a conservative financing structure.

The pursuit of the investment planned in the concession agreements of the multi-municipal systems, arising from the goals set in the strategic plans for the water sector, has led to a volume of debt directed towards investment as well as working capital needs related to overdue trade payables or those for which payment arrangements have been reached.

The AdP Group started an investment containment program in 2011, given the limitations imposed on companies of the business sector of the State and the evolution of debt, and considering the increase in the average collection period of municipal credits. This programme comprised the rationalization and rescheduling of the investments planned in the concession agreements. During 2015, and despite the mentioned constraints still existing, it was possible to start the preparation of the new investment cycle. It is expected that the volume of investment is maintained at the present values in forthcoming years.

## Financial risk

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

The AdP Group's financial risk management policy is designed to minimise possible adverse effects of the unpredictability of the financial markets. This management is performed centrally by the Group's holding company.

The Group's interest rate risk management policy is aimed at reducing exposure of debt cash flows to market fluctuations by means of structured financial derivatives or by choosing fixed rates for the loans from the EIB.

AdP has taken a conservative position, taking account of the long-term characteristics of assets, and has preferred long-term funding, especially from the EIB. In addition, in 2004 AdP SGPS began obtaining foreign finance and performed a private placement of debt in 2005 and three private bond issues in 2007. Taking advantage of the creation of an opportunity in the market, it began the process this year of another bond issue of EUR 75 million, which was completed by February 2016.

Most of the long-term lines of funding were negotiated before 2008 on terms that were favourable at the time and now represent substantial capital gains for the Group in terms of servicing the debt.

Where interest rates are concerned, taking account of the reintegration of investments, the contracting of fixed-rate loans has been favoured (directly or through hedging instruments). This strategy means that over two-thirds of AdP's long-term debt is fixed rate and therefore immune to future fluctuations in interest rates.

## Treasury unit principle

As part of its company object, AdP SGPS is a flexible, efficient instrument for the specialised, centralised management of the shareholdings in its portfolio. Therefore, in addition to the strategic guidelines issued to the managers that represent it, the provision of technical administration and management services is a crucial element in the financial operation of subsidiaries (all the shareholdings).

The universe of Group companies encompasses a number of shareholdings in the environmental sector in different phases of maturity and so AdP SGPS took on the responsibility of coordinating and obtaining the funding necessary to meet these companies' needs. It always takes account of the final goal of maintaining the balance of its consolidated finance structure. Therefore:

- It has accompanied the companies in their relations with the Cohesion Fund in order to facilitate their access to EU support.
- It began negotiations with the EIB back in 1997 with a view to funding the first-phase projects and obtained a credit line of EUR 167 million.
- In 2000 it began new negotiations with the EIB for investments in the second phase and was granted three lines of funding (provided between 2005 and 2009) to a total of EUR 1.472 billion.
- It helped set up an EIB line of funding for the solid waste sector to a total of EUR 145 million to partially finance investments in the final phase.
- As the EIB lines and Cohesion Fund finance provided were insufficient to fund all its projects, AdP SGPS began to access foreign markets in 2003. It performed its first private placement of 10-year debt in Japan in 2005 and three private issues of 15 and 20-year bonds in 2007, to a total of EUR 600 million.
- It began contacts with foreign entities to place long-term debt in order to prepare the market for future placings to meet the Group's financing needs.

All these funds from long-term operations are to finance multi-municipal systems in terms of investment and working capital in their first years of operation.

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

The centralisation of a substantial part of the funds at AdP SGPS has enabled it to manage the Group's needs cohesively. So far it has prevented cash-flow and insolvency problems, in spite of serious difficulties in the inland systems. In addition to this medium and long-term framework, AdP SGPS has also centralised negotiations with the banks for short-term funding. This prevents an individual bank from penalising any subsidiary in terms of costs or credit.

The fact that AdP SGPS manages negotiation of lines of credit and occasionally encounters some temporary surpluses centrally has enabled the group to keep its financial health at satisfactory levels with low impact on the Group's business.

On government instructions, the Group invested its permanent cash surpluses at Agência de Gestão da Tesouraria e da Dívida Pública - IGCP, E.P.E., while keeping its temporary surpluses as guarantees for short-term funding from banks, so that they will continue their support. As required by law, it requested authorisation from the ministry for a partial dispensation for this component of non-permanent surpluses. This permission has been granted on an annual basis and it was given for 2015.

## Research, development and innovation

The R&D Department of the AdP Group joined the European WssTp – The European Water Platform, in 2015. WssTP currently has 153 members and a network of over 700 contacts in industry, scientific institutions and utility companies. Joining the platform gives AdP:

- access to technical documents of the state of the art in terms of technology and European regulatory trends;
- the possibility of holding networking events;
- dissemination and support in setting up consortia to apply for European R&D+i projects.

Four new action groups were also set up in 2015, under the European Innovation Partnership on Water (EIP Water), including the group that the AdP Group is a member of, dedicated to the development of low-cost treatment solutions for the management of water: "Nature-based technologies for innovation in water management (NatureWat)".

NatureWat, led by the Polytechnic University of Catalonia, will act in the field of ecosystem services through the identification of priorities for action in this area and the development of new nature based technological solutions that can respond to identified needs. The priority is the creation of innovative solutions with low investment costs and that are energetically efficient.

Simultaneously, the Group integrated the new Doctoral Programme of the Faculty of Medicine of Lisbon University (FMUL), approved by FCT (Foundation for Science and Technology) called EnviHealth & Co., which will be developed in a business environment, namely in EPAL. This project is entirely devoted to environmental health and related fields. The project will last for four years. The first year (2016) is a classroom teaching year that will be held at the Faculty of Medicine of Lisbon.

## Knowledge portal

The design and choice of contents for the AdP Group knowledge portal were completed, scheduled to be launched in 2016. Its purpose is to provide in-house news and support for the AdP Group's R&D and innovation.

## Ongoing R&D+i projects

### ARTICA

The "A multivariable advanced control product for sustainable performance of nutrient removal urban WWTPs (ARTICA)", project continued, which aims to demonstrate the use of ARTICA technology at the Chelas wastewater treatment plant, under the Eco-Innovation funding programme (<http://www.artica4nr.eu/>).

The aim of ARTICA is to demonstrate the use of a smart controller for activated sludge at wastewater treatment plants with the removal of nitrogen. The goal is to optimise real time circulation of sludge, nitrates and the flow of processing air, in order to reduce energy costs.

The project is also envisaged to be demonstrated at Castelo Branco WWTP. The work began in 2015 related to diagnosis and the specifications of the installation sites.

### Water-Energy Portal

The second phase of the Energy Portal was commenced. The aim of the water-energy portal R&D+i project is to enable AdP Group companies to access energy consumption every 15 minutes every day on the EDP distribuição platform and set up a Business Intelligence tool to implement operational benchmarking to help in decisions at top, financial and technical management level. It is an in-house R&D+i project headed by R&D at AdP SGPS. Its partners are the Procurement Department and IT Services Department of AdP Serviços.

### Aquavir

We continued the AQUAVIR project (FP7-NMP-2013-SMALL-7) headed by the Department of Micro and Nanotechnology at the Denmark Technical University (DTU), in which Simtejo and EPAL are participating as end users. This project tests, validates and disseminates an innovative portable system for monitoring three types of human enteric virus in different locations and for different purposes, particularly in wastewater treated over a period of 36 months.

### SmartWater4Energy

The Smart Water 4 Energy project (SW4E) was completed in 2015. It was funded by the NSRF in co-promotion with the consortium formed by the companies Ex-Simtejo (Promoter), ISQ and Hidromod. The Smart Water 4 Energy (SW4E) project developed an intelligent system for energy management of the WWTP which helps to reduce energy consumption in the wastewater treatment process while simultaneously adopting more stringent limits in terms of quality of the sewage discharge into the recipient water bodies. The smart real time energy management support system was embodied in the SW4E platform and successfully demonstrated in the case studies of Frielas and Alcantara WWTP.

### LIFE SWSS

European LIFE project (SWSS) with reference LIFE14 ENV/PT/000508, "Smart Water Supply Systems". LIFE SWSS - Smart Water Supply Systems is the name of the R&D project that has the main objective to create a decision-making and operational management support platform for utility companies, in order to reduce energy consumption and thus emissions of greenhouse gases.

The LIFE SWSS project has the following partners, ISQ (coordinator), AdP, Hidromod, AdA and EPAL. When the project was submitted to the European Union in 2014, the wound up Águas do Oeste and Águas do Centro companies were also consortium members.

### LIFE IMPETUS

European LIFE IMPETUS project, with reference LIFE14 ENV/PT/000379: "Improving current barriers for controlling pharmaceutical compounds in urban wastewater treatment plants". The LIFE IMPETUS Project aims to introduce effective measures to improve the removal of pharmaceutical products in urban WWTP by the conventional treatment of activated sludge, a biological process widely used in wastewater treatment.

The participants in the project are EPAL – Empresa Portuguesa das Águas Livres, S.A., Laboratório Nacional de Engenharia Civil (LNEC), which coordinates the project, Águas do Algarve, S.A., Environment and Regional Development Consulting, Lda. (EHS), Faculty of Science, University of Lisbon (FCUL), Faculty of Pharmacy, University of Lisbon (FFUL), University of Algarve (UAIG).

When the project was submitted to the European Union in 2014, the wound up Simtejo – Saneamento Integrado dos Municípios do Tejo e Trancão, S.A. company was also a member of the consortium. The merger and integration of Simtejo in EPAL in 2015 meant the Wastewater Treatment Operations Department and Research and Development Department of EPAL, formed when that company was restructured, effectively formed part of the project.

The ongoing projects in Águas do Algarve and EPAL are also noteworthy: LIFE Hymemn, SafeWater and Bingo, respectively.

## Funding programmes for R&D+i projects

In 2015, the AdP Group integrated several applications to national and international funding programs such as H2020, LIFE, P2020 and Interreg. The most notable were:

- Application to RESCCUE - RESilience to cope with Climate Change in Urban Areas - H2020 - DRS-09-201: the consortium is led by AQUATEC (Barcelona). The partners for the national study case are: LNEC, HIDRA, Lisbon Council Civil Protection Force, EDP Distribuição, Transportes de Lisboa and Águas de Portugal. It aims to implement large-scale technological solutions in a real environment, in order to aid stakeholders in climate change scenarios.

- Application to TWIST - Transnational Strategy for Innovation in the field of water - Interreg Sudoe: The consortium is led by Centa (Andalusia), with the national partners: IST, PPA and Águas de Portugal. It aims to enhance synergies and networks in the field of R&D+I transnationally in specific sectors through smart specialisation.

## Important events after the end of the financial year

At the end of the first quarter of 2016, the Ministry governing the Sector announced the main guidelines underlying the strategy of the Government for the environment sector "National Commitment for Sustainability of Public Water Services."

## Compliance with legal guidelines

**Management goals set out in Article 38 of Decree-Law 133/2013 of 3 October, in quantified form and targets in accordance with the plan of activities and approved budget**

The management goals of AdP SGPS were established for the period 2015-2017. They are annually defined, according to the appropriate management contract. The defined and evaluated targets are established by Unanimous Board Decision of 24 July 2015. Similarly, the appropriate method of assessment was defined.

The overall performance evaluation was 2.6, which corresponds to the degree exceeded.

Indicators	TARGET	Method of Assessment	Value achieved	Assessment
<b>Reduction of governing bodies (RGB)</b>	67% reduction	RGB < 67% - not achieved 67% ≤ RGB < 68% - achieved RGB ≥ 68% - exceeded	68 %	Exceeded
<b>Reduction of Operating Expenses in incorporated companies</b>	Reduction of EUR 20 million per year.	Reduction < EUR 20M - not achieved EUR 20M ≤ Reduction < EUR 22M -achieved Reduction ≥ EUR 22M - Exceeded	EUR 31.5 million	Exceeded
<b>Cost reduction plan (CRP)</b>	Not allow an increase in the weight of the costs indicated in turnover in comparable activity of 2015 and 2014.	CRP 2015 > 110% CRP 2014 - not achieved 110% CRP 2014 ≤ CRP 2015 < 90% CRP 2014 - achieved CRP 2015 ≤ 90% CRP 2014 - exceeded	107%	Achieved
<b>Commercial debt of municipal debtors</b>	No increase of the stock of overdue municipal debt.	Debt > 120% - not achieved 80% ≤ Debt < 120% - achieved Debt < 80% - exceeded	69 %	Exceeded
<b>Operating cash degradation (OCD)</b>	No degradation of cash, given the limitation to the evolution of the debt growth and PMR degradation that has been observed.	OCD > 100% - not achieved 75% < OCD ≤ 100% - achieved OCD ≤ 75% - exceeded	94 %	Achieved
<b>Water Quality</b>	No deterioration of the quality of water provided in the multi-municipal systems of EPAL and the State municipalities partnerships, making an assessment according to the indicator of ERSAR, even if this entity has not performed the audit of the quality of water.	[WQ 2015/WQ 2014] < 97.5% - not achieved 97.5% ≤ [WQ 2015/WQ 2014] ≤ 100% - achieved [WQ 2015/WQ 2014] > 100% - exceeded	100.1 %	Exceeded

<b>Wastewater Quality</b>	No deterioration of the quality of water provided in the multi-municipal systems of EPAL and the State municipalities partnerships, making an assessment according to the indicator of ERSAR, even if this entity has not performed the audit of wastewater quality.	[WWQ 2015/WWQ 2014] < 95% - not achieved [95% ≤ WWQ 2015/QWWQ AR 2014] ≤ 100% - achieved [WWQ 2015/WWQ 2014] > 100% - exceeded	99.8 %	Achieved
<b>Provision of information to external entities</b>	Maintain a degree of reopening of requests for information equivalent to 10% of requests.	Information > 10% - not achieved 7.5% < Information ≤ 10% - achieved Information ≥ 7.5% - Exceeded	16 %	Not achieved
<b>Tariff Budgets and Projects (TBP)</b>	Delivery by 30 September for all MMS except for Águas de Santo André which has a contractual date of 31 October.	At least 1 TBP not delivered within the contract deadline - not achieved All TBP delivered within the contract deadline – achieved	100 %	Achieved

Notes:

(1) As established by Unanimous Board Decision of 24 July 2015.

(2) When one of the goals is not assessed, its weight is distributed evenly between the remaining goals.

(3) Method of assessment: Not achieved 1 | Achieved 2 | Exceeded 3

Assessment of managers: Inadequate <1.8 | Adequate 1.8 ≤ Assessment <2.5 | Exceeded ≥ 2.5

(4) The indicator not achieved is justified as follows: There were extraordinary constraints in preparing information to report due to the restructuring process. Notwithstanding the efforts made to meet the deadlines, there is a need at a later stage to reopen requests from different platforms for registration and completing the final information.

### Management of the financial risk and compliance with caps on additional borrowing, defined for 2015 in Law 82-B/2014 of 31 December, calculated in accordance with the guidelines of the circular giving instructions of the preparation of IPG-2015.

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

The AdP Group's financial risk management policy is designed to minimise possible adverse effects of the unpredictability of the financial markets. This management is performed centrally by the Group's holding company.

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

AdP has taken a conservative position, taking account of the long-term characteristics of assets, and has preferred long-term funding, especially from the EIB. In addition, in 2004 AdP SGPS began obtaining foreign finance and performed a private placement of debt in 2005 and three private bond issues in 2007 and 2008.

The process of another bond issue, at a 12-year term, began in 2015, in the amount of EUR 75 million. This issue was completed in February 2016.

Most of the long-term lines of funding were negotiated before 2008 on terms that were favourable at the time and now represent substantial capital gains for the Group in terms of servicing the debt.

Where interest rates are concerned, taking account of the reintegration of investments, the contracting of fixed-rate loans has been favoured (directly or through hedging instruments). This strategy means that around two-thirds of AdP's long-term debt is fixed rate and therefore immune to future fluctuations in interest rates.

	2015	2014	2013
Financial expenses(unit: EUR thousand)	74 671	91 234	100 937
Average financing rate (%)	2.80%	3.26%	3.53%

Interest bearing liabilities	Value at end of year			Change % 2015/14	
	2015	2014	2013	Value	%
Finance obtained(unit: EUR thousand) DGTf	2 414 824	2 738 545	2 836 004	(323 721)	(13,3%)
Capital increase Allocation					
Conversion of credits					
Adjusted indebtedness	0	0	0	0	0

Average payment time to suppliers in accordance with Council of Ministers Resolution 34/2008 of 22 February with the amendment made by Ordinance 9870/2009 of 13 April, and disclosure of payments in Arrears as defined in Decree-Law 65-A/2011 of 17 May and the strategy used to reduce them (separate data of AdP SGPS).

	2015	2014	Variation Value	%
Deadline (days)	41	57	-16	-28,3

Approximately 75% of debts to suppliers are to Group companies (Shared Services). The average time went down from 2014 to 2015. The terms achieved are also due to the centralised management of corporate cash flow (management of payments and receipts) between AdP SGPS and the other Group companies, in particular AdP Serviços.

Debts in arrears	2015 Debts in arrears pursuant to Article 1 of Decree-Law 65-A/2011 (EUR)				
	0-90 days	90-120 days	120-240 days	240-360 days	Over 360 days
Procurement of goods and services	131 830.93	23 257.30	505.92	6 266.23	7 186.64
Acquisition of capital	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>131 830.93</b>	<b>23 257.30</b>	<b>505.92</b>	<b>6 266.23</b>	<b>7 186.64</b>

**Measures taken and results obtained in compliance with shareholder's recommendations made when approving the accounts**  
The shareholders made no recommendations when approving the accounts.

Remunerations:

### Officers of the General Meeting

#### Term of office 2012-2014

Term of office (Start - end)	Position	Name	Value of fixed slip (EUR)	Annual remuneration (EUR)			Final Value (4) = (1)-(2)+(3)
				Gross (1)	Reductions in remuneration (2)	Reversals in remuneration (3)	
2012-2014	Chair	Ana Cristina Rodrigues	650.00	1 950.00	195.00	39.00	1 794.00
2012-2014	Vice-Chair	Maria Fernanda Martins	520.00	1 560.00	156.00	31.20	1 435.20
2012-2014	Secretary	Manuel Gouveia Pereira	400.00	1 200.00	0.00	0.00	1 200.00

#### Term of office 2015-2017

Term of office (Start - end)	Position	Name	Value of fixed slip (EUR)	Annual remuneration (EUR)			Final Value (4) = (1)-(2)+(3)
				Gross (1)	Reductions in remuneration (2)	Reversals in remuneration (3)	
2015-2017	Chair	Ana Cristina Rodrigues	650.00	0.00	0.00	0.00	0.00
2015-2017	Vice-Chair	Maria Fernanda Martins	520.00	0.00	0.00	0.00	0.00
2015-2017	Secretary	Manuel Gouveia Pereira	400.00	0.00	0.00	0.00	0.00

## Board of Directors

### Term of office 2012-2014

Term of office (Start - end)	Position	Name	Title		Entity	OPRLO	
			Form	Date		(O/D)	
2012-2014	Chairman	Afonso Lobato de Faria	GM	02/02/2012			
2012-2014	Executive Director	Álvaro Castelo-Branco	GM	02/02/2012			
2012-2014	Executive Director	Gonçalo Martins Barata	GM	02/02/2012			
2012-2014	Executive Director	Manuel Fernandes Thomaz	GM	02/02/2012	AdP - Águas de Portugal, SGPS, S.A.		D
2012-2014	Executive Director	Manuel Frexes	GM	02/02/2012			

OPRLO - Option of remuneration at place of origin | O/D -Place of Origin/ Destination

### Term of office 2015-2017

Term of office (Start - end)	Position	Name	Title		Entity	OPRLO	
			Form	Date		(O/D)	
2015-2017	Chairman	Afonso Lobato de Faria	GM	16/06/2015			
2015-2017	Executive Director	Gonçalo Martins Barata	GM	16/06/2015			
2015-2017	Executive Director	Manuel Fernandes Thomaz	GM	16/06/2015			
2015-2017	Executive Director	Cláudio Miguel Andre de Sousa Jesus	GM	16/06/2015			
2015-2017	Executive Director	José Manuel Sardinha	GM	16/06/2015			
2015-2017	Non-Executive Director	José Manuel Barros	GM	16/06/2015			

OPRLO - Option of remuneration at place of origin | O/D -Place of Origin/ Destination

### Term of office 2012-2014

Name	EGP			
	Fixed	Classification	Basis Salary	Expenses
Afonso Lobato de Faria	S	A	5 722.75	2 289.10
Álvaro Castelo-Branco	S	A	-	-
Gonçalo Martins Barata	S	A	4 578.20	1 831.28
Manuel Fernandes Thomaz	S	A	5 722.75	2 222.25
Manuel Frexes	S	A	4 578.20	1 831.28

EGP - Public Manager Statute

### Term of office 2015-2017

Name	EGP			
	Fixed	Classification	Basis Salary	Expenses
Afonso Lobato de Faria	S	A	5 722.75	2 289.10
Manuel Fernandes Thomaz(1)	S	A	5 150.47	2 060.19
Gonçalo Martins Barata	S	A	4 578.20	1 831.28
Cláudio Miguel André de Sousa Jesus (2)	S	A	4 578.20	1 831.28
José Manuel Sardinha (3)	S	A	-	-

EGP - Public Manager Statute

(1) The remuneration began to be paid by AdNorte from 01/07/2015, the company of which he is Chairman of the Board of Directors.

(2) The remuneration began to be paid by AdCL from 01/07/2015, the company of which he is Chairman of the Board of Directors.

(3) The remuneration continued to be paid by EPAL, the company of which he is Chairman of the Board of Directors.

## Term of office 2012-2014

Member of the Management Board	Annual remuneration 2015 (EUR)					
	Fixed	Variable	Gross (1)	Reductions in remuneration (2) a)	Reversals in remuneration (3)	Final Value (4) = (1)-(2)+(3)
Afonso Lobato de Faria	49 511.52	-	49 511.52	7 179.27	940.72	43 272.97
Álvaro Castello-Branco	-	-	-	-	-	-
Gonçalo Martins Barata	39 609.22	-	39 609.22	5 743.57	752.57	34 618.22
Manuel Fernandes Thomaz	49 177.27	-	49 177.27	7 040.93	916.95	43 053.28
Manuel Frexes	39 609.22	-	39 609.22	5 541.31	712.16	34 780.07

a) Includes the reduction under Law N°. 12-A/2010 of 30 June.

## Term of office 2015-2017

Member of the Management Board	Annual remuneration 2015 (EUR)					
	Fixed	Variable	Gross (1)	Reductions in remuneration (2) a)	Reversals in remuneration (3)	Final Value (4) = (1)-(2)+(3)
Afonso Lobato de Faria	58 076.18	-	58 076.18	8 421.16	1 103.45	50 758.47
Manuel Fernandes Thomaz (1)	4 258.81	-	4 258.81	609.75	79.41	3 728.47
Gonçalo Martins Barata	46 460.94	-	46 460.94	6 737.11	882.75	40 606.58
Cláudio Miguel André de Sousa Jesus (2)	3 407.05	-	3 407.05	373.84	40.67	3 073.88
José Manuel Sardinha (3)	-	-	-	-	-	-

1) Referring to 17/06/2015 to 30/06/2015

2) Referring to 17/06/2015 to 30/06/2015

3) Decided to maintain the remuneration paid by EPAL

a) Includes the reduction under Law N°. 12-A/2010 of 30 June.

## Term of office 2012-2014

Name	Social benefits (EUR)							
	Value of meal allowance		Social security system		Life insurance	Health insurance	Other	
	Daily rate	Annual expense for entity	Scheme	Annual expense for entity	Annual expense for entity	Annual expense for entity	Identification	Annual expense for entity
Afonso Lobato de Faria	4.27	478.24	Social Security	11 121.56	852.07	582.34	-	-
Álvaro Castello-Branco	-	-	-	-	-	-	-	-
Gonçalo Martins Barata	4.27	491.05	Social Security	8 804.67	681.66	163.68	-	-
Manuel Fernandes Thomaz	6.41	717.92	Social Security	10 512.02	681.66	706.67	-	-
Manuel Frexes	4.27	473.97	Social Security	6 110.32	211.03	1 103.71	-	-

## Mandato 2015-2017

Name	Social benefits (EUR)							
	Value of meal allowance		Social security system		Life insurance	Health insurance	Other	
	Daily rate	Annual expense for entity	Scheme	Annual expense for entity	Annual expense for entity	Annual expense for entity	Identification	Annual expense for entity
Afonso Lobato de Faria	4.27	572.18	Social Security	12 875.22	1 007.00	683.62	-	-
Manuel Fernandes Thomaz (1)	6.41	64.10	Social Security	1 167.35	63.29	64.24	-	-
Gonçalo Martins Barata	4.27	580.72	Social Security	10 191.63	805.59	193.44	-	-
Cláudio Miguel André de Sousa Jesus (2)	6.41	64.10	Social Security	773.45	-	-	-	-
José Manuel Sardinha (3)	-	-	-	-	-	-	-	-

(1) Referring to 17/06/2015 to 30/06/2015

(2) Referring to 17/06/2015 to 30/06/2015

(3) Decided to maintain the remuneration paid by EPAL.

## Term of office 2012-2014

Name	Accumulation of positions		
	Entity	Position	Scheme
Afonso Lobato de Faria	AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A.	(Non-executive) Chairman	Public
Álvaro Castello-Branco	Águas do Douro e Paiva, S.A.	Executive Chairman	Public
	AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A.	(Non-executive) Director	Public
Gonçalo Martins Barata	AdP - Águas de Portugal Serviços Ambientais, S.A.	(Non-executive) Director	Public
	AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.	(Non-executive) Chairman	Public
Manuel Fernandes Thomaz	Águas da Região de Aveiro, S.A.	Executive Chairman	Public
Manuel Frexes	AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.	(Non-executive) Chairman	Public
	Águas do Centro, S.A.	Presidente (não executivo)	Public

## Term of office 2015-2017

Name	Accumulation of positions		
	Entity	Position	Scheme
Afonso Lobato de Faria	AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A.	(Non-executive) Chairman	Public
Gonçalo Martins Barata	AdP - Águas de Portugal Serviços Ambientais, S.A.	(Non-executive) Chairman	Public
	AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.	(Non-executive) Director	Public
Manuel Fernandes Thomaz	Águas da Região de Aveiro, S.A.	(Non-executive) Chairman	Public
	Águas do Norte, S.A.	Executive Chairman	Public
Cláudio Miguel André de Sousa Jesus	Águas do Centro Litoral, S.A.	Executive Chairman	Public
	AdP - Águas de Portugal Internacional, Serviços Ambientais, S.A.	(Non-executive) Director	Public
José Manuel Sardinha	EPAL – Empresa Portuguesa das Águas Livres, S.A.	Executive Chairman	Public
	Águas de Lisboa e Vale do Tejo, S.A.	Executive Chairman	Public

## Mobile communication expenses (EUR)

Name	Mobile communication expenses (EUR)		
	Monthly limit	Annual amount	Remarks
Afonso Lobato de Faria	80.00	798.23	-
Álvaro Castello-Branco	80.00	-	Up to 16/06/2015
Cláudio Miguel André de Sousa Jesus (2)	80.00	9.14	-
Gonçalo Martins Barata	80.00	652.63	-
José Manuel Leitão Sardinha (3)	80.00	-	Since 17/06/2015
Manuel Fernandes Thomaz (1)	80.00	4 12.59	-
Manuel Frexes	80.00	2 067.65	Expenses exceeding the limit were incurred for work use. Up to 16/06/2015

(1) Referring to 01/01/2015 to 30/06/2015

(2) Referring to 17/06/2015 to 30/06/2015

(3) Decided to maintain the remuneration paid by EPAL.

### Vehicle expenses

Name	Vehicle allocated	Conclusion of agreement	Vehicle's reference value	Type of agreement	Start year	End year	N° instalments	Monthly rent	Annual amount
Afonso Lobato de Faria	S	27/05/2009	77 862.78 EUR	Operational vehicle rental	2009	2016	84	1 232.15	14 785.80
Álvaro Castello-Branco	S	16/04/2009	51 358.07 EUR	Operational vehicle rental	2009	2015	70	955.41	-
Cláudio Miguel André de Sousa Jesus (2)	S	16/04/2009	51 358.07 EUR	Operational vehicle rental	2009	2015	70	955.42	477.71
Gonçalo Martins Barata	S	17/04/2009	52 885.30 EUR	Operational vehicle rental	2009	2015	72	1 101.64	13 219.68
José Manuel Leitão Sardinha (3)	S	13/11/2013	29 896.75 EUR	Operational vehicle rental	2013	2015	18	1 309.82	-
Manuel Fernandes Thomaz (1)	S	16/04/2009	54 694.67 EUR	Operational vehicle rental	2009	2015	72	893.02	5 358.12
Manuel Frexes (until 16-6-2015)	S	13/11/2013	29 896.75 EUR	Operational vehicle rental	2013	2015	18	1 309.82	12 426.11

(1) Referring to 01/01/2015 to 30/06/2015

(2) Referring to 17/06/2015 to 30/06/2015

(3) Decided to maintain the remuneration paid by EPAL.

Note: annual expenditure over the established annual amount is exclusively due to professional use.

Name	Monthly limit for fuel and tolls	Annual vehicle-related expenses				Remarks
		Fuel	Tolls	Other repairs	Insurance	
Afonso Lobato de Faria	572.27	3 393.32	1 468.20	413.28	898.46	
Álvaro Castello-Branco	457.82	-	-	-	-	
Cláudio Miguel André de Sousa Jesus (2)	457.82	-	-	-	-	
Gonçalo Martins Barata	457.82	1 281.80	585.15	354.24	701.20	
José Manuel Leitão Sardinha (3)	457.82	-	-	-	-	
Manuel Fernandes Thomaz (1)	457.82	2 240.72	1 187.35	181.61	378.40	
Manuel Frexes (until 16-6-2015)	457.82	3 560.20	1 899.25	1 964.37	267.60	

(1) Referring to 01/01/2015 to 30/06/2015

(2) Referring to 17/06/2015 to 30/06/2015

(3) Decided to maintain the remuneration paid by EPAL.

### Annual costs of on-duty travel

Name	On-duty travel	Accommodation costs	Expenses	Others		Total travel costs
				Identify	Value	
Afonso Lobato de Faria	4 181.35	297.00	276.99	Meals and parking	292.00	5,047.34
Álvaro Castello-Branco (até 16-6-2015)				Meals and parking	-	
Cláudio Miguel André de Sousa Jesus (2)	-	-	-	Meals and parking	-	-
Gonçalo Martins Barata	77.45			Meals and parking	230.70	308.15
José Manuel Leitão Sardinha (3)				Meals and parking	-	
Manuel Fernandes Thomaz (1)	895.41	631.00	134.03	Meals and parking	275.55	1,935.99
Manuel Frexes (until 16-6-2015)	3 144.60			Meals and parking	656.57	3,801.17

(1) Referring to 01/01/2015 to 30/06/2015

(2) Referring to 17/06/2015 to 30/06/2015

(3) Decided to maintain the remuneration paid by EPAL.

## Supervisory Board

### Term of office 2012-2014

(Start - end)	Position	Name	Doc	Date	Fixed monthly remuneration status (EUR)
2012-2014	Chair	Carla Maria Ribeiro	Unanimous written decision	01/11/2014	1 602.37
2012-2014	Director	Ana Luisa Gomes	GM	02/02/2012	1 201.78
2012-2014	Director	Mario Carrega	GM	02/02/2012	1 201.78

## Term of office 2015-2017

(Start - end)	Position	Name	Doc	Date	Fixed monthly remuneration status (EUR)
2015-2017	Chair	Carla Maria Ribeiro	GM	16/06/2015	1 602.37
2015-2017	Director	Ana Luisa Gomes	GM	16/06/2015	1 201.78
2015-2017	Director	Mario Carrega	GM	16/06/2015	1 201.78

## Term of office 2012-2014

Name	Annual remuneration 2015 (EUR)			
	Gross (1)	Reductions in remuneration (2)a	Reversals in remuneration (3)	Final Value (4) = (1)-(2)+(3)
Carla Maria Ribeiro	10 322.75	1 368.19	178.39	9 132.95
Ana Luisa Gomes	7 742.08	1 112.09	144.99	6 774.98
Mario Carrega	7 742.08	1 112.09	144.99	6 774.98

a) Includes the reduction under Law No. 12-A/2010 of 30 June.

## Term of office 2015-2017

Name	Annual remuneration 2015 (EUR)			
	Gross (1)	Reductions in remuneration (2)a	Reversals in remuneration (3)	Final Value (4) = (1)-(2)+(3)
Carla Maria Ribeiro I)	10 374.53	1 605.09	209.28	8 978.72
Ana Luisa Gomes	9 082.84	1 304.68	170.10	7 948.26
Mario Carrega	9 082.84	1 304.68	170.10	7 948.26

a) Includes the reduction under Law N°. 12-A/2010 of 30 June.

I) Payment of wages suspended from 01/12/2015.

## Statutory Auditor/Sole Auditor

Term of office Start - end	Position	Statutory Auditor's (or firm's) Name			Form	Title		N°. of terms of office at
		Name	OROC registration number	CMVM registration n°		Date	Hired company	
2015-2017	Statutory Auditor	Alves da Cunha, A. Dias & Associados	n° 74 OROC	2699	GM	16/06/2015	21 680.00	3

Name	Annual remuneration 2015 (EUR)		
	Gross	Reduction (State Budget Law)	Gross after cuts
Alves da Cunha, A. Dias & Associados	21 680,00	Not applicable The remuneration of the Statutory Auditor is indexed to the PCA	21 680.00

Name of external auditor (SROC/ROC)			Data of hiring		Annual remuneration (€)	
Name	OROC registration number	CMVM registration n°.	Date	Period	Cost of services provided	Final Value
Ernst & Young	178	9011	2009	2009-2011; 2012-2014; 2015	72 350.00	72 350.00

Pension supplement payment is suspended by the companies that have posted a net loss in the last three years (2014, 2013 and 2012), in accordance with paragraph 3 of Article 78 of Law 82 -B/2014 of 31 December

AdP – Águas de Portugal, SGPS S.A. does not pay pension supplements.

Compliance with Article 32 of the Public Manager Statute, as re-published by Decree-Law 8/2012 of 18 January, with regard to:

- The non-use of credit cards nor other payment instruments by public managers to make payments in the service of the company
- The non-reimbursement of public managers for any expenses falling within the concept of entertainment expenses.

Article 32 of the Public Manager Statute as re-published by Decree-Law 8/2012 of 18 January was complied with in full with regard to the use of credit cards and other payment instruments by public managers to make payments in the service of the company and also reimbursement of public managers for any expenses falling within the concept of entertainment expenses.

**According to the application of the provisions of Article 16 paragraph 2 of Decree-Law No 133/2013 of 3 October, which prohibits making undocumented expenses**

AdP SGPS fully complies with the provisions of Article 16 paragraph 2 of Decree-Law No 133/2013 of 3 October, as it does not approve undocumented expenses.

**The preparation and dissemination of the report on remunerations paid to women and men as stipulated in paragraph 2 of Council of Ministers Resolution No. 18/2014 of 7 March**

In compliance with the provisions of paragraph 2 of Council of Ministers Resolution No. 18/2014 of 7 March, and following the procedures implemented in the AdP Group, AdP SGPS S.A. promotes, disseminate and makes internally available on the website, information on the remuneration paid to women and men through its annual sustainability report.

**Public Procurement**

The AdP Group has a shared services unit, AdP – Águas de Portugal Serviços Ambientais, S.A., which centralises, optimises and rationalises the procurement of goods and services for the business activities of the Group companies. It has established a relational model listing a variety of goods and services, which are procured by the Centralised Procurement Department of AdP Serviços, which operates as the Group's procurement centre. The existence of this Group department is justified in that it can achieve economies of scale and synergies within the Group and thereby obtain more favourable terms for these companies. It also saves them from having to go through separate procurement procedures with the inherent administrative and financial costs, thereby adding value to their work. Most of the goods and services that the subsidiaries need for their business have specific and relevant particularities, such as chemical reagents and the lab materials used by the water and effluent treatment units.

One of the most significant purchases is electricity, with a vast series of high, medium and normal low and special low voltage facilities. The scale achieved by the Group's universe has made it possible to achieve highly significant synergies that have produced excellent results in the centralisation of procurement.

Another important category is the Group's insurance portfolio. It has been adapted to the needs of a large number of companies, with many facilities and specific risks, which are diluted in an aggregate contract as a result of diversification. The aggregate solution for covering environmental responsibility is a good example of the advantages arising from centralised procurement.

Every year, the Centralised Procurement Department at AdP Serviços undertakes a vast number of public procurement procedures: it studies the market and chooses the most efficient solutions for each category, developing the tools and subsequent methodologies to capture value. The highlights this year include car purchases under operational leasing procedures, contracting high, medium and special low voltage power supply, surveillance and security services, reagents, office consumables, property and occupational accident insurance for the AdP Group, among others.

At the same time and in view of the considerable size of the existing procurement processes within the subsidiary companies, work was undertaken in 2015 (started in 2014) for the application of public procurement in the subsidiary companies of the AdP Group. This analysis, carried out by sampling in each of the companies, aimed at assessing compliance with legal formalities defined under the Public Procurement Code (CCP), was to gauge the level of procedural maturity, opportunities for improvement and implemented existing good practices and legal training needs.

The results and applicable recommendations were presented by company, which permitted an immediate implementation of the most pressing situations. The overall conclusions of the work undertaken were presented to the Board of Directors of AdP SGPS and the recommendations to implement in the AdP Group, either centrally or in the subsidiaries in order to strengthen the procedures already in place.

**The preparation and disclosure of the annual report on prevention of corruption pursuant to paragraph 1 of Article 46 of Decree-Law No. 133/2013 of 3 October**

In compliance with the provisions of paragraph 1 of Article 46 of Decree-Law No. 133/2013 of 3 October, the annual report on prevention of corruption relating to 2015, which summarily collates the evaluation of the AdP Group companies, was approved by the Board of Directors of AdP SGPS on 05/04/2016. It was then sent to the competent channels and published on the company website at [http://www.adp.pt/downloads/file8\\_pt.pdf](http://www.adp.pt/downloads/file8_pt.pdf).

## Measures taken as regards the company's adherence to the National Public Procurement System (SNCP)

The companies that are part of the AdP Group joined the National Public Procurement System (SNCP) on 3 March 2014 in the capacity of voluntary procurement entities. Since then 12 public procurement procedures have been conducted using the SNCP, with the respective contracts amounting to EUR 10.2 million, through the framework agreements mentioned below:

- Paper and office consumables;
- Surveillance and security;
- Fuel;
- Cars and motorcycles;
- Licensing of software and related services.

This process was used when the acquisitive needs of the AdP Group, aggregated by AdP Serviços, match the doctrine of the respective terms of reference and this is validated. Value is expected to be obtained not only from leverage resulting from scale but also the simplification and speed that characterise this form of procurement, thus allowing AdP Serviços to more efficiently manage its resources.

## Measures taken in terms of company vehicles in relation to the guidelines set out in Article 61 (4) of Law 82-B/2014 of 31 December, complemented by Ordinances 1182/13-SET of 12 June (distributed in Circular 4238, of 1 July) and Ordinance 1668/13-SET of 6 September (distributed in Circular 7408 of 2 December)

In compliance with the above legislation and guidelines, the AdP Group has been making an effort to reduce the costs of its company vehicles. Although it is not included in the state vehicle fleet, in the management of its vehicles, the AdP Group has a rule under which end-of-life vehicles are written off, as required by law, particularly Decree-Law 196/2003 of 23 August. It focuses on rationalising its vehicles and reducing the costs of managing them. The AdP Group has been extending operational vehicle rental contracts when appropriate on the basis of the conjugation between the maximum allowed mileage and the maximum possible duration of the contract. This results in a lower cost than a new operational vehicle rental. Before the contracts are extended, we fulfil our obligation to inform ESPAP – Entidade dos Serviços Partilhados da Administração Pública, IP and the DGTF. At the same time, the AdP Group lowered the limits, on vehicle rentals for the job categories with the right to a vehicle. The reduction introduced by the shareholder for the governing bodies thus extended to the entire organisation. Future vehicle contracts will be concluded under our framework agreement with ESPAP.

Quantify the impact of operating cost reduction measures envisaged in paragraph 1 of article 61 of Law N.º 82-B/2014 of 31 December and justify any non-compliance with guidelines or goals. In the case of companies with positive EBITDA, the reduction of the weight of operating costs in turnover is measured against the previous year

Framework of Notice 712 of 12 February 2016

Cost Reduction Plan	Goal	(Unit: EUR thousand)											
		2015 Exec	2014 Exec	2013 Exec	2012 Exec	2011 Exec	2010 Exec	2015/2014 Absolute Change	2015/2014 Change %	2015/2010 Absolute Change	2015/2010 Change %		
Cost of Goods Sold & Services Rendered		19 947	19 466	19 472	33 095	32 900	30 281	480	2%	(10 335)	(34%)		
External Supplies and Services		185 683	174 001	177 589	222 350	216 265	224 717	11 682	7%	(39 034)	(17%)		
Personnel Expenses (without severance pay)		89 601	88 790	97 261	120 354	130 806	145 755	810	1%	(56 154)	(39%)		
Operating Expenses = (1)+(2)+(3)		295 230	282 258	294 322	375 800	379 970	400 753	12 972	5%	(105 522)	(26%)		
Turnover (VN)		579 746	599 878	599 567	726 170	721 951	687 143	(20 132)	(3%)	(107 397)	(16%)		
Weight of Expenses/Turnover = (4)/(5)		50.92%	47.05%	49.09%	51.75%	52.63%	58.32%	3.87%	8.23%	(7.40%)	(13%)		

### State Budget for 2015 Law – Article 61(3)

		(Unit: EUR thousand)											
Communications	In line with 2014	4 583	4 571	4 947	5 730	6 121	5 889	12	0,26%	(1 306)	(22%)		
Travel and accommodation	In line with 2014	1 821	1 690	1 805	3 381	3 110	3 575	131	7,74%	(1 753)	(49%)		
Expenses	In line with 2014	142	590	582	0	0	0	(448)	(76%)	142			
N.º Employees		3 253	3 234	3 321	5 342	5 318	n.a.	19	1%	n.a.	n.a.		
N.º Effective Employees		3 110	3 072	3 154	5 244	5 285	n.a.	38	1%	n.a.	n.a.		
N.º Managerial Posts		94	164	163	209	225	n.a.	(70)	(43%)	n.a.	n.a.		
N.º Employees/ Managerial Posts		35	20	20	26	24		15	75%				

### Vehicles

		(Unit: EUR thousand)											
N.º Vehicles	Lower than 2014	1 267	1 286	1 359	n.a.	n.a.	n.a.	(19)	(1%)	n.a.	n.a.		
Vehicle costs	Lower than 2014	4 181	4 514	4 879	n.a.	n.a.	n.a.	(332)	(7%)	n.a.	n.a.		

It should be noted that the PRC was heavily and negatively restricted in 2015 by the impact of the AdP Group restructuring process. This is tentatively explained either by the EUR 20 million reduction of turnover (as a result of tariff reduction and the change in billing methods) or by the need to incur expenses directly related to the above process and with the process of disposal of EGF (approximately EUR 3.1 million). A similar analysis, removing the above-referred restrictions, points to a value of PRC in 2015 in line with that of 2014.

**According to the State Treasury Unit Principle, in accordance with the provisions of article 28 of Decree-Law No. 133/2013 of 3 October and also Article 125 of Law No. 82-B/2014 of 31 December, if an exception has been authorised, the authorising order must be indicated and the date of submission of the state inflow of the amount of interest received in violation of the STU**

As part of its company object, AdP SGPS is a flexible, efficient instrument for the specialised, centralised management of the shareholdings in its portfolio. Therefore, in addition to the strategic guidelines issued to the managers that represent it, the provision of technical administration and management services is a crucial element in the financial operation of subsidiaries (all the shareholdings).

The universe of Group companies encompasses a number of shareholdings in the environmental sector in different phases of maturity and so AdP SGPS took on the responsibility of coordinating and obtaining the funding necessary to meet these companies' needs. It always takes account of the final goal of maintaining the balance of its consolidated finance structure. Therefore:

- It has accompanied the companies in their relations with the Cohesion Fund in order to facilitate their access to EU support.
- It began negotiations with the EIB back in 1997 with a view to funding the first-phase projects and obtained a credit line of EUR 167 million.
- In 2000 it began new negotiations with the EIB for investments in the second phase and was granted three lines of funding (provided between 2005 and 2009) to a total of EUR 1.472 billion;
- It helped set up an EIB line of funding for the solid waste sector to a total of EUR 145 million to partially finance investments in the final phase.
- As the EIB lines and Cohesion Fund finance provided were insufficient to fund all its projects, AdP SGPS began to access foreign markets in 2003. It performed its first private placement of 10-year debt in Japan in 2005 and three private issues of 15 and 20-year bonds in 2007, to a total of EUR 600 million.
- It began contacts with foreign entities to place long-term debt in order to prepare the market for future placings to meet the Group's financing needs.

All these funds from long-term operations are to finance multi-municipal systems in terms of investment and working capital in their first years of operation.

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

The centralisation of a substantial part of the funds at AdP SGPS has enabled it to manage the Group's needs cohesively. So far it has prevented cash-flow and insolvency problems, in spite of serious difficulties in the inland systems. In addition to this medium and long-term framework, AdP SGPS has also centralised negotiations with the banks for short-term funding. This prevents an individual bank from penalising any subsidiary in terms of costs or credit.

The fact that AdP SGPS manages the negotiation of lines of credit and occasionally encounters some temporary surpluses centrally has enabled the Group to keep its financial health at satisfactory levels with low impact on the Group's business.

On government instructions, the Group invested its permanent cash surpluses at Agência de Gestão da Tesouraria e da Dívida Pública - IGCP, E.P.E., while keeping its temporary surpluses as guarantees for short-term funding from banks, so that they will continue their support. As required by law, it requested authorisation from the ministry for a partial dispensation for this component of non-permanent surpluses. This permission has been granted on an annual basis and it was given for 2015.

Coordination and obtaining finance for the AdP Group companies' business activities are the responsibility of its holding company AdP SGPS. It endeavours to procure the necessary resources to meet the needs of its companies, while always taking care to maintain the balance of its consolidated financing structure.

The centralisation of a substantial part of the funds at AdP SGPS has enabled it to manage the Group's needs cohesively, with low impacts on its subsidiaries' operations. The Group has invested its permanent cash surpluses at Instituto de Gestão da Tesouraria e do Crédito Público, while keeping its temporary surpluses as guarantees for short-term funding. Pursuant to Article 124 (1) of Law 66-B/2012 of 31 December, AdP SGPS asked for waiving its compliance with the treasury unit principle of the state (PUTE). This dispensation was granted to the AdP Group companies under the above law by Ordinance 834/2015 from the Secretary of State for the Treasury.

Furthermore, recommendations made to the company as a result of audits by the Court of Auditors, measures taken to follow them and the results thereof must be published.

In 2015, the Court of Auditors made no recommendations to AdP SGPS, SA.

The form below must also be completed with the information that had been disclosed on the SEE website as at 31 December 2015 (DGTF portal).

Information for the SEE website	S	N	Disclosure		Remarks
			NA	Updated on	
Articles of Association			X		<i>vide note</i>
Company Description			X		<i>vide note</i>
Ministry and shareholder			X		<i>vide note</i>
Governance model / members of governing bodies:			X		<i>vide note</i>
Identification of governing bodies			X		<i>vide note</i>
Fixed remuneration status			X		<i>vide note</i>
Disclosure of governing bodies' remuneration			X		<i>vide note</i>
Identification of duties and responsibilities of the members of the Board of Directors			X		<i>vide note</i>
Presentation of short CVs of the members of the governing bodies			X		<i>vide note</i>
Public finance contribution			X		<i>vide note</i>
Summary form			X		<i>vide note</i>
Historical and current financial information			X		<i>vide note</i>
Principles of good governance			X		<i>vide note</i>
Internal and external regulations to which the company is subject			X		<i>vide note</i>
Relevant transactions with related parties			X		<i>vide note</i>
Other transactions			X		<i>vide note</i>
Analysis of economic, social and environmental sustainability			X		<i>vide note</i>
- Economic			X		<i>vide note</i>
- Social			X		<i>vide note</i>
- Environmental			X		<i>vide note</i>
Assessment of compliance with principles of good governance			X		<i>vide note</i>
Code of Ethics			X		<i>vide note</i>

Key: Y – Yes; N – No; NA - not applicable

Note: In accordance with DGTF guidelines, AdP does not disclose information on the website as it is not directly owned by the state.

Compliance with legal guidelines	Compliance			Quantification	Justification
	Y	N	NA		
<b>Management Goals:</b>	X			Exceeded	According to the established annual management goals the overall performance assessment would be considered Exceeded if the value achieved were greater than 2.5
<b>Financial Risk Management</b>	X			2.8%	Reduction from 2014 in terms of greater efficiency of the financing structure and improving financing conditions
<b>Limite de Crescimento do Endividamento</b>	X			Reduction of EUR 323,700	
<b>Average payment time to suppliers</b>	X			Reduced by 16 days From 57 days in Q4 2014 to 41 days each year in Q4 2015	Approximately 75% of debts to suppliers are to Group companies (Shared Services). The average time went down from 2014 to 2015. This change was, however, negatively influenced by the increased debt to suppliers in December. The terms achieved are also due to the centralised management of corporate cash flow (management of payments and receipts) between AdP SGPS and the other Group companies, in particular AdP Serviços.
<b>Payments in arrears</b>	X			EUR 37,217	Em linha com o verificado em 2014 (valores imateriais)
<b>Shareholder's recommendations on approval of accounts</b> Recommendation 1 Recommendation 2 Etc.			X		No recommendations concerning the approval of the accounts were made.
<b>Remunerations:</b> No payment of management bonuses pursuant to Article 41 of Law 82-B/2014	X			NA	
Governing bodies - Pay cuts and reversals in force in 2015	X			43 287.99 EUR	
External auditor - remuneration reduction and reversals pursuant to Article 75 of Law 82-B/2014	X			Total reduction in remuneration in 2015	Includes Supervisory Board
Other employees - Pay cuts and reversals in force in 2015	X			225 447.71 EUR	
Other employees - pay rises forbidden pursuant to Article 38 of Law 82-B/2014	X			NA	
<b>EGP - Article 32</b> Use of credit cards	X				
Reimbursement of entertainment expenses	X				
Undocumented expenses - paragraph 2 of Article 16 of Decree No. 133/2013					
Prohibition of making undocumented expenses	X				
Promotion of equal pay between men and women - paragraph 2 of RCM no 18/2014					
Preparation and dissemination of the report on remuneration paid to men and women	X			2015 www.adp.pt	
<b>Public Procurement</b> Company's compliance with rules on public procurement			X		AdP SGPS is not bound to comply with the Public Procurement Code as it is not a "body governed by public law" for the purposes of that legislation. This position is legally supported by the opinion of Sérvulo Law firm, 11 April 2008.
Subsidiaries' compliance with rules on public procurement	X				
Contracts submitted to the CoA for prior approval			X		No contracts were submitted to the CoA for prior approval
Corruption prevention-paragraph 1 of Article 46 of Decree N.º 133/2013					
Preparation and dissemination of the annual report	X			www.adp.pt	
<b>Audits by the Court of Auditors</b> Recommendation 1 Recommendation 2 Etc.			X		No recommendations were made by the Court of Auditors
<b>Company vehicles</b> Number of vehicles Vehicle expenses	X			Fewer than 16 vehicles Less than EUR 0.332 million	The AdP Group only enter into contracts for new vehicles directly used in operations. The 2015 is in line with the 2014 value, although slightly lower. The observed variation is the effect of there being cars at the end of the contract/for reconditioning.
<b>Operating costs of state-owned companies</b> (Article 62 of Law 82-B/2014)		X			PRC was restricted in 2015 by the impact of the AdP Group restructuring process and by the sale process of EGF. An analysis of the figures, removing these factors above-referred restrictions indicates a PRC value in 2015 in line with that of 2014.

Compliance with legal guidelines	Compliance			Quantification	Justification
	Y	N	NA		
<b>Downsizing employees</b> (Article 60 of Law 82-B/2014)					
N°. of employees	X			3,110	Consolidated data on working employees
Turnover/N°. employees	X			215,392	Consolidated data on working employees
N°. of managerial positions	X			94	Consolidated data on managerial positions reporting directly to the Board of Directors
<b>Treasury unit principle</b> (Article 125 of Law 82-B/2014 / Article 28 of Decree-Law 133/2013)					
Cash centralised at IGCP	X			49.4%	
Interest received in violation of STU and paid in to State revenue			X		Pursuant to Article 124 (1) of Law 66-B/2012 of 31 December, AdP SGPS asked for the waiving of its compliance with the treasury unit principle of the State (PUT). This dispensation was granted to the AdP Group companies under the above law by Ordinance 834/2015 from the Secretary of State for the Treasury.

## Outlook for the future

Since it is the State's business tool for implementing public policy and national objectives in these areas of the environmental sector, the main priority of the AdP Group is to promote the universality, continuity and quality of service, and sustainability in the provision of the water supply and wastewater treatment services.

Accordingly, and in articulation with the sector's strategic policies, the Group will continue to develop its business in a framework of business rationale, constant optimisation of its efficiency, quality of the service provided and respecting the high standards of quality and safety.

The main focal points of the AdP Group for the future will be to ensure the streamlining of the investments required to deliver the services, focusing on the suitable sizing of new infrastructure and sustainable management of those already existing, and continuing to promote good practices, developing integrated solutions for the management of the urban water cycle.

In this context, the experience gained in recent years by the AdP Group is to be noted, especially as regards the technical and economic and financial studies of the design of integrated downstream systems, the development of information management systems and technical long-term modelling tools. All this knowledge is an asset for the preparatory processes of establishing new merged downstream entities and capital appreciation of the AdP Group as a partner in supporting the implementation of these new solutions.

The implementation of projects and innovative solutions in various areas of the activity of the companies of the AdP Group, based on a growing innovation culture is also a line of focus to be continued. The development of projects that are already on the ground and strengthening research and development of new approaches in the context of the new paradigm of a circular economy, adaptation to climate change with increased levels of efficiency and resilience are central aspects of the Group's innovation strategy, as well as the continued focus on boosting national and international partnerships with research centres and other industry partners, with results in the provision of goods and services of an international dimension.

Promoting socially responsible values, including through the pursuit of social and environmental objectives and market competitiveness and socio-economic development of the regions, along with raising the awareness of customers and their satisfaction, and investing in the professional and personal development of employees will also continue to be guide the Group's operations.

In relation to the reorganisation of the water supply and wastewater treatment sector, the AdP Group will continue its operations according to the terms defined by the government, aiming to support the continued improvement of efficiency in service delivery and the promotion of territorial cohesion, enhancing solutions to reconcile essential economic growth with lower consumption of natural resources and promote social equity and quality of life of the population.

## Final remarks

The Board of Directors recognises and appreciates the commitment of all those who directly and indirectly promoted the achievement of the goals of the AdP Group for the 2015 financial year, namely:

- the employees of all the companies of the Group for their effort, dedication, expertise and the professionalism with which they performed the tasks assigned to them;
- the Directors and Managers for their commitment to leadership and high quality management in the various companies of the Group;
- the members of the other governing bodies for their competent, impartial monitoring of the company's business activity;
- the shareholders for their guidance, commitment, trust and support;
- the customers, private partners and financial institutions for their renewed confidence;
- the regulator for its cooperation and availability;
- the national and international environmental authorities with which we have kept cordial and fruitful institutional relations throughout the year;
- the ministers and other members of the offices of the ministries in charge of the sector and finances of the AdP Group.

Lisboa, 21 April 2016

### The Board of Directors



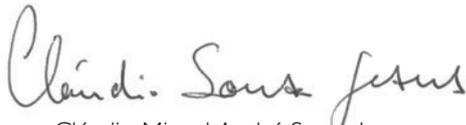
Afonso José Marçal Grilo Lobato de Faria  
(Chairman)



Manuel Maria Pereira Fernandes Thomaz  
(Executive Vice-chairman)



Gonçalo Ayala Martins Barata  
(Executive Director)



Cláudio Miguel André Sousa Jesus  
(Executive Director)



José Manuel Leitão Sardinha  
(Executive Director)



José Manuel Barros  
(Non-executive Director)

## Proposed appropriation of profit

The net profit of AdP SGPS in 2015 was EUR 143,609,084.00 (one hundred and forty-three million, six hundred and nine thousand and eighty-four euros).

In view of the above, pursuant to Article 19 of the articles of association and Articles 31 to 33 and 66 of the Company Code, the Board of Directors proposes that the net profit of the financial year of 2015 in the separate financial statements be appropriated as follows:

- EUR 7,180,454.00 (seven million one hundred and eighty thousand four hundred and fifty-four euros) to the Legal Reserve;
- EUR 96,786,609.00 (ninety-six million seven hundred and eighty-six thousand six hundred and nine euros) to Retained Earnings, arising from the obligation to apply the capital gain generated from the sale of the shares in EGF to pay off debt (article 17 of Decree-Law No. 45/2014 of 20 March).
- EUR 16,230,783.00 (sixteen million two hundred and thirty thousand seven hundred and eighty-three euros) to Retained Earnings;
- EUR 23,411,238.00 (twenty-three million four hundred and eleven thousand two hundred and thirty-eight euros) for the payment of dividends.

Lisboa, 21 April 2016

## Notes to the report

On the date of closing of the 2015 financial year, AdP - Águas de Portugal, SGPS, S.A.'s share capital was owned by the following shareholders:

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

As required by law, there are no overdue debts to the state public sector.

# Report of the Non-Executive Director on the performance of the Executive Directors

## Report of the Non-Executive Director on the performance of the Executive Directors

### 1. Introduction

It is my duty in the capacity of Non-Executive Director, pursuant to Article 7 of Decree-Law 8/2012 of 18 January, to issue a report on the performance of the Executive Directors.

### 2. Activity

Pursuant to law and the performance of the powers established by the Public Manager Statute and the company's articles of association, I monitored, with the limitations resulting from the capacity of non-executive director, the management of the company over the 2015 financial year. I can therefore assess the performance of the Executive Committee and each of the members.

The information presented in the Annual Report and the Corporate Governance Report adequately reflects, to the best of my knowledge, the activity developed by the company during 2015 and it meets, in general terms, the specific legal framework for businesses integrating the corporate sector of the State.

In particular, and as detailed in the Annual Report, it should be noted that legal guidelines have been observed. The rules and principles of Good Governance Practices established by Decree-Law 133/2013 of 3 October and the regulations issued on the matter by the General Directorate of Treasury and Finance have also been complied with. It has been verified that the Corporate Governance Report follows the rules contained in Article 54 of said law and the draft contained in the guidelines received, including a grid relating to good corporate governance practices.

### 3. Opinion

As a result of the activity undertaken and monitoring performed, nothing has come to my attention that prevents me from expressing an overall positive assessment of the performance of the Executive Directors. I can also convey their commitment and diligence in the conduct of the business, with exactitude and transparency, always bearing in mind compliance with the established strategic guidelines.

Lisbon, 21 April 2016

Non-Executive Director



Handwritten signature of José Manuel Barros in blue ink, with the name 'José Manuel Barros' printed in black below it.

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# The Accounts

2015 Financial Statements



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# The Accounts

# Separate financial statements

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## Statement of financial position

	Notes	2015	2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible fixed assets	7	304	929
Financial investments	8	704 377 712	699 377 087
Loans to Group companies	9	450 214 071	208 616 172
		<b>1 154 592 087</b>	<b>907 994 188</b>
<b>Current assets</b>			
Trade receivables	10	15 530 855	12 338 524
Group Companies	11	23 901 838	126 038 718
Other accounts receivable	12	2 083 553	3 052 971
Income tax for the year	13	28 727	1 906 084
Cash and cash equivalents	14	72 947 967	148 963 703
		<b>114 492 940</b>	<b>292 300 000</b>
Assets held for sale	30	-	66 066 525
<b>Total assets</b>		<b>1 269 085 027</b>	<b>1 266 360 713</b>
<b>EQUITY</b>			
Share capital	15	434 500 000	434 500 000
Adjustment of shareholdings in subsidiaries and associate companies		25 571 780	25 571 780
Fair value reserve		(2 200 772)	(2 749 242)
Legal reserve		20 730 230	18 331 201
Retained earnings		100 810 338	79 219 074
Net profit of financial year		143 609 084	47 980 586
<b>Total equity</b>		<b>723 020 660</b>	<b>602 853 399</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Provisions	16	18 536 439	16 453 370
Bank loans	17	500 000 000	500 000 000
Derivatives	18	15 725 111	18 159 628
		<b>534 261 550</b>	<b>534 612 998</b>
<b>Current liabilities</b>			
Bank loans	17	5 000 000	107 014 660
Suppliers	19	870 368	640 643
Other accounts payable	20	5 932 449	20 918 126
		<b>11 802 817</b>	<b>128 573 429</b>
Liabilities held for sale	30	-	320 887
<b>Total liabilities</b>		<b>546 064 367</b>	<b>663 507 314</b>
<b>Total liabilities and equity</b>		<b>1 269 085 027</b>	<b>1 266 360 713</b>

### The Board of Directors

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 Gonçalo Ayala Martins Barata (Executive Director)  
 Cláudio Miguel André Sousa Jesus (Executive Director)  
 José Manuel Leitão Sardinha (Executive Director)  
 José Manuel Barros (Non-executive Director)

### The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

## Income statement

	Notes	2015	2014
Services provided	21	9 639 205	10 471 614
<b>Turnover</b>		<b>9 639 205</b>	<b>10 471 614</b>
Supplies and services	22	(8 669 936)	(4 810 377)
Personnel costs	23	(4 455 036)	(4 392 590)
Amortisation in financial year	24	(625)	(1 127)
Provisions and reversals in financial year	16	(2 083 069)	(3 445 386)
Other operating expenses	25	(78 893)	(108 249)
Other operating income and gains	26	216 164	993 033
<b>Operating profit</b>		<b>(5 432 190)</b>	<b>(1 293 082)</b>
Financial expenses	27	(11 176 229)	(18 275 375)
Financial income	28	23 215 472	27 477 937
Gains on shareholdings	29	134 961 796	39 399 104
<b>Financial income</b>		<b>147 001 039</b>	<b>48 601 666</b>
<b>Profit before tax</b>		<b>141 568 849</b>	<b>47 308 584</b>
Income tax for the year	13	(3 096 121)	(3 015 735)
<b>Net income as a going concern</b>		<b>138 472 728</b>	<b>44 292 849</b>
Net income from discontinued operations	30	5 136 356	3 687 737
<b>Net profit of financial year</b>		<b>143 609 084</b>	<b>47 980 586</b>
Earnings per share (basic and diluted)	16	1.65	0.55

## Statement of comprehensive income

	2015	2014
<b>Net profit of financial year</b>	<b>143 609 084</b>	<b>47 980 586</b>
Fair value of cash flow hedging instruments	548 470	(2 031 079)
<b>Comprehensive income</b>	<b>144 157 554</b>	<b>45 949 507</b>
<b>Comprehensive income per share</b>	<b>1.66</b>	<b>0.53</b>

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### The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

# Statement of changes in equity

	Share Capital	Adjustments in shareholdings	Legal reserve	Other reserves - cash-flow hedging instruments	Retained earnings	Net profit of financial year	Total
<b>Balances as at 31 December 2013</b>	<b>434 500 000</b>	<b>26 056 136</b>	<b>15 001 702</b>	<b>(718 163)</b>	<b>46 974 232</b>	<b>66 589 986</b>	<b>588 403 893</b>
Realisation of revaluation reserves (subsidiaries)	-	(484 356)	-	-	484 356	-	-
MTM of hedging adjustments	-	-	-	(2 031 079)	-	-	(2 031 079)
Appropriation of profit for 2013	-	-	3 329 499	-	63 260 486	(66 589 986)	(1)
Dividend payout	-	-	-	-	(31 500 000)	-	(31 500 000)
Net profit for 2014	-	-	-	-	-	47 980 586	47 980 586
<b>Balances as at 31 December 2014</b>	<b>434 500 000</b>	<b>25 571 780</b>	<b>18 331 201</b>	<b>(2 749 242)</b>	<b>79 219 074</b>	<b>47 980 586</b>	<b>602 853 399</b>
Realisation of revaluation reserves (subsidiaries)	-	-	-	-	-	-	-
MTM of hedging adjustments	-	-	-	548 470	-	-	548 470
Appropriation of profit for 2014	-	-	2 399 029	-	45 581 557	(47 980 586)	-
Dividend payout	-	-	-	-	(23 990 293)	-	(23 990 293)
Net profit for 2015	-	-	-	-	-	143 609 084	143 609 084
<b>Balances as at 31 December 2015</b>	<b>434 500 000</b>	<b>25 571 780</b>	<b>20 730 230</b>	<b>(2 200 772)</b>	<b>100 810 338</b>	<b>143 609 084</b>	<b>723 020 660</b>

## The Board of Directors

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## The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

## Cash flow statement

	<b>2015</b>	<b>2014</b>
<b>Operating activities</b>		
Trade receivables	31 790 098	61 026 146
Trade payables	(8 313 090)	(5 520 200)
Payments to personnel		
Wages	(2 088 328)	(1 871 231)
Social Security	(994 129)	(990 911)
Other	(122 700)	(134 295)
Income tax and VAT receipts / (payments)	2 354 074	(20 424 959)
Other receipts/(payments) related to operating activity	(1 616 751)	(756 728)
<b>Total operating activities (1)</b>	<b>21 009 174</b>	<b>31 327 822</b>
<b>Investing activities</b>		
Receivables from:		
Financial investments	140 165 519	5 807 478
Cash support	154 244 684	12 750 000
Subsidies	169 285 843	10 008 520
Interest and similar income	439 488	2 651 282
Dividends	40 175 188	40 409 521
<b>Subtotal</b>	<b>504 310 722</b>	<b>71 626 801</b>
Payments for:		
Financial investments	(3 618 303)	(27 114 680)
Cash support	(57 363 464)	(53 100 000)
Subsidies	(406 883 742)	(30 272 174)
Tangible fixed assets	-	(789)
<b>Subtotal</b>	<b>(467 865 509)</b>	<b>(110 487 643)</b>
<b>Total investing activities (2)</b>	<b>36 445 213</b>	<b>(38 860 842)</b>
<b>Financing activities</b>		
Receivables from:		
Loans	22 500 000	20 000 000
<b>Subtotal</b>	<b>22 500 000</b>	<b>20 000 000</b>
Payments for:		
Loans	(122 500 000)	(20 455 822)
Interest and similar expenses	(9 479 829)	(11 500 868)
Dividends	(23 990 294)	(31 500 000)
<b>Subtotal</b>	<b>(155 970 123)</b>	<b>(63 456 690)</b>
<b>Total financing activities (3)</b>	<b>(133 470 123)</b>	<b>(43 456 690)</b>
Cash flow from discontinued activities	-	8 639 183
<b>Changes in cash and cash equivalents (1 + 2 + 3)</b>	<b>(76 015 736)</b>	<b>(42 350 527)</b>
<b>Effects of exchange differences</b>		
Cash and cash equivalents at start of period	148 963 703	191 314 230
Cash and cash equivalents at end of period	72 947 967	148 963 703
<b>Changes in cash and cash equivalents</b>	<b>(76 015 736)</b>	<b>(42 350 527)</b>

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# Notes to the financial statements

## I. Economic activity of AdP SGPS S.A.

### I.1. Introduction

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

### I.2. Business activity

AdP was incorporated in 1993. It was entrusted with the responsibility of developing multi-municipal systems in Portugal for the abstraction, treatment and distribution of water for public consumption and the collection, treatment and disposal of urban wastewater. The Company's mission was extended in 1996, beginning a process of diversification in terms of business segments and geographical locations. It expanded into water distribution systems and the collection of effluent directly from the communities served, in Portugal and abroad. In 2000, in the context of strategic guidelines on the consolidation of the main business group in the environmental area, AdP became sole owner of Empresa Geral do Fomento, S.A. (EGF) and as a result took over control of its subsidiaries, which were responsible for developing multi-municipal systems for collecting and treating solid household waste. Council of Ministers Resolution No. 72/2004 of 16 June, which set the guidelines for restructuring of the water sector in Portugal, redefined the strategic positioning of the AdP Group, focusing it on completing the cycle of instrumental and basic sanitation infrastructure in the corporate restructuring of that sector. The AdP Group would therefore continue its business in core areas and sell off or spin-off other areas. In March 2005, the Programme of the 17th Constitutional Government emphasised the contribution of the AdP Group to the national challenge of building and managing environmental infrastructure in order to achieve the levels of service that developed countries should provide. It brought forward a strategy for the water and waste business sector different from that established by Council of Ministers Resolution No. 72/2004. The guidelines point to the consolidation of this business group, providing it with the right conditions for developing the state's environmental policy for the sector in areas such as water supply, sanitation and waste treatment, plus the possibility of establishing strategic partnerships to strengthen its response capacity, develop national capacities and structure investments, considering the goals of the Strategic Plan for Water Supply and Wastewater Treatment (PEAASAR) and the Strategic Plan for Solid Household Waste (PERSU). Joint ministerial Order N.º 169/2006 of the Ministries of Finance and Public Administration and of the Environment, Spatial Planning and Regional Development approved the recommendation to the board of directors of AdP concerning the company's mission for the current mandate and defined each unit's mission and guidelines. The prevailing business model in the AdP Group is based on concession agreements between the state and each of the AdP Group subsidiaries. These agreements set out the rules for the operation and management of their multi-municipal systems, on an exclusive basis, for a period of twenty-five to thirty years. These concessions establish the criteria for setting and approving the tariffs to be charged by the companies each year, to ensure the concessions' financial balance, in accordance with the following criteria:

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

### I.3 Shareholders

The shareholders of AdP are:

	% capital	Amount subscribed	No. of shares	Type of shares
Parpública, SGPS, S.A.	81,00%	351 945 000	70 389 000	Nominative
Parcaixa, SGPS, S.A.	19,00%	82 555 000	16 511 000	Nominative
	<b>100,00%</b>	<b>434 500 000</b>	<b>86 900 000</b>	

## 1.4 Approval of the financial statements

These financial statements were approved and authorised for publication by the Board of Directors on 21 April 2016. It is the opinion of the Board of Directors that they faithfully reflect the company's operations, position, financial performance and cash flows.

## 2. Accounting policies

These individual financial statements have been prepared in accordance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) which preceded it, adopted by the European Union (EU), and in force for financial years starting 1 January 2015.

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

### 2.1 Basis of presentation

#### 2.1.1 Introduction

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

#### 2.1.2 New standards and policy changes

No voluntary policy changes to accounting policies were made in the financial year ended 31 December 2015, with respect to those considered in the preparation of the financial information relating to the prior year and presented in the comparisons, and which may have arisen from the application of new standards issued after 31 December 2014.

#### 1. Voluntary changes of accounting policies

No voluntary policy changes to accounting policies were made in the financial year with respect to those considered in the preparation of the financial information relating to the previous year.

#### 2. New standards, interpretations and amendments coming into effect on 1 January 2015

The new standards, interpretations and amendments coming into effect on 1 January 2015 are as follows:

- Adoption of IFRIC 21 Levies (Regulation 634/2014 of 13 June 2014), which has regard to accounting for a liability corresponding to payment of a levy, provided that this liability is covered by IAS 37. It also refers to accounting for a liability for the payment of a levy with a known timing and amount. However, this interpretation has regard to accounting for costs arising from recognition of a liability corresponding to payment of a levy. Entities must abide by other standards to determine whether recognition of a liability corresponding to payment of a levy gives rise to an asset or a cost. The following are not covered: **a)** outflows covered by other standards (e.g. income tax, which is covered by IAS 12 Income tax) and **b)** fines or other penalties imposed for infractions of legislation. The interpretation clarifies that an entity recognises a liability for a levy when the activity that gives rise to the payment occurs, as identified by the relevant legislation. For a levy that is triggered when it reaches a minimum threshold, this interpretation clarifies that no liability should be anticipated before the minimum has been reached. In its interim report, an entity must abide by the same principles for recognising levies that it follows in annual financial statements. Retrospective application is required.

- Annual improvements: 2011-2013 cycle (Regulation No. 1361/2014 of 19 December 2014), the improvements in which include amendments to three international accounting standards, as follows:

IFRS 3 Business Combinations – exceptions of the scope for joint arrangements, in which the amendments clarify that IFRS 3 does not apply to accounting for the creation of a joint agreement in the financial statements of the joint agreement itself.

IFRS 13 Fair Value Measurement – Scope of Paragraph 52 (portfolio exception) - in the context of the exception of fair value measurement set out in Paragraph 48, the amendments clarify that references to financial assets and liabilities in Paragraphs 48-51 and 53-56 should be regarded as applicable to all contracts covered and accounted for in accordance with IAS 39, whether or not they abide by the definitions of financial assets or liabilities set out in IAS 32.

IAS 40 investment Properties – Interrelationship between IAS 40 and IFRS 13 - The amendments require an entity to use the guidelines in IAS 40 and IFRS 3 when accounting for investment (or business) property and do not introduce a new accounting treatment. These amendments clarify that judgement must be used when determining whether a transaction is: **(i)** an acquisition of an asset (a group of assets), which must be reported in accordance with IAS 40, or **(ii)** a business combination, which should be reported under IFRS 3.

### **3. New standards, interpretations and amendments, entering into force for financial years beginning on or after 1 January 2016**

- Annual improvements: 2010-2012 cycle (Regulation 2015/28 of 17 December 2014), the improvements in which include amendments to eight international accounting standards, as follows:

IFRS 2 Share Based Payment – Definitions of vesting conditions - the amendments improve the current definition of vesting conditions by adding separate definitions for performance and purchase conditions. The amendments also clarify the definitions of vesting and non-vesting, two types of acquisition.

IFRS 3 Business Concentrations – accounting for contingent consideration - the amendments clarify that **(i)** all contingent consideration, regardless of its nature, should be measured at fair value on the date of initial recognition, **(ii)** Paragraph 40 of IFRS 3 requires contingent consideration that is a financial instrument should be presented as equity or liabilities in accordance with IAS 32 and **(iii)** all contingent consideration, regardless of its nature, should subsequently be measured at fair value through profit or loss. IAS 37, IAS 39 and IFRS 9 are also amended as a result of the amendments to IFRS 3.

IFRS 8 Operating Segments - the amendments clarify requirements for: **(i)** disclosure of judgements by management bodies when following criteria on aggregation of operating segments and **(ii)** presentation of the reconciliation of total assets of segments reportable with the entity's assets.

IAS 16 Tangible fixed assets - revaluation model: the amendments clarify the treatment to be given to tangible assets (gross and accumulated depreciation) on the date of revaluation.

IAS 24 Related Party Disclosures - key management personnel services: the amendments extend the concept of an entity that is related to a reporting entity to: entities or any member of a group to which they belong that provides key management personnel services to the reporting entity or its parent company and add disclosure requirements associated with the provision of key management personnel services provided by a management entity.

IAS 38 Tangible fixed assets - valuation model: the amendments clarify the treatment to be given to tangible assets (gross and accumulated depreciation) on the date of revaluation.

- IAS 19 Employee benefits (Regulation 2015/29 of 17 December 2014): the amendments clarify the guidelines for entities when allocating the contributions of employees or third parties associated with the service and require entities to allocate the contributions associated with services in accordance with Paragraph 70, i.e. using the contribution in the plan or a linear method. Furthermore, the amendments include an appendix with a guide for the contributions of employees or third parties. The aim of these amendments is to reduce the complexity by introducing a practical expedient that allows an entity to recognise the contributions of employees or third parties associated with the service that are independent from the number of years of service, as a reduction in the cost of the service, in the period in which said service is provided.

- Agriculture – Plants intended for produce Amendments to IAS 16 and IAS 41 (Regulation 2015/2113 of 23 November 2015): these amendments determine that plants used exclusively for the cultivation of produce over several periods, which are called bearer plants, are now accounted for in the same way as tangible fixed assets in accordance with IAS 16 Tangible Fixed Assets, as they are used in a similar way to those in industrial activities.

- Amendments to IFRS 11 Joint Arrangements (Regulation 2015/2173 of 24 November 2015): the amendments provide new guidance on the accounting treatment of acquisitions of interests in joint arrangements whose activities constitute business activities. They set out that if an entity acquires an interest in a joint operation whose activity is a business operation in the meaning of IFRS 3, it must apply, in the proportion to its part, all the accounting principles of business concentrations defined in IFRS 3 and other IFRSs that do not conflict with IFRS 11, and must report the information required in them regarding business combinations. This applies to the acquisition of initial interests and additional interests in a joint business operation.

- Clarification of acceptable depreciation and amortisation methods: Amendments to IAS 16 and IAS 38 (Regulation 2015/2231 of 2 December 2015): the amendment to IAS 16 clarifies that it is not appropriate to use a depreciation method for a tangible fixed asset in earnings generated by an activity. The amendment to IAS 38 clarifies that only in very limited circumstances is it possible to overcome the presumption that an amortisation method for an intangible asset based on earnings generated by an activity is inappropriate.

- Annual improvements: cycle 2012-2014 (Regulation 2015/2343 of 15 December 2015): the improvements include amendments to five international accounting standards, as follows:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – The amendments clarify that if an entity reclassifies an asset or group for sale directly from held for sale to held for distribution to owners, or directly from held for distribution of owners to held for sale, the change in the classification is considered a continuation of the initial divestment plan.

IFRS 7 Financial Instruments Disclosures – It clarifies that the amendments made by the document Disclosures – Compensation between financial assets and financial liabilities (Amendments to IFRS 7) must be applied in the annual periods starting on or after 1 January 2013. Entities must present the disclosures required by these amendments retroactively. It also clarifies that if an entity transfers a financial asset it can retain the right to service (of debt) the financial asset in return for commissions included, in a service contract for example. The entity values the contract by service in order to decide whether the entity maintains an ongoing involvement as a result of this contract for the purpose of disclosure requirements.

IFRS 1 First-time adoption of International Financial Reporting Standards - The amendments to this standard are directly related to the above-mentioned amendments made to IFRS 7.

IAS 19 Employee benefits – The amendments clarify that for currencies (regardless of the country) for which there is not active market for high-quality company bonds, market income must be used (at the end of the reporting period) in government bonds expressed in that currency.

IAS 34 – Interim financial reporting – The amendments clarify that the disclosures set out in Paragraph 16-A of IAS 34 must be made in interim financial statements or by cross-reference to interim financial statements in other statements that are available to users of the financial statements on the same conditions and at the same time as the interim financial statements. If users of the interim financial statements do not have access to the information included by cross-reference on the same conditions and at the same time the interim financial report is incomplete.

- Disclosure initiative Amendments to IAS 1 (Regulation 2015/2406 of 18 December 2015): the amendments to IAS 1 Presentation of Financial Statements are aimed at improving the efficacy of disclosure and encourage companies to use their professional judgement when determining the information to be disclosed in their financial statements when applying IAS 1.

- The equity method in separate financial statements: Amendments to IAS 27 (Regulation 2015/2441 of 19 December 2015); the alterations to IAS 27 Separate financial statements allow entities to use the equity method, as described in IAS 28 – Investments in Associates and Joint Ventures to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The changes and amendments to the above standards are either not applicable or their adoption cannot be expected to have any relevant effect on the financial statements of AdP.

## 2.2 Shareholdings in subsidiaries and associates

Shareholdings are recognised on the AdP balance sheet on the date on which control or significant influence was obtained or negotiation or contracting were held, which is the date on which AdP undertakes to acquire or dispose of the asset. In the transition, the shareholdings were recognised in accordance with the presumed cost or deemed cost (paragraph 31, IFRS 1), that is, at the value that was transposed from the financial statements prepared according to the previous standard on that date, instead of at acquisition cost. Shareholdings are initially recognised at acquisition cost plus directly attributable transaction costs. These assets are derecognised when: **(i)** the contractual rights of AdP expire on receipt of its cash flows; **(ii)** AdP has substantially transferred all the risks and benefits associated with holding them; or **(iii)** AdP has transferred control over the assets although it may retain part, but not substantially all, the risks and benefits associated with holding them. Recognition of dividends is recorded in the income statement on the date on which they were reported.

The Group companies are (note 5.2)

Business Unit/ Company	Head office	% share capital		Share held
<b>Water and wastewater treatment</b>				
Águas do Norte, S.A.	Vila Real	59.59%	EUR	152 198 130
Águas do Centro Litoral, S.A.	Coimbra	60.33%	EUR	39 974 868
Águas de Lisboa e Vale do Tejo, S.A.	Guarda	59.38%	EUR	167 807 560
Águas do Algarve, S.A.	Faro	54.0%	EUR	29 230 875
Águas de Santo André, S.A.	Vila Nova de Santo André	100.0%	EUR	1 000 000
AgdA - Águas Públicas Alentejo, S.A.	Beja	51.0%	EUR	500 000
AdRA - Águas da Região de Aveiro, S.A.	Aveiro	51.0%	EUR	15 000 000
EPAL, S.A.	Lisbon	100.0%	EUR	150 000 000
<b>International</b>				
AdP Internacional, S.A.	Lisbon	100.0%	EUR	175 000
Águas de Timor, S.A.	Díli - East Timor	100.0%	EUR	5 002
Águas do Brasil, S.A.	Rio de Janeiro - Brazil	100.0%	BRL	2 050 100
Aquatec, Lda.	Maputo - Mozambique	100.0%	MZN	2 476 580
<b>Corporate services</b>				
AdP Serviços, S.A.	Lisbon	100.0%	EUR	50 000
Aquasis, S.A.	Lisbon	55.0%	EUR	50 000
AdP Energias, S.A.	Lisbon	100.0%	EUR	250 000
<b>Associates</b>				
Trevo Oeste, S.A.	Alcobaça	43.2%		1 336 085

## 2.3 Foreign exchange

### 2.3.1 Functional and presentation currency

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

### 2.3.2 Transactions and balances

Transactions in currencies other than the euro are converted into the functional currency using the exchange rates on the transaction dates. Foreign exchange gains or losses resulting from the settlement of transactions and conversion of monetary assets and liabilities denominated in foreign currencies at the rate of the balance sheet date are recognised in the income statement, except when they relate to an extension of investment in a foreign operation, in which case they are deferred in equity in accordance with IAS 21. Non-monetary items measured at fair value are adjusted at the exchange rate on the date of their calculation. The exchange rate effect is recorded together with the change observed in the fair value of those items. Exchange rate differences are recognised in the profit or loss or in "Other reserves", according to the appropriate registration for the recognition of gains or losses on the non-monetary item in question. The conversion of non-monetary items measured at historical cost into the operational currency of AdP is obtained by calculation using the exchange rate at the transaction date.

### 2.3.3 Exchange rates used

The foreign currency rates used for converting transactions denominated in currencies other than the euro or to update balances denominated in foreign currencies were as follows:

Country	Currency	31.12.2015		31.12.2014	
		average	final	average	final
Brazil	Reais	4.23	4.31	3.22	3.25
Cape Verde	Escudo C.V.	110.27	110.27	110.27	110.27
Mozambique	Meticais	43.53	49.29	38.53	40.67
Japão	Iene	132.34	131.07	145.23	147.06
E.U.A.	USD	1.09	1.09	1.22	1.23

Source: Bank of Portugal

## 2.4 Tangible fixed assets

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

The subsequent costs are included in the book value of the asset or recognised as separate assets, as appropriate, only when it is probable that economic benefits will flow to the company and the cost can be reliably measured. The depreciation of these assets is done during their remaining useful life or until the next repair, whichever happens first. The replaced component of the asset is identified and recognised in the income statement.

The financial charges related to loans obtained for financing investments in progress are totally capitalised until the time they are available for use.

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

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

The estimated useful lives for tangible fixed assets are expressed as the following percentages:

Type	Maximum annual rate
Buildings and other constructions	2.00%
Basic equipment	12.50%
Transport equipment	25.00%
Tools and utensils	14.28%
Office equipment	14.28%

Land is not subject to depreciation.

The depreciation of assets intended for sale is suspended and these are classified as assets held for sale.

Whenever there are signs of the loss of value of tangible fixed assets, impairment tests are carried out to estimate the recoverable value of the asset and register an impairment loss if necessary. The recoverable value is determined as the higher of the net selling price and the value in use of the asset. Value in use is calculated based on the current value of estimated future cash flows, arising from the continued use and disposal of the asset at the end of its useful life.

At the end of each financial year the Board of Directors reviews the depreciation methods and the estimated useful life of each asset to ensure that the consumption trend of the benefits of the assets in the years used by AdP is faithfully reflected. Any changes to these assumptions will be handled as a change in an accounting estimate and earmarked for prospective application.

Gains or losses arising from write-downs or disposals are calculated as the difference between receivables from disposals and the accounting amount of the asset and are recognised in the income statement as income or expenses.

## 2.4.1 Leasing

The leasing of assets for which AdP substantially holds all the risks and benefits inherent to ownership of the asset are classified as finance leases. Also classified as finance leases are arrangements in which the analysis of one or more specific points of the contract indicate such a nature. This classification is made according to the substance and not the form of the contract. Finance leases are capitalised at the start of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The liability is recognised in other long-term liabilities, net of financial charges. The assets acquired through finance lease agreements are depreciated for the lesser of the asset's useful life and the term of the lease agreement. All other leases are classified as operating leases. The payments of lease arrangements are recognised as an expense on a linear basis over the lease term.

## 2.5 Intangible assets

### 2.5.1 Other intangible assets

The intangible assets (software development expenditure, costs of intellectual property and other rights) are included in the accounts at cost net of accumulated amortisation. These headings are amortised using the straight-line method, usually for three to ten years. Investments that improve the performance of software programmes beyond their original specifications are added to the original cost of the software. The costs of implementing software recognised as assets are amortised using the straight-line method over their useful lives, i.e. from three to six years.

## 2.6 Financial assets and liabilities

### 2.6.1 Classification of financial assets

The financial assets of AdP are classified in the categories indicated below. The classification depends on the purpose for acquiring the investment and it is determined at the time of initial recognition (trade date) of investments and revalued each subsequent reporting date. The Board of Directors decides the classification of its investments on the acquisition date and revalues this classification on a regular basis. AdP classifies its financial assets in the following categories: **i)** Loans and receivables; **ii)** investments held to maturity; **iii)** investments measured at fair value through profit or loss (held for trading); **iv)** financial assets available for sale.

#### Loans and receivables

These are financial assets other than derivatives, with fixed or determinable income for which there is no active listed market. These assets may be: **(i)** assets originating from normal operating activities and other associated services, and for which there is no intention to trade them; and **(ii)** investments in companies holding multi-municipal concessions which, according to the special terms and conditions of the underlying concession agreements, qualify as a loan granted, remunerated at an agreed rate.

Loans and receivables are initially recorded at fair value and afterwards at amortised cost based on the effective interest rate, less any impairment losses. Impairment losses are recorded based on the estimate and evaluation of losses associated with bad debts, at the balance sheet date, so that they may reflect their net realisable value.

Impairment losses are recorded when there are impartial indicators that AdP will not collect all the amounts owed according to the original terms of the contract established. The indicators used to identify impairment situations are: analysis of breach; default for more than 6 months; debtor's financial difficulties; and probability of bankruptcy of the debtor.

When the sums receivable from trade receivables or other debtors are due and their terms are under renegotiation, they are no longer regarded as overdue and are treated as new credits.

#### Investments held to maturity

Investments held to maturity are classified as non-current investments, unless they mature less than 12 months from the balance sheet date. The investments recorded under this heading are those with fixed maturity that AdP intends to and has the ability to keep until such date. Investments held to maturity are recorded at amortised cost, less any impairment losses.

#### Financial assets measured at fair value through profit or loss

This category encompasses: **(i)** financial assets for trading which are acquired principally for the purpose of being traded in the short term; **(ii)** financial assets designated at the time of their initial recognition at fair value with changes recognised in profit or loss. This category includes the derivatives that do not qualify for hedge accounting purposes.

The changes in fair value are recognised directly in the income statement for the year. These assets are classified as current assets if they are held for sale or if their realisation is expected within 12 months of the balance sheet date.

#### Financial assets available for sale

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

The assets available for sale are recorded, after individual recognition, at fair value by reference to their market value at the balance sheet date without any deduction for transaction costs that may be incurred up to the sale. The respective changes in fair value are directly recognised in equity under the item "fair value reserve" until the asset is derecognised or an impairment loss is identified, at which time the accrued value of potential gains and losses recognised in reserves is transferred to the income statement. In relation to equity instruments, a significant or prolonged decline in the fair value to below cost is essential for declaring the existence of impairment.

Equity instruments that are not shares in subsidiaries, joint ventures or associates, are classified as financial assets available for sale, in accordance with IAS 39. If there is no market value, these assets are held at cost, subject to impairment tests.

### 2.6.2 Financial liabilities

Financial liabilities are classified according to the contractual terms, regardless of their legal form. IAS 39 - Financial Instruments: recognition and measurement envisages the classification of financial liabilities into two categories: **(i)** financial liabilities at fair value through profit or loss; **(ii)** other financial liabilities. Other financial liabilities include loans obtained, and Trade payables and other accounts payable.

### Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss include non-derivative liabilities for selling in the short term and derivative financial instruments that do not qualify for hedge accounting purposes, and are classified in this manner on initial recognition. Gains and losses arising from changes to the fair value of liabilities measured at fair value through profit or loss are recognised in the income statement.

### Bank loans

Loans are initially recognised at fair value net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the issue amount (net of transaction costs incurred) and the nominal value is recognised in profit or loss over the term of the loans in accordance with the effective interest method. Loans are classified as non-current liabilities, except if it is expected that AdP will settle the liability within 12 months of the balance sheet date, in which case they are classified as current liabilities.

### Trade payables and other accounts payable

The balances of trade payables and other accounts payable are initially recorded at their nominal value, which is taken to be fair value, and are afterwards recorded at amortised cost in accordance with the effective interest method. Financial liabilities are derecognised when the underlying obligations are eliminated by payment, are cancelled or expire.

## 2.7 Fair value hierarchy

The assets and liabilities of AdP measured at fair value are classified according to the following levels of fair value hierarchy, as established in IFRS 7: **Level 1**, the fair value of financial instruments is based on active net market prices on the reference date of the balance sheet. This level essentially includes equity, debt (e.g. NYSE Euronext) and futures instruments listed on active markets; **Level 2**, the fair value of financial instruments is not based on active market prices but on the use of valuation models. The main inputs of the models used are observable in the market. This level includes, for example, over-the-counter derivatives and **Level 3**, the fair value of financial instruments is not determined based on active market prices but with valuation models whose main inputs are not observable in the market. The table with the assets and financial liabilities at fair value classified by level is presented in Note 6.

## 2.8 Derivative financial instruments and hedge accounting

AdP uses derivatives solely to manage the financial risks to which it is exposed. AdP does not use derivatives for speculation, in accordance with its financial policies. Even though the derivatives contracted by AdP are effective instruments in the hedging of risks not all of them qualify as hedge accounting instruments under the rules and requirements of IAS 39. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them are recognised in profit or loss. The fair value of derivatives is estimated based on listed instruments, whenever available. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash flow method and option pricing models, in accordance with generally accepted market assumptions. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is adjusted on a regular basis and any gains or losses resulting from this revaluation are recorded directly in the income statement for the period, except those referring to hedge derivatives. The recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

### 2.8.1 Hedge accounting

Hedge accounting is used whenever there is a relationship between the hedged item and the hedging instrument, meeting the following conditions:

- i) the hedge relationship is identified and formally documented on the date it starts;
- ii) the hedge relationship is expected to be highly effective at the transaction date (prospectively) and throughout the operation (retrospectively);
- iii) with respect to cash flow hedges, there should be a high probability that they will occur;
- iv) the hedge is evaluated on an ongoing basis and effectively determined as having been highly effective for the entire financial reporting period for which the hedge was designated.

The necessary criteria established by IAS 39 for one of the derivatives that the company holds to be considered as hedges, were met as at 1 January 2012. Changes in the fair value of the derivatives that do not qualify as hedges are recognised directly in equity.

## 2.9 Trade receivables and other accounts receivable

The balances of trade receivables and other accounts receivable are amounts received for the sale of goods or services provided to the Group in the normal course of its business activities. They are initially recorded at fair value and afterwards measured at amortised cost by the effective interest method, less impairment losses.

## 2.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits, other short-term highly liquid investments with original maturities of six months or less. Bank overdrafts are reported on the balance sheet as current liabilities, under "Loans", which are also considered in the preparation of the consolidated cash flow statement.

## 2.11 Impairment

### 2.11.1 Impairment of financial assets

AdP analyses for objective evidence of either a financial asset or group of financial assets being impaired, at the balance sheet date.

#### Financial assets available for sale

For financial assets classified as available for sale, a prolonged or significant decline in the fair value of the instrument below its cost is regarded as indicating that the instruments are impaired. If there is any similar evidence for financial assets classified as available for sale, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset that has already been recognised in the income statement - is removed from equity and recognised on the income statement. Impairment losses of equity instruments recognised in profit or loss are not reversed through the income statement.

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

Adjustments for impairment losses are recorded when there are impartial indicators that AdP will not collect all the amounts owed according to the original terms of the contracts established. The various indicators used to identify impairment situations include: **(i)** analysis of breach; **(ii)** debtor's financial difficulties; and **(iii)** probability of bankruptcy of the debtor.

Impairment losses are determined by the difference between the recoverable amount and the carrying amount of the financial asset and they are recognised against the profit or loss of the financial year. The carrying amount of these assets is reduced to the recoverable value through the use of an adjustments account. When an amount receivable from customers and debtors is considered irrecoverable it is written off using the adjustments account for accrued impairment losses. Subsequent recoveries of amounts that may have been written off are recognised in profit or loss. When the sums receivable from trade receivables or other debtors are due and their terms are renegotiated, they are no longer regarded as overdue and are treated as new credits.

### 2.11.2 Impairment of non-financial assets

The assets of AdP are reviewed at each balance sheet date in order to detect indications of possible impairment losses. If such indication exists, the asset's recoverable amount is evaluated. For other intangible assets with indefinite useful lives, the recoverable amount is estimated annually at the balance sheet date. Whenever there are indications of potential losses due to impairment the recoverable value of the assets of AdP is ascertained. The recoverable value of the Group's assets is ascertained whenever there are indications of potential impairment losses. Whenever the book value of an asset or cash-generating unit to which it belongs exceeds the recoverable amount, it is reduced to the recoverable amount and this impairment loss is recognised in the income statement for the period.

For cash-generating units that started business operations less than a certain period of time previously (2 to 3 years), AdP performs an analysis of the impairment. However, since the respective businesses will have not yet reached sufficient maturity, impairment losses are recognised when there are unequivocal indicators that recoverability is considered remote.

#### Determining assets' recoverable amount

The recoverable amount of receivables in the medium and long run corresponds to the present value of expected future receipts, using the effective interest rate of the original operation as a discount factor. The recoverable amount of other types of asset is whichever is the higher of its net sale price and its value in use. In the calculation of the value in use of an asset, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of the money and the specific risks of the asset in question. The recoverable amount of the assets that alone do not generate independent cash flows is determined together with the cash generating unit to which they belong.

#### Reversal of impairment losses

Impairment losses recognised in medium and long-term receivables are only reversed when the reason for increasing the recoverable amount is based on an event that occurred after the date of recognition of the impairment loss. Impairment losses relative to other assets are reversed whenever there are changes in the estimates used to calculate the respective recoverable amount. Impairment losses are reversed up to the amount, net of amortisations, that the asset would have had if the impairment loss had not been recognised.

## 2.12 Share capital

Ordinary shares are classified in equity. Costs incurred directly from the issue of new shares or options are presented in equity as a deduction, net of taxes, on the amount issued.

## 2.13 Dividends payable

Dividends are recognised as a liability when declared.

## 2.14 Government grants

Grants (related to assets) for investment are recognised when there is reasonable certainty that the grant will be received and that AdP will meet all the obligations inherent in their receipt. Investment grants for the acquisition and/or construction of tangible and/or intangible assets are included under non-current liabilities and are credited on the income statement based on the same amortisation method as that for the underlying assets.

Other grants are deferred and recognised in the income statement in the same period as the expenses they are intended to offset.

## 2.15 Provisions, contingent assets and liabilities

Provisions are only recognised when an obligation exists that results from past events, the settlement of which is likely to require the allocation of internal resources in an amount that can be reasonably estimated. Whenever any criterion is not met or the existence of the obligation depends on the (non-)occurrence of a particular future event, AdP will disclose this fact as a contingent liability, unless an evaluation of the requirement to pay funds for its settlement is considered unlikely. When there are a large number of similar obligations, the probability of generating an outflow of internal resources is determined for them as a whole. The provision is recognised even where the likelihood of an outflow of internal resources relating to an item of the same class of obligations may be small. Current obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract exists when the company is an integral party to a contract which has associated costs with respect to its compliance and which cannot be avoided and exceed the future economic benefits derived from the same. The provisions are measured at the present value, on the balance sheet date, of the best estimate of the Board of Directors regarding the expenditure required to discharge the obligation. The discount rate used to calculate the present value reflects the current market expectation for the period of the discount and for the risk of the provision in question.

Provisions for future operating losses are not recognised.

### Contingent assets and liabilities

Contingent assets and liabilities are not recognised in the financial statements, but disclosed in the attached notes. When the likelihood of an outflow of resources that incorporate economic benefits is remote, or if it is unlikely that there will be an inflow of economic benefits, the relevant contingent liabilities or contingent assets are not disclosed.

## 2.16 Tax

Income tax for the period includes current tax and deferred tax. Income tax is recognised in the income statement, except where it is related to items that are recognised directly in equity. The amount of current tax payable is calculated based on the pre-tax profit, adjusted according to tax rules.

Deferred tax is recognised using the balance sheet liability method, considering the temporary differences between the tax base of assets and liabilities and their carrying amount on the financial statements. Deferred tax that arises from the initial recognition of an asset or liability in a transaction that is not a merger, and which on the transaction date has not affected either the accounting outcome or the tax outcome, is not recorded. Deferred tax assets are recognised when it is probable that future taxable profit will be available against which temporary differences can be utilised or when the reversal of a deferred tax asset is expected for the same time and with the same authority.

Deferred taxes are calculated based on the current rate or the rate officially announced at the balance sheet date and which is expected to apply on the date on which deferred tax assets are realised or deferred tax liabilities are paid. Differences that may arise from expected changes in the rates that will reverse temporary tax differences are considered in the income statement.

Deferred taxes are recognised on temporary differences arising from investment in subsidiaries and associates except when AdP is able to control the timing of the reversal of the temporary difference and it is likely that the temporary difference will not be reversed in the foreseeable future.

Deferred taxes are recorded in the net profit or in "Other reserves", depending on how the transaction or event giving rise to them is recorded.

## 2.17 Revenue

Revenue comprises the fair value of the provision of services, net of taxes and discounts.

### 2.17.1 Services provided

Revenue is recognised based on the service provided in the period in which this occurs.

### 2.17.2 Interest

Interest income is recognised based on the effective interest rate and is recorded in the period in which it is earned, according to the accruals principle.

When a receivable is adjusted for impairment, AdP reduces its book value to its recoverable value, though estimated future cash flows are still discounted at the initial effective interest rate (before impairment) and the correction of the discount is considered to be interest income.

### 2.17.3 Dividends receivable

Dividends are recognised when the shareholder's right has been established, which is usually by decision of the General Meeting of the subsidiary or associate.

## 2.18 Own work capitalised

The costs of resources directly allocated to tangible and intangible assets during their development/construction stage are recognised in this item when it is concluded that they are recoverable through the realisation of those assets. Capitalised financial expenses as well as some personnel expenditure are particularly important. They are measured at cost based on internal information specially prepared for the purpose (internal costs) or on the respective purchase costs plus other expenses inherent therein, meaning therefore they are recognised without any profit margin. Capitalised expenses are carried directly on the balance sheet without impact on the income statement, and they are disclosed in the notes whenever such is applicable.

## 2.19 Expenses and losses

Expenses and losses are recorded in the period to which they relate, regardless of when they are paid or received, according to an accruals basis.

## 2.20 Subsequent events

Events occurring after the balance sheet date that convey additional information on conditions prevailing at the balance sheet date are reflected in the financial statements. Post-balance sheet date events that convey information on conditions that occur after the balance sheet date are, if material, disclosed in the notes to the financial statements.

# 3. Financial risk management policies

## 3.1 Risk factors

The business operations of AdP are exposed to a number of financial risk factors: credit risk, liquidity risk and market risk (interest rate risk, cash flows risk associated with the interest rate). The AdP Group has developed and implemented a risk management programme which, together with the permanent monitoring of the financial markets, seeks to minimise potential adverse effects on the financial performance of AdP and its subsidiaries. Risk management is the responsibility of the central treasury department, according to the policies approved by the Board of Directors. The treasury department identifies, assesses and undertakes operations designed to minimise the financial risks, in close cooperation with the AdP Group's operational units. The Board of Directors drafts the principles for risk management as a whole and policies that cover specific areas such as currency conversion risk, interest rate risk, credit risk, the use of derivatives, other non-structured instruments and the investment of surplus liquidity. The Board of Directors is responsible for establishing the general risk management principles and also the exposure limits. All transactions undertaken using derivative instruments require the prior approval of the Board of Directors, which sets the parameters for each transaction and approves the formal documents describing the specific objectives.

### 3.2 Credit risk

Credit risk is essentially related to the risk of a counterparty defaulting on their contractual obligations, resulting in a financial loss for AdP. AdP is exposed to credit risk in the course of its operational, investment and cash management activities.

Credit risk in operations is basically related to receivables for services rendered to customers and from loans granted. This risk is theoretically low, given the nature of the service rendered (to the group companies). However, given the specific economic and financial situation of the country in the previous year, with direct consequences on local government, non-payment to the Group companies can have a direct impact on the credit risk. The AdP Group has been warning the Central Government of the unsustainability of the current arrears situation of some municipalities, with the aim being to try to find alternative ways of collecting the overdue amounts to the Group companies. Impairment losses for receivables are calculated considering: **i)** the customer's risk profile, depending on whether a corporate or business customer; **ii)** the average collection period, which varies from business to business; and **iii)** the customer's financial health.

The following table shows the maximum exposure of AdP to credit risk (not including customers' and other debtors' balances) as at 31 December 2015, not taking into consideration any collateral held or other credit enhancements. The defined exposure for assets on the balance sheet is based on their carrying amount as reported on the main balance sheet.

<b>Banking financial assets</b>	<b>2015</b>
Current accounts	8 647 536
Term deposits	64 300 000
	72 947 536

<b>Rating</b>	<b>2015</b>
Ba1	34 747 000
B1	891 183
Caa1	23 860 811
Ba3	896 032
Baa1	554 713
Baa3	47 024
Caa2	11 679 976
n.a	270 797
	72 947 536

Note: Moody's rating obtained from financial institutions' websites in January 2016.

### 3.3 Exchange rate risk

Exposure to currency risk derives primarily from financing in foreign currency and future business transactions. This risk basically encompasses financing obtained in foreign currencies and future commercial transactions, recognised assets and liabilities, as well as net investments in foreign operations not incurred or expressed in AdP's operating currency. The AdP Group's central treasury manages the net exposure of the Group in each currency, contracting swaps centrally so as to minimise commercial risks, recognised assets and liabilities. AdP has investments denominated in foreign currency with net assets exposed to exchange rate risk through conversion, and funding in foreign currency exposed to exchange rate risk. The exchange rate risk inherent to the net assets in foreign currency is managed by taking out loans in the same currency, and loans with hedging exchange rate swaps.

### 3.4 Liquidity risk

The management of liquidity risk requires keeping a reasonable level of cash and cash equivalents and implies the consolidation of floating debt through an adequate amount of credit facilities and the ability to liquidate market positions. AdP's treasury department, given the dynamics of the underlying businesses, intends to secure floating debt flexibility, keeping the credit lines available for that purpose. AdP manages liquidity risk by taking out and maintaining credit lines and financing facilities with a firm underwriting commitment, with domestic and international financial institutions holding a high credit rating that provide immediate access to funds. This practice has been greatly restricted in the last financial year by Portugal's well-known difficulties in gaining access to the credit markets, and by the growing increase of customer debt.

The table below shows AdP's liabilities by intervals of contracted residual maturity. The amounts shown in the table are the non-discounted contractual cash flows, for future payment (without the interest which these liabilities incur).

<b>2015</b>	<b>&lt; 1 year</b>	<b>1 to 5 years</b>	<b>&gt; 5 years</b>
Loans	5 000 000	-	500 000 000
Trade payables and other liabilities	6 802 817	-	-

<b>2014</b>	<b>&lt; 1 year</b>	<b>1 to 5 years</b>	<b>&gt; 5 years</b>
Loans	107 014 660	-	500 000 000
Trade payables and other liabilities	21 558 769	-	-

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

The interest rate risk of AdP basically stems from taking out long-term loans. Such loans with interest at floating rates expose AdP to cash flow risk whereas loans with fixed interest rates expose AdP to fair value risk linked to the interest rate. AdP manages interest rate-linked cash flow risk by taking out swaps that enable loans with floating interest rates to be converted to fixed interest rate loans.

#### Sensitivity analysis to interest rate changes

		<b>2015</b>	<b>2014</b>
Interest incurred	Actual	6 655 209	8 225 135
Interest incurred	average rate +1%	11 705 209	12 686 445
Interest incurred	average rate -1%	1 605 209	6 730 899

### 3.6 Capital risk

AdP's goal with respect to managing capital, which is a broader concept than the capital disclosed on the balance sheet, is to maintain an optimal capital structure through the prudent use of debt to enable it to reduce the cost of capital. The goal of managing the capital risk is to safeguard the Group as a going concern, with a reasonable return for shareholders and the generation of benefits for all stakeholders.

The policy of the Group is to have the parent company, AdP contract loans with financial corporations (except for investment loans), which in turn gives loans to its subsidiaries. This policy aims to optimise the capital structure for greater tax efficiency and to reduce the average cost of capital.

	<b>2015</b>	<b>2014</b>
Non-current loans	500 000 000	500 000 000
Current loans	5 000 000	107 014 660
Cash assets	(72 947 967)	(148 963 703)
<b>Debt</b>	<b>432 052 033</b>	<b>458 050 957</b>
Total equity	723 020 660	602 853 399
<b>Share capital</b>	<b>1 155 072 693</b>	<b>1 060 904 356</b>
<b>Debt/ Total equity</b>	<b>0.37</b>	<b>0.43</b>

## 4. Estimates and judgements

The estimates and judgements that have an impact on AdP's financial statements are assessed continuously and they represent, at the date of each report, the best estimate of the Board of Directors, bearing in mind the historic performance, accumulated experience and expectations with respect to future events which, in the circumstances in question, are believed to be reasonable. The intrinsic nature of the estimates can mean that the real reflection of situations that have been the target of an estimate may, for the purposes of financial reporting, differ from the estimated amounts. The estimates and judgements that generate a significant risk of leading to a material adjustment in the book value of assets and liabilities over the next financial year are:

### 4.1 Provisions and adjustments

AdP regularly analyses any obligations arising from past events and which must be recognised or disclosed. AdP is party to several ongoing legal proceedings in relation to which it has made a judgement, based on the opinion of its lawyers, to decide if a provision should be set up for these contingencies (note 16).

The subjectivity inherent in determining the likelihood and amount of outflows of the internal resources needed to discharge obligations may lead to significant adjustments, either due to the change of those assumptions or through the future recognition of provisions previously disclosed as contingent liabilities.

## 4.2 Tangible fixed assets and intangible assets

The determination of assets' useful lives and the depreciation method are essential to calculate the amount of depreciation and amortisation to be recognised in the consolidated income statement.

## 4.3 Impairment

The calculation of an impairment loss can be triggered by a number of events, many of which are outside the influence of AdP, such as the future availability of funding, the cost of capital and the maintenance of the present market regulation structure, not to mention any other internal or external changes to AdP. The identification of impairment indicators, the estimate of future cash flows and the determination of the fair value of assets (or a group of assets) requires a high degree of judgment by the Board of Directors, in terms of identifying and assessing the different impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. Adjustments to accounts receivable are mainly calculated based on the age of the receivables, the risk profile of customers and their financial situation. The estimates related to the adjustments in receivables differ from business to business.

The impairment of any of the reported assets at the issue date of the financial statements of AdP is not considered likely. If, for the purpose of any assessment currently under way, any sign of impairment is found, the relevant book amount of the asset on the balance sheet will be adjusted against the profit or loss for the year. In addition to the above-mentioned uncertainties, there are some areas of judgement with an impact reflected in the financial statements. Although it is thought unlikely that they will lead to a material change in the next financial year they may nonetheless bring about a change in the assumptions or assessment by the Board of Directors of AdP.

## 4.4 Fair value of derivatives

The fair value of financial instruments that do not have an active market is calculated based on evaluations that reflect the mark-to-market of such instruments. AdP uses its judgment to choose the evaluation techniques and assumptions to use to assess the derivatives contracted at the financial reporting date.

# 5. Relevant events affecting profit or loss for the year

## 5.1 Classification of the EGF Group as held for sale/discontinued operations

In Decree-Law 45/2014 of 20 March, the government approved the reprivatisation of EGF by selling 100% of its share capital, which was held by AdP. The Decree-Law also determined that the divestment would be done by internal public tender. It set out the phases and the workers' right to acquire 5% of the share capital of EGF. It determined the sale option and pre-emptive rights to be granted to the municipalities holding shares in the multi-municipal systems in which EGF is a shareholder. In Council of Ministers Resolution 30/2014 of 3 April, published in Diário da República of 8 April, the government approved the specifications that regulate the terms of the public tender for the sale and determined its issue. On 31 July 2014, four of the seven bidders invited to tender for acquisition of the EGF shares submitted their bids. Council of Ministers Resolution 55-B/2014 of 19 September selected Agrupamento SUMA, formed by the companies Suma - Serviços Urbanos e Meio Ambiente, S.A., Mota - Engil Ambiente e Serviços, SGPS, S.A. and Urbaser, S.A., as the successful bidder in the public tender for the reprivatisation of EGF. On 6 November 2014 the purchase and sale contract for 95% of the share capital of EGF was signed by AdP and Suma Tratamento, S.A., the company set up by the members of Agrupamento SUMA. The remaining 5% of the share capital is reserved for purchase by EGF employees after the completion of the transaction. At the end of July 2015, after a favourable decision from the competition authority, shares representing 95% of this company's capital were transferred to SUMA Tratamento, S.A. for the amount of EUR 154 million, which generated a book-value capital gain of EUR 96.7 million, which was recorded in income from shareholdings. In accordance with IFRS 5, these financial statements carry the balances, operations and results of the EGF Group as held for sale/operations discontinued (see Note 30) in 2014 and in the first six months of 2015.

## 5.2 Geographical reorganisation

On 30 June 2015, as set out in the decrees-law published on 29 May 2015, the first general meetings were held of the three new regional companies responsible for the management of the multi-municipal water supply and wastewater treatment systems, Norte de Portugal, Centro Litoral de Portugal and Lisboa e Vale do Tejo. As these companies went into operation, the Águas de Portugal Group (AdP Group) completed the geographical reorganisation of its water supply and wastewater treatment, which involved closing 15 companies and setting up three new management entities: Águas do Norte, Águas do Centro Litoral and Águas do Lisboa e Vale do Tejo, whose system will be managed by EPAL.

Águas do Norte, S.A. was set up by Decree-Law 93/2015 of 29 May by aggregating the companies Águas do Douro e Paiva, S.A., Águas de Trás-os-Montes e Alto Douro, S.A., Simdouro – Saneamento do Grande Porto, S.A. and Águas do Noroeste, S.A., all belonging to the Águas de Portugal Group. The Portuguese government then granted it an exclusive 30-year concession to operate

and manage the multi-municipal water supply and wastewater treatment system in the north of Portugal. Sistema Multimunicipal de Abastecimento de Água e de Saneamento do Centro Litoral de Portugal was set up on 29 May by Decree Law 92/2015. It is the result of the aggregation of the Aveiro multi-municipal wastewater treatment system (Simria), which was set up by Decree-Law 101/97 of 26 April, amended by Decree-Law 329/2000 of 22 December; the Lis multi-municipal wastewater treatment system (Simlis), set up by Decree-Law 543/99 of 13 December and the Baixo Mondego-Bairrada multi-municipal water supply and wastewater treatment system (Águas do Mondego), set up by Decree-Law 172/2004 of 17 July. A 30-year concession for the operation and management of Sistema Multimunicipal de Abastecimento de Água e de Saneamento do Centro Litoral de Portugal was granted to Águas do Centro Litoral, S.A., which takes over the rights and obligations of the three companies that were closed down: Simria - Saneamento Integrado dos Municípios da Ria, S.A., concession holder of the Ria de Aveiro multi-municipal wastewater treatment system, Simlis- Saneamento Integrado dos Municípios do Lis, S.A., concession holder of the Lis multi-municipal wastewater treatment system and Águas do Mondego - Sistema Multimunicipal de Abastecimento de Água e de Saneamento do Baixo Mondego - Bairrada, S.A., concession holder of the Baixo Mondego - Bairrada multi-municipal water supply and wastewater treatment system. Águas de Lisboa e Vale do Tejo is a state-owned public limited company set up by Decree-Law 94/2015 of 29 May, which delegated management to EPAL. It is the result of the aggregation that led to the closure of the following companies: Águas do Zêzere e Côa (water supply+wastewater treatment), Água do Centro (water supply+wastewater treatment), Águas do Oeste (water supply+wastewater treatment), Simtejo (wastewater treatment), Sanest (wastewater treatment), Simarsul (wastewater treatment), Águas do Norte Alentejano (water supply+wastewater treatment), Águas do Centro Alentejo (water supply+wastewater treatment). The concession for the operation and management of the Lisboa e Vale do Tejo multi-municipal water supply and wastewater treatment system was granted to Águas de Lisboa e Vale do Tejo and its management delegated to EPAL – Empresa Portuguesa das Águas Livres, S.A. The new companies take over the rights and obligations of the previous companies that were closed down and all their assets and liabilities have been transferred to them.

## 6. Financial instruments by IAS 39 category

	Loans and receivables (assets)	Liabilities at amortised cost	Liabilities at fair value through profit or loss	Liabilities at fair value through equity	Total	Not classified as financial instruments	Balance sheet total in 2015
Tangible fixed assets	-	-	-	-	-	304	304
Financial investments	-	-	-	-	-	704 377 712	704 377 712
Loans to Group companies	450 214 071	-	-	-	450 214 071	-	450 214 071
Other accounts receivable	2 083 553	-	-	-	2 083 553	-	2 083 553
Trade receivables	15 530 855	-	-	-	15 530 855	-	15 530 855
Group Companies	23 901 838	-	-	-	23 901 838	-	23 901 838
Income tax for the year	28 727	-	-	-	28 727	-	28 727
Cash and cash equivalents	72 947 967	-	-	-	72 947 967	-	72 947 967
<b>Total assets</b>	<b>564 707 011</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>564 707 011</b>	<b>704 378 016</b>	<b>1 269 085 027</b>
Provisions	-	-	-	-	-	18 536 439	18 536 439
Bank loans	-	505 000 000	-	-	505 000 000	-	505 000 000
Derivatives	-	-	11 085 953	4 639 158	15 725 111	-	15 725 111
Suppliers	-	870 368	-	-	870 368	-	870 368
Other Creditors	-	5 932 449	-	-	5 932 449	-	5 932 449
<b>Total liabilities</b>	<b>-</b>	<b>511 802 817</b>	<b>11 085 953</b>	<b>4 639 158</b>	<b>527 527 928</b>	<b>18 536 439</b>	<b>546 064 367</b>

	Loans and receivables (assets)	Liabilities at amortised cost	Liabilities at fair value through profit or loss	Liabilities at fair value through equity	Total	Not classified as financial instruments	Balance sheet total in 2014
Tangible fixed assets	-	-	-	-	-	929	929
Financial investments	-	-	-	-	-	760 028 618	760 028 618
Loans to Group companies	208 616 172	-	-	-	208 616 172	-	208 616 172
Other accounts receivable	3 052 971	-	-	-	3 052 971	-	3 052 971
Trade receivables	12 753 518	-	-	-	12 753 518	-	12 753 518
Group Companies	131 038 718	-	-	-	131 038 718	-	131 038 718
Income tax for the year	1 295 173	-	-	-	1 295 173	-	1 295 173
Cash and cash equivalents	148 963 703	-	-	-	148 963 703	-	148 963 703
<b>Total assets</b>	<b>505 720 255</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>505 720 255</b>	<b>760 029 547</b>	<b>1 265 749 802</b>
Provisions	-	-	-	-	-	17 064 281	17 064 281
Bank loans	-	607 014 660	-	-	607 014 660	-	607 014 660
Derivatives	-	-	12 972 000	5 187 628	18 159 628	-	18 159 628
Suppliers	-	640 643	-	-	640 643	-	640 643
Other Creditors	-	20 628 102	-	-	20 628 102	-	20 628 102
<b>Total liabilities</b>	<b>-</b>	<b>628 283 405</b>	<b>12 972 000</b>	<b>5 187 628</b>	<b>646 443 033</b>	<b>17 064 281</b>	<b>663 507 314</b>

## Fair value hierarchy

	31 December 2015			31 December 2014		
	level 1	level 2	level 3	level 1	level 2	level 3
<b>Financial liabilities at fair value through profit or loss</b>						
Derivatives		1 108 953			(33 684 031)	
<b>Financial liabilities at fair value through comprehensive income</b>						
Derivatives		4 639 158			(5 187 628)	

## 7. Tangible fixed assets

	2015	2014
Office equipment	304	929
	<b>304</b>	<b>929</b>

### 7.1 Movements in the period

Gross assets	2014	Additions	Decreases	2015
Office equipment	108 828	-	-	108 828
	<b>108 828</b>	<b>-</b>	<b>-</b>	<b>108 828</b>

Amortisation and adjustments	2014	Additions	Decreases	2015
Office equipment	(107 899)	(625)	-	(108 524)
	<b>(107 899)</b>	<b>(625)</b>	<b>-</b>	<b>(108 524)</b>

## 8. Financial investments

	2015	2014
Financial investment in associates	696 588 562	692 970 258
Financial investments in other companies (a)	3 032 576	-
Other financial investments	4 756 574	6 406 829
	<b>704 377 712</b>	<b>699 377 087</b>

(a) Corresponds to 5% of the financial holding in EGF. Pursuant to Decree-Law 45/2014, these 5% will go to the employees of the EGF Group, by decision of the Council of Ministers.

### 8.1 Movements in the period

	2015	2014
<b>Opening balance</b>	<b>692 970 258</b>	<b>747 707 109</b>
Capital increase	1 005 293	5 030 557
Loss apportionment	2 613 011	884 123
Reclassification of assets held for sale	-	(60 651 531)
<b>Closing balance</b>	<b>696 588 562</b>	<b>692 970 258</b>

In the current year AdP accompanied the capital increase at AgdA and Águas do Norte. It also hedged losses by injecting cash into AdP Internacional (loss apportionment).

## 8.2 Individual value of shareholdings

		<b>2015</b>	<b>2014</b>
EPAL		366 116 761	366 116 761
Águas do Norte		110 680 401	-
Águas do Centro Litoral		36 454 976	-
Águas de Lisboa e Vale do Tejo		131 171 006	-
Águas do Noroeste	(a)	-	58 758 627
Águas do Zêzere e Côa	(c)	-	29 451 416
Águas de Trás-os-Montes e Alto Douro	(a)	-	28 284 126
Águas do Centro	(c)	-	26 360 773
Águas do Algarve		25 834 640	25 834 640
Simtejo	(c)	-	24 636 148
Simria	(b)	-	19 406 641
Águas do Oeste	(c)	-	18 772 261
Simarsul	(c)	-	16 792 440
Águas do Douro e Paiva	(a)	-	11 656 901
Águas do Mondego	(b)	-	11 170 388
Simdouro	(a)	-	11 730 000
AdRA - Águas da Região de Aveiro		7 650 000	7 650 000
Águas do Norte Alentejano	(c)	-	6 062 066
AdP Internacional		9 531 575	6 918 563
Sanest	(c)	-	5 915 483
Simlis	(b)	-	5 877 947
AdP Energias		4 733 226	4 733 226
Águas do Centro Alentejo	(c)	-	3 180 419
Águas de Santo André		2 298 412	2 298 412
AdP Serviços		587 465	587 465
AgdA - Águas Públicas do Alentejo		1 530 000	775 455
Aquasis		100	100
<b>Subsidiaries</b>		<b>696 588 562</b>	<b>692 970 258</b>
Trevo Oeste		572 991	572 991
Imparidade de investimento financeiro		(572 991)	(572 991)
<b>Associates</b>		<b>0</b>	<b>0</b>
<b>Total</b>		<b>696 588 562</b>	<b>692 970 258</b>

(a) Balances transferred to Águas do Norte; (b) Balances transferred to Águas do Centro Litoral; (c) Balances transferred to Águas de Lisboa e Vale do Tejo.

## 9. Loans to Group companies (medium and long-term)

		<b>2015</b>	<b>2014</b>
Águas do Algarve		35 000 000	40 000 000
Águas do Norte		220 316 514	-
Águas do Centro Litoral		63 000 000	-
Águas de Lisboa e Vale do Tejo		77 450 000	-
AgdA - Águas Públicas do Alentejo		37 000 000	-
AdRA - Águas da Região de Aveiro		13 300 000	-
AdP Serviços		4 000 000	-
Águas do Noroeste	(a)	-	35 961 565
Águas de Trás-os-Montes e Alto Douro	(a)	-	40 000 000
Águas do Centro	(a)	-	27 000 000
Simria	(a)	-	25 000 000
Simdouro	(a)	-	20 600 000
Águas do Zêzere e Côa	(a)	-	13 000 000
Águas do Norte Alentejano	(a)	-	5 907 050
Simarsul	(a)	-	1 000 000
Águas do Brasil		91 800	91 800
Trevo Oeste		55 757	55 757
		<b>450 214 071</b>	<b>208 616 172</b>

(a) Amounts reclassified as a result of the geographical reorganisation mentioned in note 5.2.

### 9.1 Movements in the period

	<b>2015</b>	<b>2014</b>
<b>Opening balance</b>	<b>208 616 172</b>	<b>192 352 517</b>
Repayment (Águas do Algarve)	(5 000 000)	(5 000 000)
Repayment (Simarsul)	-	(1 000 000)
Repayment (Águas do Noroeste)	-	(3 981 102)
Transfer to current (Águas do Noroeste)	-	(4 000 000)
Loan (Águas de Lisboa e Vale do Tejo)	30 542 950	-
Loan (Águas do Centro Litoral)	38 000 000	-
Loan (Águas do Norte)	123 754 949	-
Loan (AdRA - Águas da Região de Aveiro)	13 300 000	-
Loan (AgdA - Águas Públicas do Alentejo)	37 000 000	-
Loan (AdP Serviços)	4 000 000	-
Loan (Águas do Norte Alentejano)	-	3 192 000
Loan (Águas do Centro)	-	27 000 000
Loan (Trevo Oeste)	-	32 757
Loan (Águas do Brasil)	-	20 000
<b>Closing balance</b>	<b>450 214 071</b>	<b>208 616 172</b>

## 10. Trade receivables

	<b>2015</b>	<b>2014</b>
Águas do Norte	7 744 795	-
Águas de Lisboa e Vale do Tejo	5 685 753	-
EPAL	765 876	284 002
AgdA - Águas Públicas do Alentejo	419 255	411 085
EGF	252 079	-
AdRA - Águas da Região de Aveiro	198 862	228 041
Águas do Centro Litoral	121 543	-
AdP Internacional	103 110	125 232
AdP Serviços	92 423	77 605
Águas do Algarve	73 210	2 448 365
Águas de Santo André	51 309	126 998
Aquasis	10 691	32 124
AdP Energias	8 157	14 361
Trevo Oeste	3 792	1 829
Águas do Noroeste	-	2 548 045
Águas de Trás-os-Montes e Alto Douro	-	1 920 654
Águas do Norte Alentejano	-	1 322 775
Águas do Zêzere e Côa	-	703 695
Simarsul	-	504 866
Águas do Centro	-	370 877
Simdouro	-	311 452
Águas do Mondego	-	294 080
Simtejo	-	160 534
Águas do Douro e Paiva	-	119 027
Simlis	-	98 880
Águas do Oeste	-	86 416
Águas do Centro Alentejo	-	83 771
Simria	-	32 911
Sanest	-	30 787
Other trade payables balances	-	112
	<b>15 530 855</b>	<b>12 338 524</b>

## 11. Group Companies

	2015	2014
Águas do Norte	7 744 684	-
Águas do Centro Litoral	1 700 000	-
Águas de Lisboa e Vale do Tejo	4 485 780	-
Águas do Noroeste	-	34 400 000
Águas do Zêzere e Côa	-	21 700 000
AgdA - Águas Públicas do Alentejo	-	20 000 000
Águas de Trás-os-Montes e Alto Douro	-	13 944 684
Águas do Mondego	-	8 417 000
Águas do Oeste	-	8 000 000
AdP Internacional	7 000 000	7 000 000
Águas do Norte Alentejano	-	2 750 000
AdP Serviços	700 000	1 500 000
AdP Energias	1 200 000	1 200 000
Aquasis	636 000	436 000
Consolidated tax	435 374	6 690 904
Other	-	130
	<b>23 901 838</b>	<b>126 038 718</b>

The amounts presented in the table above correspond to short-term loans (cash support), with the exception of the item consolidated tax.

### 11.1 Tax - consolidated tax

Consolidated tax	2015	2014
AdP Serviços	126 589	142 594
Águas de Santo André	308 655	-
EPAL	-	6 545 716
AdP Energias	-	2 594
Aquasis	130	-
	<b>435 374</b>	<b>6 690 904</b>

## 12. Other accounts receivable - current

	2015	2014
Income to be billed	724 958	1 479 430
Term deposit interest	1 700	123 492
Bank charges	448 739	542 840
Insurance	86 934	82 405
State and other public entities	807 286	807 286
Other trade payables balances	13 936	17 518
	<b>2 083 553</b>	<b>3 052 971</b>

## 13. Income tax for the year

	2015	2014
Income tax for the year	3 060 035	3 118 222
Insufficient/ (excess) estimate from preceding year	36 086	(102 487)
	<b>3 096 121</b>	<b>3 015 735</b>

### 13.1 Tax calculated

	2015	2014
<b>Profit before tax</b>	<b>141 568 849</b>	<b>47 308 584</b>
Profit from discontinued operations	5 136 356	3 687 737
<b>Profit before tax</b>	<b>146 705 205</b>	<b>50 996 321</b>
Dividends received	(40 175 187)	(41 399 104)
Capital gains on sale of financial investments	(96 786 609)	-
Other adjustments	2 083 394	1 626 144
<b>Taxable amount</b>	<b>11 826 803</b>	<b>11 223 361</b>
21%   23% Corporate Income Tax	2 483 629	2 581 373
1.5% Municipal surtax	177 402	168 350
State surtax	396 340	366 168
<b>Corporate income tax and surtax (recoverable) / payable</b>	<b>3 057 371</b>	<b>3 115 891</b>
Amounts taxed separately	2 664	2 331
<b>Current tax</b>	<b>3 060 035</b>	<b>3 118 222</b>
Tax payment on account	415 809	7 981 284
Tax withheld at source	909 554	2 151 043
Current tax in tax perimeter	1 691 234	(5 108 021)
Other	72 165	-
	<b>28 727</b>	<b>1 906 084</b>

### 13.2 Effective taxation rate

	2015	2014
<b>Profit before tax – adjusted</b>	<b>146 705 205</b>	<b>50 996 321</b>
Taxation rate	22.77%	26.87%
	<b>33 405 008</b>	<b>13 704 387</b>
Capital gain	(21 776 985)	-
Dividends	(9 039 417)	(10 142 780)
Other accruals provisions	468 764	(445 714)
Amounts taxed separately	2 664	2 329
<b>Current tax</b>	<b>3 060 034</b>	<b>3 118 222</b>
Effective taxation rate	2.1%	6.1%

### 13.3 Income tax for the year

	2015	2014
21%   23% Corporate Income Tax	2 483 629	2 581 373
Surtax	177 402	168 350
State surtax	396 340	366 168
Amounts taxed separately	2 664	2 331
<b>Income tax in year</b>	<b>3 060 035</b>	<b>3 118 222</b>

## 14. Cash and cash equivalents

	2015	2014
Current accounts	8 647 536	7 843 981
Term deposits	64 300 000	134 816 000
Cash	431	6 303 722
	<b>72 947 967</b>	<b>148 963 703</b>

The amount shown as cash in hand in 2014 comes from cheques received at the end of the year and deposited in early January.

## 15. Equity

Shareholders as at 31.12.2015	% Capital	Amount subscribed	N.º of shares	Type of shares
Parpública, SGPS, S.A.	81%	351 945 000	70 389 000	Nominative
Parcaixa, SGPS, S.A.	19%	82 555 000	16 511 000	Nominative
	<b>100%</b>	<b>434 500 000</b>	<b>86 900 000</b>	

### 15.1 Net income and comprehensive earnings per share

	2015	2014
Net profit of financial year	143 609 084	47 980 586
Number of shares	86 900 000	86 900 000
<b>Earnings per share</b>	<b>1.65</b>	<b>0.55</b>

	2015	2014
Comprehensive income	144 157 554	45 949 507
Number of shares	86 900 000	86 900 000
<b>Earnings per share</b>	<b>1.66</b>	<b>0.53</b>

## 16. Provisions

	2015	2014
Liabilities with subsidiaries and associates	13 536 439	11 453 370
Other liabilities	5 000 000	5 000 000
	<b>18 536 439</b>	<b>16 453 370</b>

The provision related to subsidiaries and associates arises from liabilities in the international area. The provision recognised in other liabilities is related to potential contractual liabilities.

### 16.1 Movements in the period

	2014	Appropriations	2015
Liabilities with subsidiaries and associates	11 453 370	2 083 069	13 536 439
Other liabilities	5 000 000	-	5 000 000
	<b>16 453 370</b>	<b>2 083 069</b>	<b>18 536 439</b>

	2013	Appropriations	2014
Liabilities with subsidiaries and associates	8 007 984	3 445 386	11 453 370
Other liabilities	5 000 000	-	5 000 000
	<b>13 007 984</b>	<b>3 445 386</b>	<b>16 453 370</b>

## 17. Empréstitos

	2015	2014
Bond loans	500 000 000	500 000 000
<b>Non-current loans</b>	<b>500 000 000</b>	<b>500 000 000</b>
Short-term loans	5 000 000	5 000 000
Loans in foreign currency - JPY	-	100 000 000
JPY exchange rate adjustment	-	(18 697 371)
Exchange swap hedge	-	20 712 031
<b>Current loans</b>	<b>5 000 000</b>	<b>107 014 660</b>
<b>Total loans</b>	<b>505 000 000</b>	<b>607 014 660</b>

### 17.1 Loans by maturity

	2015	2014
Up to 1 year	5 000 000	107 014 660
1 to 2 years	-	-
2 to 3 years	-	-
3 to 4 years	-	-
4 to 5 years	-	-
Over 5 years	500 000 000	500 000 000
	<b>505 000 000</b>	<b>607 014 660</b>

### 17.2 Loans by interest rate type

Floating interest rate	2015	2014
Less than 1 year	5 000 000	107 014 660
1 to 2 years	-	-
2 to 3 years	-	-
Over 3 years	500 000 000	500 000 000
	<b>505 000 000</b>	<b>607 014 660</b>

## 18. Derivatives

Swaps	Risk hedged	Notional	Maturity	Fair value 2015	Fair value 2014	In profit or loss 2015	In comprehensive income 2015
Mitsubishi – exchange rate	EUR/JPY exchange rate	100000000	2015	-	(20 712 031)	20 712 031	-
Foreign exchange update	EUR/JPY exchange rate	100000000	2015	-	18 697 371	(18 697 371)	-
<b>Subtotal</b>				-	<b>(2 014 660)</b>	<b>2 014 660</b>	-
City Bank- interest rate	Interest rate	50000000	2022	(11 085 953)	(12 972 000)	1 886 047	-
BBVA - interest rate	Interest rate	200000000	2023	(4 639 158)	(5 187 628)	-	548 470
<b>Subtotal</b>				<b>(15 725 111)</b>	<b>(18 159 628)</b>	<b>1 886 047</b>	<b>548 470</b>
<b>Total</b>				<b>(15 725 111)</b>	<b>(20 174 288)</b>	<b>3 900 707</b>	<b>548 470</b>

Swap	Risk hedged	Notional	Maturity	Fair value 2014	Fair value 2013	In profit or loss 2014	In comprehensive income 2014
Mitsubishi – exchange rate	EUR/JPY exchange rate	100000000	2015	(20 712 031)	(22 127 077)	1 415 046	-
Foreign exchange update	EUR/JPY exchange rate	100000000	2015	18 697 371	18 410 857	286 514	-
<b>Subtotal (1)</b>				<b>(2 014 660)</b>	<b>(3 716 220)</b>	<b>1 701 560</b>	-
City Bank- interest rate	Interest rate	50000000	2022	(12 972 000)	(8 874 000)	(4 098 000)	-
BBVA - interest rate	Interest rate	200000000	2023	(5 187 628)	(3 156 548)	-	(2 031 080)
<b>Subtotal (2)</b>				<b>(18 159 628)</b>	<b>(12 030 548)</b>	<b>(4 098 000)</b>	<b>(2 031 080)</b>
<b>Total</b>				<b>(20 174 288)</b>	<b>(15 746 768)</b>	<b>(2 396 440)</b>	<b>(2 031 080)</b>

(1) Reported under Loans together with the foreign exchange impact of JPY.

(2) Reported under Derivatives on the balance sheet (liabilities).

AdP uses derivatives solely to manage the financial risks to which it is exposed. AdP does not use derivatives for speculation, in accordance with its financial policies. Even though the derivatives contracted by AdP are effective in hedging risks they do not all qualify as hedge accounting instruments under the rules and requirements of IAS 39. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them are recognised in profit or loss. The fair value of derivatives is estimated based on listed instruments, whenever available. In the absence of market prices, the fair value of derivatives is estimated by the discounted cash flow method determined by external entities, based on generally accepted market valuation techniques. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is adjusted on a regular basis and any gains or losses resulting from this revaluation are recorded directly in the income statement for the period, except those referring to hedge derivatives. The recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

Financial instruments associated with the loans from Depfa (notional of EUR 20 million) are considered as cash flow hedging instruments, and so any change in fair value has been recorded directly in equity as of 2012. Evaluations of the effectiveness of the instruments were made and the results were within the 80% to 125% range.

## 19. Suppliers

	2015	2014
Trade payables current account - Portugal	169 047	169 440
Trade payables current account - Group companies	701 321	471 203
	<b>870 368</b>	<b>640 643</b>

## 20. Other current liabilities

	2015	2014
Advance on account of sale of EGF	-	14 204 044
Interest payable	1 762 554	1 870 803
State and other public entities	440 091	627 125
Holidays and holiday pay	481 241	495 246
Sundry accrued expenses	217 125	194 052
Group Companies - other liabilities	668 822	510 869
Group companies - consolidated tax	2 126 608	1 261 997
Other creditors	236 008	1 753 990
	<b>5 932 449</b>	<b>20 918 126</b>

### 20.1 State and other public entities

	2015	2014
Tax withheld at source (employees and other income)	78 364	76 110
VAT	277 452	464 962
Social Security	79 956	75 765
Other taxation	4 319	10 288
	<b>440 091</b>	<b>627 125</b>

### 20.2 Consolidated tax

Consolidated tax	2015	2014
EGF	-	320 888
AdP Internacional	170 704	620 300
Águas de Santo André	-	641 696
AdP Energias	1 392	-
EPAL	1 954 512	-
	<b>2 126 608</b>	<b>1 582 884</b>

## 21. Services provided

	2015	2014
EPAL	2 257 360	2 484 272
Águas do Norte	950 404	-
Águas do Centro Litoral	311 406	-
Águas de Lisboa e Vale do Tejo	1 122 442	-
AdRA - Águas da Região de Aveiro	875 476	873 492
Águas do Noroeste	308 219	781 447
Águas do Algarve	854 891	800 449
Simtejo	353 896	753 949
Águas do Douro e Paiva	270 464	554 673
Águas de Santo André	428 546	408 487
Águas de Trás-os-Montes e Alto Douro	157 883	655 688
Águas do Oeste	220 248	494 539
Águas do Zêzere e Côa	152 657	333 570
Águas do Mondego	171 263	320 644
Sanest	143 803	287 641
Simria	137 456	272 175
Águas do Centro	116 798	244 425
Simarsul	115 288	233 048
AdP Serviços	207 923	213 032
AgdA - Águas Públicas do Alentejo	200 077	214 590
Simdouro	82 552	173 025
Águas do Centro Alentejo	64 371	157 726
Águas do Norte Alentejano	72 433	139 932
Simlis	63 349	126 792
Correction	-	(51 982)
	<b>9 639 205</b>	<b>10 471 614</b>

The services correspond to the management fee charged to the Group companies.

## 22. Supplies and services

	2015	2014
Specialised work – Audits	107 315	189 862
Specialised work -Studies and consultancy	366 848	109 566
Specialised work -Financial advice	2 725 597	830 573
Specialised work -Legal advice	1 734 844	478 953
Specialised work -IT assistance	417 702	388 217
Specialised work - Concession of space	1 240 461	1 255 323
Specialised work – Other	988 642	511 349
Advertising and marketing	552 232	475 056
Rents and leases	219 577	233 589
Travel and accommodation	62 454	80 759
Other supplies and services	254 264	257 130
	<b>8 669 936</b>	<b>4 810 377</b>

Costs of financial, legal, and IT advice, concession of space and studies and projects for aggregations and vertical integration are almost entirely debited by Group companies, in particular AdP Serviços, which provides shared services to the Águas de Portugal Group.

The increase in spending in 2015 was due to expenses of the privatisation of EGF to the amount of EUR 3.1 million and the aggregation process to the amount of EUR 514,000.

## 23. Personnel costs

	2015	2014
Remuneration of the governing bodies	318 645	418 472
Payroll	2 958 131	2 889 455
Compensation	171 561	-
Payroll expenses	754 359	766 517
Other personnel costs	252 340	294 394
Corrections for previous years	-	23 752
	<b>4 455 036</b>	<b>4 392 590</b>

In 2014, the reductions in salaries pursuant to the State Budget and the reversals established by the Constitutional Courts resulted in the following account during the year: (i) there were cuts ranging from 2.5% to 12% between January and May; (ii) there were no reductions between June and mid-September and there were reductions from 3.5% to 10% between mid-September and December, as in 2013 (which began in January 2011). The aforementioned reductions in remuneration for September to December 2014 were reversed by 20% as of 1 January 2015.

### 23.1 Remuneration of governing bodies

	2015	2014
Board of Directors	258 903	350 415
Supervisory Board	33 650	43 564
Statutory auditor	21 663	22 923
General Meeting	4 429	1 570
	<b>318 645</b>	<b>418 472</b>

The reduction in expenditure with the governing bodies was due to the fact that the Board of Directors temporarily had four members only.

### 23.2 Number of people employed by the company

Type	Average number		End of year	
	2015	2014	2015	2014
Board of Directors	5	5	5	5
Supervisory Board	3	3	3	3
Permanent/temporary employees	55	55	49	55
	<b>63</b>	<b>63</b>	<b>57</b>	<b>63</b>

## 24. Amortisations, depreciation and reversals in financial year

	2015	2014
Depreciation of tangible fixed assets	625	1 127
	<b>625</b>	<b>1 127</b>

## 25. Other operating expenses

	2015	2014
Taxes and charges	54 778	90 925
Donations and membership fees	23 802	16 675
Prior-year corrections	-	649
Other unusual expenses and losses	313	-
	<b>78 893</b>	<b>108 249</b>

## 26. Other operating income

	<b>2015</b>	<b>2014</b>
Additional earnings	216 037	561 172
Tax rebates	-	332 370
Other operating income and gains	127	32 134
Prior-year corrections	-	67 357
	<b>216 164</b>	<b>993 033</b>

Additional income relates to debits corresponding to remuneration of the positions that AdP SGPS staff hold in the governing bodies of companies in which the Company has shareholdings.

## 27. Financial expenses

	<b>2015</b>	<b>2014</b>
Interest paid - Bond loans	4 429 106	5 520 115
Interest paid- M/L-term loan (Japan)	1 990 275	2 705 020
Interest paid- Other interest	235 828	5
Fair value of financial instruments (a)	-	2 396 440
Other costs and financial losses	1 651 480	4 888 913
Bank commissions	2 869 540	2 764 881
	<b>11 176 229</b>	<b>18 275 375</b>

(a) See note 18 - Financial instruments

## 28. Financial income

	<b>2015</b>	<b>2014</b>
Interest on cash support and loans to the Group	9 096 319	15 140 257
Term deposit interest	168 875	1 920 340
Commissions	10 049 562	10 417 340
Financial instruments - fair value (a)	3 900 716	-
	<b>23 215 472</b>	<b>27 477 937</b>

(a) See note 18 - Financial instruments

## 29. Income from shareholdings

	2015	2014
EPAL	29 720 610	31 969 427
Simtejo	1 414 458	1 934 429
Águas do Algarve	2 711 993	1 635 140
Águas do Douro e Paiva	706 876	995 379
Águas do Mondego	1 218 471	738 303
AdRA - Águas da Região de Aveiro	516 381	735 352
Simria	1 304 840	595 312
Sanest	201 616	361 607
Simdouro	277 238	291 429
Águas de Santo André	86 976	118 130
AgdA - Águas Públicas do Alentejo	15 728	24 516
Aquasis	-	80
<b>Dividends distributed</b>	<b>38 175 187</b>	<b>39 399 104</b>
Capital gain (sale of 95% of shareholding in EGF)	96 786 609	-
	<b>134 961 796</b>	<b>39 399 104</b>

The amounts are the dividends declared and paid to AdP.

## 30. Assets and liabilities held for sale and profits from discontinued operations

	2015	2014
Shareholding in EGF	-	60 651 531
Customer debts	-	414 994
Cash support - Valorsul	-	5 000 000
	-	<b>66 066 525</b>
Other accounts payable	-	320 887
	-	<b>320 887</b>
Turnover	504 759	848 476
Financial income - interest	2 631 597	839 261
Financial income - dividends	2 000 000	2 000 000
	<b>5 136 356</b>	<b>3 687 737</b>

## 31. Transações com entidades relacionadas

Ano 2015	Subsidiaries	Shareholders	Governing bodies
<b>Income</b>			
Revenue	21 091 246	-	-
Dividends received	38 175 187	-	-
<b>Expenses</b>			
Personnel costs	-	-	258 903
Other expenses	3 562 622	-	-
<b>Assets</b>			
Trade receivables	15 274 985	-	-
Loans	450 066 514	-	-
Other debtors	24 818 514	-	-
<b>Liabilities</b>			
Suppliers	698 823	-	-
Other Creditors	643 223	-	-
<b>Cash flows</b>			
Dividends paid out	-	23 990 294	-

2014	Subsidiaries	Shareholders	Governing bodies
<b>Income</b>			
Revenue	38 041 853	-	-
Dividends received/paid	41 399 104	-	-
<b>Expenses</b>			
Personnel costs	-	-	350 415
Other expenses	2 941 008	-	-
<b>Assets</b>			
Trade receivables	12 751 577	-	-
Loans	212 468 615	-	-
Other debtors	128 486 551	-	-
<b>Liabilities</b>			
Suppliers	459 747	-	-
Other Creditors	2 139 784	-	-
<b>Cash flows</b>			
Dividends paid out	-	31 500 000	-

## 32. Contingent assets and liabilities

Any of the Company's financial commitments and liabilities that are not entered in the balance sheet are as follows:

	Financial institutions 2015	Financial institutions 2014
Guarantees	1 588 866 576	1 714 014 044
Comfort letters	10 000 000	10 526 908
Surety	165 512 045	150 046 746
	<b>1 764 378 621</b>	<b>1 874 587 698</b>

## 33. Information required by law

Of the information legally required under other laws, specifically in Articles 66, 324, 397, 447 and 448 of the CSC - Código das Sociedades Comerciais (Companies Code), the provisions arising from Decree-Law 328/95 of 9 December and those in Decree-Law 411/91 of 17 October; it should be noted that:

- In compliance with the provision of Article 324(2) of the CSC, the Company does not hold any treasury shares, nor has it undertaken to date any deals involving such shares.
- In compliance with Article 397(4) of the CSC, no business was conducted between the Company and any members of its governing bodies in 2015.
- In compliance with Article 21 of Decree-Law 411/91 of 17 September, the Company does not have payments outstanding to any welfare agency. The amounts of the balances reported as at 31 December 2015 resulting from withholding at source the income tax discounts and contributions relating to December, which were paid in January 2014, within the legal time limit.

## 34. Litigation and contingencies

Following an audit by the Court of Auditors on the degree of compliance of the Treasury Unit of the State by State Enterprises set out in the State Budget Law of 2010 and reiterated in the subsequent State Budget Laws, some AdP Group companies were notified by this Court that they were not complying with that law for the 2012 financial year. Accordingly, the AdP Group exercised its right of reply on the notification of the Court of Auditors, defending its understanding that there was no non-compliance since, pursuant to that law, it had requested a partial waiver of compliance with that legislation, and it had presented the relevant grounds for that purpose. Moreover, in this respect and in relation to the same process, the Secretary of State of the Treasury stated the following [included in the Court of Auditors report]: "The reasons given by State-owned companies to waive compliance with the principle of the Treasury Unit are wholly justifiable in the current economic climate." The definitive findings of the case are not yet known, and the Board of Directors of AdP does not expect that any punitive action will be taken against the Group companies. The Group companies were excluded from application of the above-mentioned legislative provision for 2013, 2014 and 2015.

## 35. Important information

### 35.1 Sale of the EGF Group

AdP and Parpública, Participações Públicas, SGPS, S.A. announced that, as part of the reprivatization of Empresa Geral do Fomento, S.A (EGF) and after a favourable decision from the competition authority on 28 July 2015, shares representing 95% of the capital of this company were transferred to SUMA Tratamento, S.A.

However, pursuant to "Clause 16 - Extraordinary compensation: rights to acquire and basic value of regulated assets" of the purchase and sales contract, particularly Clause 16.4, if there is a change of the value of the regulated asset base, this will result in the right to compensation between the parties, which will affect the profits of the period in which the event comes to their knowledge. At this time, we do not know the effects, if any, of these compensations (see Note 5.1).

### 35.2 Geographical reorganisation of the AdP Group

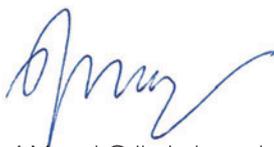
As mentioned in Note 5.2, on 30 June 2015, as set out in the decrees-law published on 29 May 2015, the first general meetings were held of the three new regional companies responsible for the management of the multi-municipal water supply and wastewater treatment systems, Norte de Portugal, Centro Litoral de Portugal and Lisboa e Vale do Tejo. As these companies went into operation, the Águas de Portugal Group (AdP Group) completed the geographical reorganisation of its water supply and wastewater treatment operations, which involved merging 19 companies and five management companies. Águas do Norte, Águas do Centro Litoral and Águas do Lisboa e Vale do Tejo, whose system will be managed by EPAL, Águas Públicas do Alentejo and Águas do Algarve (the form of these last two will not be changed).

## 36. Subsequent events

The Board of Directors is not aware of any subsequent events that might affect the presentation of financial statements.

Lisboa, 21 April 2016

#### The Board of Directors



Afonso José Marçal Grilo Lobato de Faria  
(Chairman)



Manuel Maria Pereira Fernandes Thomaz  
(Executive Vice-chairman)



Gonçalo Ayala Martins Barata  
(Executive Director)



Cláudio Miguel André Sousa Jesus  
(Executive Director)



José Manuel Leitão Sardinha  
(Executive Director)



José Manuel Barros  
(Non-executive Director)

#### The Chartered Accountant



Carla Isabel Costa Pinto Ribeiro

### **SUPERVISORY BOARD'S REPORT AND OPINION ON THE INDIVIDUAL ACCOUNTING DOCUMENTS**

- 1 - In compliance with the applicable legal and statutory provisions, the Supervisory Board hereby issues this report and opinion on the annual report and accounts and other individual accounting documents of AdP - Águas de Portugal, S.G.P.S., S.A., submitted by the Board of Directors for 2015.
- 2 - The Supervisory Board monitored the management and business performance of AdP - Águas de Portugal, S.G.P.S., S.A., namely via contacts with its directors and by reading the minutes of the meetings of the Board of Directors and Executive Committee. It held regular meetings which were normally attended by the Financial Director and the Statutory Auditor. The Supervisory Board was given all the clarifications requested and the documentation that it deemed necessary to perform its supervisory duties.
- 3 - The Supervisory Board also verified compliance with the applicable legal and statutory provisions and exercised its powers in accordance with the provisions of Article 420 of the Portuguese Companies' Code. No materially relevant non-compliances were detected.
- 4 - Under the powers vested in it by paragraphs 1 and 3 of Article 33 of Decree Law 133/2013 of 3 October, the Supervisory Board verified the company's compliance with the obligations set out therein and issued quarterly reports, which were sent to the competent authorities.
- 5 - The annual report and accounting documents for 2015 provide information on compliance with the sustainability goals, even though a complete analysis of the group in the economic, social, environment, innovation and equality fields is described in the Sustainability Report for 2015, which shows material compliance with those goals.
- 6.- The disclosure obligations set out in Article 44 of Decree-Law 133/2013 of 3 October have been fulfilled for the part concerning the annual rendering of accounts analysed here.

- 7 – In the field of compensation of employees and governing bodies, the remuneration reductions and reversals existing in 2015 have been complied with.
- 8 - It should be pointed out that the limits established by the shareholders at the General Meeting of 14 May 2013 for the 2014-2014 term of office and at the General Meeting of 1 June 2015 for the 2015-2017 term of office, for caps on communications, fuel and toll fees for some of the members of the Board of Directors were exceeded, as a result of work for the company.
- 9 – Operating expenses, measured according to the Cost Reduction Plan (PRC), remained, on a comparable basis, in line with the values recorded in 2014. The evolution of the PRC was restricted in 2015 by the impact of the ADP Group restructuring process. Moreover, the reduction in turnover meant the AdP Group did not comply with the PRC in 2015.
- 10 - The Corporate Governance Report presented to the Supervisory Board includes current, complete and relevant information on the matters regulated in Section II (Good Governance Practices) of Chapter II of Decree-Law 133/2013 of 3 October.
- 11 - It was the understanding of the Board of Directors of AdP SGPS, due to the complexity and criticality of the AdP Group restructuring process, not to assess the risk of the AdP Group in 2015. The process will be resumed in 2016. The Supervisory Board stresses that it is very important in a group of this dimension that this process be resumed in 2016.
- 12 – The management goals for the period 2015 to 2017 were defined by Unanimous Board Decision in Writing and the annual goals were established in the respective management contracts. The Non-Executive Director assessed the performance of the Executive Members pursuant to the "*Non-Executive Director's Report on the performance of the Executive Directors*".
- 13 - The Supervisory Board is familiar with the report issued by the external auditors on the individual accounts, and has no objections to its content.
- 14 - The Supervisory Board examined the statutory audit report of the accounts issued as required by law by the statutory auditor, which includes two highlights, which are considered to have been reproduced herein. The Supervisory Board is in agreement with them and is familiar with the annual report of the statutory auditor on its supervision.

- 15 - As a result of the work done, the Supervisory Board considers that the Board of Directors' report and the individual financial statements (which include the statement of financial position as at 31 December 2015, the income statements by nature and of comprehensive income, the statement of changes in equity, the cash flow statement of the year ended on that date and the Notes to the financial statements), provide adequate understanding of the assets of AdP - Águas de Portugal, S.G.P.S., S.A. as at 31 December 2015 and the way in which the results were formed and the development of the business activity.
- 16 - The Supervisory Board emphasizes all the collaboration that it obtained from the Board of Directors, through the financial director, the statutory auditor and departments of AdP - Águas de Portugal, S.G.P.S., S.A.

#### **OPINION**

As a result of the above, the Supervisory Board is in favour of the following being approved by the General Meeting of AdP - Águas de Portugal, S.G.P.S., S.A.:

- a) The Annual Report and Individual Accounts for 2015;
- b) The appropriation of profits proposed by the Board of Directors in its report.

Lisbon, 24 May 2016

#### **THE SUPERVISORY BOARD**

Carla Maria Lamego Ribeiro  
(Chair)

Mário José Alveirinho Carrega  
(Member)

Ana Luísa Videira Gomes  
(Member)



**ALVES DA CUNHA, A. DIAS & ASSOCIADOS**  
SOCIEDADE DE REVISORES OFICIAIS DE CONTAS, Lda.

## LEGAL CERTIFICATION OF ACCOUNTS (INDIVIDUAL)

### Introduction

1. We have examined the individual financial statements of AdP - Águas de Portugal, SGPS, SA, which include the Statement of financial position as at 31 December 2015 (showing a total of 1,269,085,000 euros and total equity of 723,021,000 euros, including a net profit of 143,609,000 euros), the Income statement for the period, the Statement of comprehensive income, the Statement of changes in equity and Cash flow statement for the financial year ending on that date and the Notes to the financial statements.

### Responsibilities

2. The Board of Directors is responsible for preparing the financial statements that truly and appropriately reflect the financial situation of the company, the profit/loss and comprehensive income of its operations, the changes in equity and cash flows, and the adoption of appropriate accounting criteria and policies and maintaining suitable internal control systems.
3. Our responsibility is to express a professional, independent opinion based on our examination of those financial statements.

### Scope

4. Our examination was performed in accordance with the technical rules and auditing guidelines of the Portuguese Association of Statutory Auditors, which require that it be planned and performed in such a way as to obtain an acceptable degree of certainty that the financial statements are free of any materially relevant distortions. For the purpose, our examination included:



- Using sampling to check the supporting documents for the amounts and disclosures in the financial statements and evaluating the estimates, based on judgements and criteria established by the Board of Directors and used in their preparation;
  - Appraising the adequacy of the accounting policies used and their disclosure, taking the circumstances into account;
  - Checking the applicability of the going concern principle; and
  - Assessing whether the presentation of the financial statements was appropriate in overall terms.
5. Our examination also included checking that the financial information in the annual report was consistent with the financial statements.
6. We believe that the examination performed provides an acceptable basis for our opinion.

#### **Opinion**

7. In our opinion, the aforementioned financial statements give a true, appropriate picture, in all materially relevant aspects, of the financial position of AdP - Águas de Portugal, SGPS, SA as at 31 December 2015, the profit and comprehensive income of its operations, changes in equity and cash flows during the period ended on that date, in accordance with international accounting standards and accounting practices as adopted in the European Union.

#### **Highlight**

8. Without affecting the opinion expressed in paragraph 7, we draw attention to the following situations:
- a) As mentioned in Point 3.2 of the Notes to the financial statements, the recovery of debts to Group companies from local authorities may have direct impact on the credit risk of AdP - Águas de Portugal, SGPS, SA and also on the assessment of its shareholdings.



b) As demonstrated in Points 5.1 and 29 of the Notes to the financial statements, the completion of the operation to sell the 95% stake in the share capital of EGF – Empresa Geral do Fomento, SA, for the amount of EUR 154 million, generated a capital gain of EUR 96.7 million, which accounts for about 67.3% of the net profit for the financial year.

**Report on other legal requirements**

9. It is also our opinion that the information set out in the annual report is in accordance with the financial statements for the year.

Lisbon, 23 May 2016

ALVES DA CUNHA, A. DIAS & ASSOCIADOS  
*Sociedade de Revisores Oficiais de Contas, Lda.*  
represented by José Luis Areal Alves da Cunha



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## Statutory Auditor's Report on the Individual Accounts

### Introduction

1. We have examined the attached individual financial statements of AdP - Águas de Portugal, SGPS, S.A., which include the Statement of financial position as at 31 December 2015 (showing a total of 1,269,085,027 euros and total equity of 723,020,660 euros, including a net profit of 143,609,084 euros), the Income statement, the Statement of comprehensive income, the Statement of changes in equity and Cash flow statement for the financial year ending on that date and the Notes to the financial statements.

### Responsibilities

2. The Board of Directors is responsible for preparing financial statements that truly and appropriately reflect the financial situation of the company, the profit or loss and comprehensive income of its operations, changes in its equity and cash flows, as well as the adoption of appropriate accounting criteria and policies and maintaining a suitable internal control system.
3. Our responsibility is to express a professional, independent opinion based on our examination of those financial statements.

### Scope

4. Our examination was performed in accordance with the technical rules and auditing guidelines of the Portuguese Association of Statutory Auditors, which require that it be planned and performed in such a way as to obtain an acceptable degree of certainty that the financial statements are free of any materially relevant distortions. For the purpose, our examination included:
  - using sampling to check the supporting documents for the amounts and disclosures in the financial statements and evaluating the estimates, based on judgements and criteria established by the Board of Directors and used in their preparation;

Public limited company - share capital 1,335,000 euros - Registration no. 170 in the Portuguese Association of Statutory Auditors - Registration no. 9011 in the Portuguese Securities' Market Commission  
Taxpayer number 505 980 283 - Registered in Lisbon Company Registry under the same number  
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- appraising the adequacy of the accounting policies used, their uniform application and their disclosure, taking circumstances into account;
  - checking whether the principle of going concern was applied; and
  - assessing whether the presentation of the financial statements was appropriate in overall terms.
5. Our examination also included checking that the financial information in the annual report was consistent with the financial statements.
6. We believe that the examination performed provides an acceptable basis for our opinion.

#### **Opinion**

7. In our opinion, the aforementioned financial statements give a true, appropriate picture, in all materially relevant aspects, of the financial position of AdP - Águas de Portugal, S.G.P.S., S.A. as at 31 December 2015, the profit or loss and comprehensive income of its operations, changes in equity and cash flows during the period ended on that date, in accordance with international reporting standards as adopted in the European Union.

Lisboa, 23 May 2016

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

Rui Abel Serra Martins (Official Auditor no. 1119)

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# The Accounts

# Consolidated financial statements

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# Consolidated statement of financial position

	Notes	2015	2014
<b>Non-current assets</b>			
Intangible assets	8	4 042 487 097	4 000 831 840
Tangible fixed assets	9	746 934 795	761 707 116
Investment properties	10	13 650 894	13 745 673
Financial investments	11	104 285 328	109 336 519
Financial investment in associates	12	264 541	264 541
Deferred tax assets	13	164 480 155	166 348 090
Tariff deviation	15	622 311 585	590 618 917
Trade receivables and other non-current assets	16	86 063 236	127 712 085
<b>Total non-current assets</b>		<b>5 780 477 631</b>	<b>5 770 564 781</b>
<b>Current assets</b>			
Inventories	17	5 809 707	5 593 557
Customers	18	353 218 547	413 731 193
State and other public entities	19	5 122 137	5 626 742
Other current assets	20	93 121 341	85 722 768
Cash and cash equivalents	21	169 250 505	281 885 233
<b>Total current assets</b>		<b>626 522 237</b>	<b>792 559 493</b>
Assets held for sale	5.3	-	928 619 048
<b>Total assets</b>		<b>6 406 999 868</b>	<b>7 491 743 322</b>
<b>Shareholders' equity</b>			
Share capital	22	434 500 000	434 500 000
Reserves and other adjustments	23	21 466 336	18 293 680
Retained earnings	24	507 663 627	431 729 030
Net profit of financial year		165 968 422	102 323 920
		<b>1 129 598 385</b>	<b>986 846 630</b>
Non-controlling interests	25	298 657 252	340 817 884
<b>Total equity</b>		<b>1 428 255 637</b>	<b>1 327 664 514</b>
<b>Non-current liabilities</b>			
Provisions	26	10 113 925	10 868 754
Pension liabilities	27	2 912 000	4 540 000
Loans	28	2 065 764 644	2 139 652 747
Trade payables and other non-current liabilities	29	112 967 471	115 094 242
Deferred tax liabilities	13	256 888 051	235 998 708
Accrued contractual investment expenses	30	358 113 220	348 002 682
Investment grants	31	1 621 339 053	1 630 392 783
Tariff surplus	15	943 055	61 014 412
Derivatives	14	15 725 111	20 174 297
<b>Total non-current liabilities</b>		<b>4 444 766 530</b>	<b>4 565 738 625</b>
<b>Current liabilities</b>			
Loans	28	349 059 777	598 892 627
Suppliers	32	66 929 698	68 256 956
Other current liabilities	33	99 779 051	121 699 235
Income tax for the year	34	561 642	2 665 453
State and other public entities	19	17 647 533	19 438 999
<b>Total current liabilities</b>		<b>533 977 701</b>	<b>810 953 270</b>
Liabilities held for sale	5.3	-	787 386 913
<b>Total liabilities</b>		<b>4 978 744 231</b>	<b>6 164 078 808</b>
<b>Total liabilities and equity</b>		<b>6 406 999 868</b>	<b>7 491 743 322</b>

## The Board of Directors

Afonso José Marçal Grilo Lobato de Faria (Chairman)  
 Manuel Maria Pereira Fernandes Thomaz (Executive Vice-chairman)  
 Gonçalo Ayala Martins Barata (Executive Director)  
 Cláudio Miguel André Sousa Jesus (Executive Director)  
 José Manuel Leitão Sardinha (Executive Director)  
 José Manuel Barros (Non-executive Director)

## The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

## Consolidated income statement

	Notes	2015	2014 <sup>(1)</sup>
Sales	35	337 327 935	341 371 243
Services rendered	35	242 418 437	258 506 656
Income from construction of assets for concession (IFRIC) 12	2.5.8	138 672 990	137 901 479
Cost recovery tariff deficit/surplus	35	90 124 144	26 308 099
<b>Turnover</b>		<b>808 543 506</b>	<b>764 087 477</b>
Sales costs/variation in inventories	36	(19 946 524)	(19 466 419)
Costs of construction of assets for concession (IFRIC 12)	2.5.8	(138 672 990)	(137 901 479)
<b>Gross margin</b>		<b>649 923 992</b>	<b>606 719 579</b>
Supplies and services	37	(185 683 086)	(174 001 351)
Personnel costs	38	(91 112 069)	(89 868 891)
Amortisations, depreciation and reversals in financial year	39	(198 464 058)	(189 984 697)
Provisions and reversals in financial year	40	720 901	(593 523)
Impairment losses and reversals in financial year	41	(22 511 485)	(2 509 084)
Investment grants	31.3	53 507 127	55 784 241
Other operating expenses and losses	42	(8 817 906)	(9 357 840)
Other operating income and gains	43	11 089 113	19 887 364
<b>Operating profit</b>		<b>208 652 529</b>	<b>216 075 798</b>
Financial expenses	44	(74 381 483)	(95 812 122)
Financial income	45	33 052 605	37 762 276
Gains/ (losses) on financial investments	46	75 448 112	(500)
<b>Financial income</b>		<b>34 119 234</b>	<b>(58 050 346)</b>
<b>Profit before tax</b>		<b>242 771 763</b>	<b>158 025 452</b>
Income tax for the year	47	(38 375 358)	(56 446 453)
Deferred tax	47	(22 050 371)	15 766 030
<b>Net profit of financial year as a going concern</b>		<b>182 346 034</b>	<b>117 345 029</b>
Net profit from discontinued operations	5.3	2 978 308	5 511 083
<b>Net profit for the period</b>		<b>185 324 342</b>	<b>122 856 112</b>
Net profit allocatable to shareholders of AdP SGPS		165 968 422	102 323 920
Net profit allocatable to non-controlling interests		19 355 920	20 532 192
		<b>185 324 342</b>	<b>122 856 112</b>
<b>Earnings per share</b>	<b>22.2</b>	<b>1.91</b>	<b>1.18</b>

<sup>(1)</sup> Restated due to the disclosure for the first time of the revenue from construction services (IFRS 12)

## Consolidated statement of comprehensive income

	2015	2014
<b>Net profit of financial year</b>	<b>185 324 342</b>	<b>122 856 112</b>
Foreign exchange gains/ losses	340 358	(64 906)
Fair value of hedging instruments	548 470	(2 031 079)
<b>Gains/losses to be reclassified through profit or loss</b>	<b>888 828</b>	<b>(2 095 985)</b>
Other gains and losses - IAS 19 pensions	(115 201)	1 502 648
<b>Gains/losses not to be reclassified through profit or loss</b>	<b>(115 201)</b>	<b>1 502 648</b>
<b>Comprehensive income</b>	<b>186 097 969</b>	<b>122 262 775</b>
Net profit allocatable to shareholders of AdP SGPS	166 742 049	101 730 583
Net profit allocatable to non-controlling interests	19 355 920	20 532 192
	<b>186 097 969</b>	<b>122 262 775</b>

## Consolidated statement of changes in equity

	Equity	Foreign exchange reserve	Legal reserve	Reserves - Fair value negative hedging instrument	Other reserves	Retained earnings	Profit for the year	Total	Non-controlling interests	Total equity
<b>Balance as at 31/12/2013</b>	<b>434 500 000</b>	<b>229 542</b>	<b>15 001 702</b>	<b>(718 163)</b>	<b>1 044 437</b>	<b>362 253 443</b>	<b>104 678 511</b>	<b>916 989 472</b>	<b>325 286 843</b>	<b>1 242 276 315</b>
Appropriation of profit for 2013	-	-	3 329 499	-	-	101 349 012	(104 678 511)	-	-	-
Dividend payout	-	-	-	-	-	(31 500 000)	-	(31 500 000)	(9 349 813)	(40 849 813)
Paid-in capital	-	-	-	-	-	-	-	-	4 030 870	-
Change in perimeter	-	-	-	-	-	(326 371)	-	(326 371)	-	(326 371)
Other	-	-	-	-	-	(47 054)	-	(47 054)	317 792	270 738
Comprehensive income	-	(64 906)	-	(2 031 079)	1 502 648	-	-	(593 337)	-	(593 337)
Net profit in December 2014	-	-	-	-	-	-	102 323 920	102 323 920	20 532 192	122 856 112
<b>Balance as at 31/12/2014</b>	<b>434 500 000</b>	<b>164 636</b>	<b>18 331 201</b>	<b>(2 749 242)</b>	<b>2 547 085</b>	<b>431 729 030</b>	<b>102 323 920</b>	<b>986 846 630</b>	<b>340 817 884</b>	<b>1 327 664 514</b>
Appropriation of profit for 2014	-	-	2 399 029	-	-	99 924 891	(102 323 920)	-	-	-
Foreign exchange	-	-	-	-	-	-	-	-	-	-
Dividend payout	-	-	-	-	-	(23 990 293)	-	(23 990 293)	(6 865 854)	(30 856 147)
Paid-in capital	-	-	-	-	-	-	-	-	1 396 536	1 396 536
Changes in perimeter	-	-	-	-	-	-	-	-	(55 917 592)	(55 917 592)
Other	-	-	-	-	-	-	-	-	(129 642)	(129 642)
Comprehensive income	-	340 358	-	548 470	(115 201)	-	-	773 627	-	773 627
Net profit in December 2015	-	-	-	-	-	-	165 968 422	165 968 422	19 355 920	185 324 342
<b>Balance as at 31.12.2015</b>	<b>434 500 000</b>	<b>504 994</b>	<b>20 730 230</b>	<b>(2 200 772)</b>	<b>2 431 884</b>	<b>507 663 627</b>	<b>165 968 422</b>	<b>1 129 598 385</b>	<b>298 657 252</b>	<b>1 428 255 637</b>

### The Board of Directors

Afonso José Marçal Grilo Lobato de Faria (Chairman)  
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 Cláudio Miguel André Sousa Jesus (Executive Director)  
 José Manuel Leitão Sardinha (Executive Director)  
 José Manuel Barros (Non-executive Director)

### The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

# Consolidated cash flow statement

	2015	2014
<b>Operating activities</b>		
<b>Flows generated by operations</b>		
Trade receivables	739 570 321	722 338 822
Trade payables	(237 682 195)	(238 194 318)
Payments to personnel	(65 183 240)	(66 296 185)
<b>Flows generated by operations</b>	<b>436 704 886</b>	<b>417 848 319</b>
Other operating flows		
(Payment)/ Receipt of Corporate Income Tax	(40 613 128)	(60 371 768)
Other receipts/ (payments) from operating activities	(118 531 192)	(70 428 367)
<b>Other operating flows</b>	<b>(159 144 320)</b>	<b>(130 800 135)</b>
<b>Total operating activities (1)</b>	<b>277 560 566</b>	<b>287 048 184</b>
<b>Investing activities</b>		
Receivables from:		
Financial investments (a)	157 056 862	17 183 079
Tangible fixed assets	-	154
Intangible assets	-	815 276
Investment grants	57 163 057	92 109 514
Interest and similar income	6 892 789	10 784 781
Dividends	2 000 000	-
<b>Subtotal</b>	<b>223 112 708</b>	<b>120 892 804</b>
Payments for:		
Financial investments	(5 601 901)	(32 511 701)
Tangible fixed assets	(8 983 153)	(15 645 940)
Intangible assets	(167 454 858)	(173 653 769)
<b>Subtotal</b>	<b>(182 039 912)</b>	<b>(221 811 410)</b>
<b>Total investing activities (2)</b>	<b>41 072 796</b>	<b>(100 918 606)</b>
<b>Financing activities</b>		
Receivables from:		
Loans	162 065 740	297 303 038
Paid-in capital, additional capital contributions	2 068 055	3 955 090
<b>Subtotal</b>	<b>164 133 795</b>	<b>301 258 128</b>
Payments for:		
Loans	(438 412 071)	(408 220 382)
Interest and similar expenses	(76 241 435)	(91 282 546)
Dividends	(30 960 858)	(36 946 582)
Reduction in capital and additional capital contributions	(1 393 219)	-
<b>Subtotal</b>	<b>(547 007 583)</b>	<b>(536 449 510)</b>
<b>Total financing activities (3)</b>	<b>(382 873 788)</b>	<b>(235 191 382)</b>
<b>Changes in cash and cash equivalents (1 + 2 + 3)</b>	<b>(64 240 426)</b>	<b>(49 061 804)</b>
Effects of exchange differences	(246 532)	5 171
Cash and cash equivalents at start of period	103 581 434	152 515 499
Changes in perimeter	-	122 568
<b>Cash and cash equivalents at end of period</b>	<b>39 094 476</b>	<b>103 581 434</b>

(a) Pursuant to the purchase and sales contract, on 7 November 2014, SUMA paid to AdP EUR 14.2 million as a down payment on the sale of its financial holding in EGF. The remainder of EUR 145.2 million was paid on 28 July 2015. The operation totalled EUR 159.4 million. Of this amount, 5 million were used to repay a subsidy and the remaining 154.4 million were used to purchase 95% of the financial holding in EGF (see note 5.3).

#### The Board of Directors

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 José Manuel Barros (Non-executive Director)

#### The Chartered Accountant

Carla Isabel Costa Pinto Ribeiro

# Notes to the consolidated financial statements

## I. General information

### I.1 Introduction

AdP - Águas de Portugal, SGPS, S.A. (AdP, SGPS, S.A. hereinafter also called AdP Group when intending to refer to AdP, SGPS, S.A. and its subsidiaries and associates) was incorporated on 29 September 1993, with its head office at no. 3 Rua Visconde Seabra in Lisbon.

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

Shareholders on 31 December 2015	% capital	Amount subscribed	No. of shares	Type of shares
Parpública, SGPS, S.A.	81%	351 945 000	70 389 000	Nominative
Parcaixa, SGPS, S.A.	19%	82 555 000	16 511 000	Nominative
	<b>100%</b>	<b>434 500 000</b>	<b>86 900 000</b>	

AdP SGPS was entrusted with developing multi-municipal systems in Portugal for the abstraction, treatment and distribution of water for public consumption, the collection, treatment and disposal of urban wastewater and the treatment and recycling of solid household waste. The Company's mission was extended in 1998, beginning a process of diversification in terms of business segments and geography. It expanded into water distribution systems and the collection of effluent directly from the communities served, in Portugal and abroad.

### I.2. Business activity

#### I.2.1 Regulated and licensed business activity and partnerships

The standard concession agreement created for multi-municipal systems has the following features: **(i)** the infrastructure and equipment of the concession are constructed or acquired by the concession holding company; **(ii)** these acquisitions/ constructions are partially funded by non-repayable grants from the European Union and long-term loans from the European Investment Bank; **(iii)** the concession holder is obliged to establish a fund to reconstitute capital (to cover the return on invested capital on termination of the concession); **(iv)** the sale prices (tariffs) charged are set by the concession grantor, endorsed by the regulatory authority (ERSAR) and include a return on invested capital component, corresponding to an indexer (Treasury Bill issues, the six-month Euribor rate or the Treasury Bond rate), plus three percentage points as a risk premium. The AdP Group has ensured its remuneration through rebalancing clauses in concession and partnership contracts. These concessions and partnerships generally have a duration of 25 to 50 years.

#### Water - production and purification, and partnerships

The companies of this segment have an exclusive concession granted by the State for the provision of water supply and wastewater treatment and disposal services, or they form part of a State-Local Government partnership to deliver the same type of service. The concession agreements are characterised by high levels of investment to be made by the concession holder. Funding is obtained through EU funds, bank loans, equity and the resources generated by business operations. The municipalities to which the company provides services are also its shareholders. The service provided is paid through the tariff established by the concession grantor, endorsed by the regulator (ERSAR) and billed to the municipalities served by each of the concessions. One of the features of the concession agreement is the guaranteed return on invested capital. The partnership agreements signed by the State and local government to which the services are delivered are characterised by high levels of investment to be made by the concession holder. Funding is obtained through EU funds, bank loans, equity and the resources generated by business operations. The municipalities to which the company provides services are also its shareholders. The service is paid for through the tariff established by the partnership committee.

#### Water – distribution and collection

The companies of this segment are the result of a partnership agreement between the state and the municipalities whose areas are covered by the agreement. The municipalities delegate responsibility for managing the integrated system to the state in this agreement. The integrated system results from the aggregation of the individual systems, including infrastructures and resources, in accordance with the adopted technical solution. Thus, the partnership has exclusive rights to drinking water distribution and, when applicable, the abstraction and treatment of water for this purpose and to the collection of urban wastewater and, when applicable, its treatment and disposal, in the areas covered by the system. It also includes the construction, renewal, repair, maintenance and improvement of the infrastructure, equipment and facilities that make up the partnership, primarily funded by loans, grants and equity. The partnership is obliged to pay rent to the municipalities, which is indexed to turnover. The service provided is paid through the tariff established and billed to the customers (those residing in the municipality) of each of the partnerships. One of the features of the partnership agreement is to guarantee the return on invested capital and its infrastructures.

### **UNR (Waste Business Unit) - classified as held for sale / discontinued operations**

In 2000, in the context of strategic guidelines on the consolidation of the main business Group in the environmental area, AdP, SGPS, S.A. became sole owner of Empresa Geral do Fomento, S.A., and therefore controlled its subsidiaries, which have been made responsible for developing the multi-municipal systems for treating and recycling solid household waste. The companies of this segment have an exclusive concession granted by the state for the management and recycling of solid waste. The concession agreements include requirements for extensive investments to be made by the concession holder, funded by EU funds, bank loans, equity and the resources generated by business operations. The municipalities to which the company provides services are also its shareholders. The service provided is paid through the tariff established by the concession grantor, endorsed by the regulator (ERSAR) and billed to the municipalities served by each of the concessions. One of the features of the concession agreement is guaranteed return on invested capital. This business unit was sold in this financial year.

See Note 5.1 on the sale of the EGF Group.

### **1.2.2 Unregulated activity**

#### **EPAL**

EPAL is responsible for the abstraction, transport, treatment and distribution of drinking water, aiming to provide a quality service and respecting essential social and environmental criteria. It covers distribution to the city of Lisbon (residential distribution) and upstream supply to 23 municipalities of the Greater Lisbon region. EPAL has a delegated management mandate, embodied in Decree-Law 230/91 of 21 June, which approves its articles of association. The mandate does not have any time limitation, investment obligation or return on investment clause. The tariffs are regulated administratively.

#### **International**

This segment develops international business and comprises operations abroad. It currently has technical assistance agreements in Angola and East Timor.

#### **Corporate services**

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

## **1.3 Strategy**

Pursuant to the law on the state-owned business sector and the Public Manager Statute, the state, as the shareholder, sets out strategic guidelines for the Board of Directors of AdP SGPS, S.A.

The strategic guidelines for its current term of office are based on the following principles:

- a philosophy of professional management based on appropriate powers and growth in production capacity according to the highest quality standards in order to fulfil its mission;
- the best management practices abiding by the principles of good corporate governance in state-owned companies;
- the development of an organisational culture focusing on performance excellence based on key business practices that ensure the company's success on the path towards business sustainability, fundamentally based on a management philosophy that encompasses economic, environmental, social and ethical fields.

Within the framework of its mission, AdP SGPS must pursue the following strategic guidelines:

- follow the sector policies that govern its activity and the creation of shareholder value, with special focus on prudential risk management and the mobilisation of financial resources;
- streamline the investments required to deliver the services, focusing on the suitable sizing of new infrastructure and maintenance of that already existing;
- reorganise the water supply and wastewater treatment segments, with priority to the economic and financial sustainability of operations in these areas and improvement of efficiency in the delivery of services;
- continue to foster efficiency, increasing the grouping of systems and promoting integrated solutions for management of the urban water cycle;
- make it possible for private entities to participate in managing the systems;
- continue to identify solutions that help to solve the tariff deficit problem, in terms of sustainability;
- contribute to sustainable development by finding solutions to harness endogenous assets and resources, rationalise energy consumption and reduce or offset emissions;
- capitalise on the skills and capabilities available in the Group and implement projects in international markets;
- develop an integrated R&D strategy, in harmony with national goals;
- ensure the continuity of other important projects in accordance with government guidelines.

## 1.4 Mission and future guidelines

The AdP Group is responsible for providing essential public services in the fields of water supply, wastewater disposal and the management of solid waste. The positive impacts in the areas of national cohesion, public health and the environment are universally recognised.

Since it is the state's business tool for implementing public policy and national objectives in these areas of the environmental sector, it promotes **(a)** universality, continuity and quality of service, **(b)** the sustainability of the sector and **(c)** the protection of environmental values.

AdP - Águas de Portugal, SGPS, S.A. (AdP) is a holding company that, through its subsidiaries, designs, constructs, operates and manages water supply and wastewater treatment systems, in a framework of economic, financial, technical, social and environmental sustainability. It also aims to develop a strong Portuguese business group that is highly competent and capable of effectively and efficiently responding to the major challenges that the environmental sector currently faces.

## 1.5 Organisation

The business and organisational model adopted at the core level by the AdP Group is based on three fundamental factors: **(i)** the division of the business into four business units, with independent management and adequate finances for the nature of each activity, supported by resources available at corporate level and shared services; **(ii)** a legally defined relationship; **(iii)** an integrated, scalable information system platform for the entire Group.

## 1.6 Approval of the financial statements

These consolidated financial statements were approved and authorised for publication by the Board of Directors on 21 April 2016.

# 2. Accounting policies

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and interpretations by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) which preceded it, adopted by the European Union (EU), and in force for the financial years starting 1 January 2015.

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

## 2.1 Basis of presentation

### 2.1.1 Introduction

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

### 2.1.2 New standards and policy changes

#### a) Voluntary changes of accounting policies

No voluntary policy changes to accounting policies were made in the financial year with respect to those considered in the preparation of the financial information relating to the previous year.

#### b) New standards, interpretations and amendments coming into effect on 01 January 2015

1. The new standards, interpretations and amendments coming into effect on 1 January 2015 are as follows:

Adoption of IFRIC 21 Levies (Regulation 634/2014 of 13 June 2014), which has regard to accounting for a liability corresponding to payment of a levy, provided that this liability is covered by IAS 37. It also refers to accounting for a liability for the payment of a levy with a known timing and amount. However, this interpretation has regard to accounting for costs arising from recognition of a liability corresponding to payment of a levy. Entities must abide by other standards to determine whether recognition of a liability corresponding to payment of a levy gives rise to an asset or a cost. The following are not covered: **a)** outflows covered by other standards (e.g. income tax, which is covered by IAS 12 Income tax) and **b)** fines or other penalties imposed for infractions of legislation.

The interpretation clarifies that an entity recognises a liability for a levy when the activity that gives rise to the payment occurs, as identified by the relevant legislation. For a levy that is triggered when it reaches a minimum threshold, this interpretation clarifies that no liability should be anticipated before the minimum has been reached. In its interim report, an entity must abide by the same principles for recognising levies that it follows in annual financial statements. Retrospective application is required.

Annual improvements: 2011-2013 cycle (Regulation No. 1361/2014 of 19 December 2014), the improvements in which include amendments to three international accounting standards, as follows:

- IFRS 3 Business Combinations – exceptions of the scope for joint arrangements, in which the amendments clarify that IFRS 3 does not apply to accounting for the creation of a joint agreement in the financial statements of the joint agreement itself.
- IFRS 13 Fair Value Measurement – Scope of Paragraph 52 (portfolio exception) - in the context of the exception of fair value measurement set out in Paragraph 48, the amendments clarify that references to financial assets and liabilities in Paragraphs 48-51 and 53-56 should be regarded as applicable to all contracts covered and accounted for in accordance with IAS 39, whether or not they abide by the definitions of financial assets or liabilities set out in IAS 32.
- IAS 40 Investment Properties – Interrelationship between IAS 40 and IFRS 13 - The amendments require an entity to use the guidelines in IAS 40 and IFRS 3 when accounting for investment (or business) property and do not introduce a new accounting treatment. These amendments clarify that judgement must be used when determining whether a transaction is: **(i)** an acquisition of an asset (a group of assets), which must be reported in accordance with IAS 40, or **(ii)** a business combination, which should be reported under IFRS 3.

## 2. New standards, interpretations and amendments, entering into force for financial years beginning on or after 1 January 2016

Annual improvements: 2010-2012 cycle (Regulation 2015/28 of 17 December 2014), the improvements in which include amendments to eight international accounting standards, as follows:

- IFRS 2 Share Based Payment – Definitions of vesting conditions - the amendments improve the current definition of vesting conditions by adding separate definitions for performance and purchase conditions. The amendments also clarify the definitions of vesting and non-vesting, two types of acquisition.
- IFRS 3 Business Combinations – accounting for contingent consideration - the amendments clarify that **(i)** all contingent consideration, regardless of its nature, should be measured at fair value on the date of initial recognition, **(ii)** Paragraph 40 of IFRS 3 requires contingent consideration that is a financial instrument should be presented as equity or liabilities in accordance with IAS 32 and **(iii)** all contingent consideration, regardless of its nature, should subsequently be measured at fair value through profit or loss. IAS 37, IAS 39 and IFRS 9 are also amended as a result of the amendments to IFRS 3.
- IFRS 8 Operating Segments - the amendments clarify requirements for: **(i)** disclosure of judgements by management bodies when following criteria on aggregation of operating segments and **(ii)** presentation of the reconciliation of total assets of segments reportable with the entity's assets.
- IAS 16 Tangible fixed assets - revaluation model: the amendments clarify the treatment to be given to tangible assets (gross and accumulated depreciation) on the date of revaluation.
- IAS 24 Related Party Disclosures - key management personnel services: the amendments extend the concept of an entity that is related to a reporting entity to: entities or any member of a group to which they belong that provides key management personnel services to the reporting entity or its parent company and add disclosure requirements associated with the provision of key management personnel services provided by a management entity.
- IAS 38 Intangible fixed assets - valuation model: the amendments clarify the treatment to be given to intangible assets (gross and accumulated depreciation) on the date of revaluation.

IAS 19 Employee benefits (Regulation 2015/29 of 17 December 2014): the amendments clarify the guidelines for entities when allocating the contributions of employees or third parties associated with the service and require entities to allocate the contributions associated with services in accordance with Paragraph 70, i.e. using the contribution in the plan or a linear method. Furthermore, the amendments include an appendix with a guide for the contributions of employees or third parties. The aim of these amendments is to reduce the complexity by introducing a practical expedient that allows an entity to recognise the contributions of employees or third parties associated with the service that are independent from the number of years of service, as a reduction in the cost of the service, in the period in which said service is provided.

Agriculture – Plants intended for produce Amendments to IAS 16 and IAS 41 (Regulation 2015/2113 of 23 November 2015): these amendments determine that plants used exclusively for the cultivation of produce over several periods, which are called bearer plants, are now accounted for in the same way as tangible fixed assets in accordance with IAS 16 Tangible Fixed Assets, as they are used in a similar way to those in industrial activities.

Amendments to IFRS 11 Joint Arrangements (Regulation 2015/2173 of 24 November 2015): the amendments provide new guidance on the accounting treatment of acquisitions of interests in joint arrangements whose activities constitute business activities. They set

out that if an entity acquires an interest in a joint operation whose activity is a business operation in the meaning of IFRS 3, it must apply, in the proportion to its part, all the accounting principles of business combinations defined in IFRS 3 and other IFRSs that do not conflict with IFRS 11, and must report the information required in them regarding business combinations. This applies to the acquisition of initial interests and additional interests in a joint business operation.

Clarification of acceptable depreciation and amortisation methods: Amendments to IAS 16 and IAS 38 (Regulation 2015/2231 of 2 December 2015): the amendment to IAS 16 clarifies that it is not appropriate to use a depreciation method for a tangible fixed asset in earnings generated by an activity. The amendment to IAS 38 clarifies that only in very limited circumstances is it possible to overcome the presumption that an amortisation method for an intangible asset based on earnings generated by an activity is inappropriate.

Annual improvements: cycle 2012-2014 (Regulation 2015/2343 of 15 December 2015): the improvements include amendments to five international accounting standards, as follows:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – The amendments clarify that if an entity reclassifies an asset or group for sale directly from held for sale to held for distribution to owners, or directly from held for distribution of owners to held for sale, the change in the classification is considered a continuation of the initial divestment plan.
- IFRS 7 Financial Instruments Disclosures– It clarifies that the amendments made by the document Disclosures – Compensation between financial assets and financial liabilities (Amendments to IFRS 7) must be applied in the annual periods starting on or after 1 January 2013. Entities must present the disclosures required by these amendments retroactively. It also clarifies that if an entity transfers a financial asset it can retain the right to service (of debt) the financial asset in return for commissions included, in a service contract for example. The entity values the contract by service in order to decide whether the entity maintains an ongoing involvement as a result of this contract for the purpose of disclosure requirements.
- IFRS 1 First-time adoption of International Financial Reporting Standards - The amendments to this standard are directly related to the above-mentioned amendments made to IFRS 7.
- IAS 19 Employee benefits – The amendments clarify that for currencies (regardless of the country) for which there is not active market for high-quality company bonds, market income must be used (at the end of the reporting period) in government bonds expressed in that currency.
- IAS 34 – Interim financial reporting – The amendments clarify that the disclosures set out in Paragraph 16-A of IAS 34 must be made in interim financial statements or by cross-reference to interim financial statements in other statements that are available to users of the financial statements on the same conditions and at the same time as the interim financial statements. If users of the interim financial statements do not have access to the information included by cross-reference on the same conditions and at the same time the interim financial report is incomplete.

Disclosure initiative Amendments to IAS 1 (Regulation 2015/2406 of 18 December 2015): the amendments to IAS 1 Presentation of Financial Statements are aimed at improving the efficacy of disclosure and encourage companies to use their professional judgement when determining the information to be disclosed in their financial statements when applying IAS 1.

- The equity method in separate financial statements: Amendments to IAS 27 (Regulation 2015/2441 of 19 December 2015); the alterations to IAS 27 Separate financial statements allow entities to use the equity method, as described in IAS 28 – Investments in Associates and Joint Ventures to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The changes and amendments to the above standards are either not applicable or their adoption cannot be expected to have any relevant effect on the consolidated financial statements of AdP SGPS.

## 2.2 Consolidation

### 2.2.1 Dates

The consolidated financial statements reflect the assets, liabilities, results and cash flows of AdP, SGPS, S.A. and subsidiaries and the profits proportional to the shareholding in associate companies, for the financial year ended on 31 December 2015 (and comparisons with 31 December 2014).

### 2.2.2 Shareholdings in subsidiaries

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

#### Acquisitions subsequent to 2010:

In the acquisition method the difference between: (i) the consideration transferred together with the non-controlling interests and the fair value of the equity interests previously held and (ii) the net amount of identifiable assets acquired and liabilities taken on, is

recognised at the date of acquisition as goodwill, if positive, or as a gain if it is negative. The transferred consideration is measured at fair value calculated as the aggregate of the fair values, at the date of acquisition of the transferred assets, liabilities incurred and equity instruments issued by the Group. For the purpose of calculating the goodwill/gain from the combination, the transferred consideration is purged of any part of the consideration relating to any other transaction (e.g. payment for the provision of future services or the settlement of pre-existing relations) and the margin is separately recognised in profit or loss. The transferred consideration includes the fair value of any contingent consideration at the acquisition date. Subsequent changes in this value are recognised: **(i)** as equity if the contingent consideration is classified as equity; **(ii)** as expense or income in profit or loss or as other comprehensive income if the contingent consideration is classified as an asset or liability under IAS 39; and **(iii)** as an expense in accordance with IAS 37 or other applicable standards, in all other cases. The expenses related to the acquisition are not part of the consideration transferred and so do not impact on the calculation of the goodwill/ gain from the acquisition. They are recognised as expenses in the year they occur. At the date of acquisition, the classification and designation of all assets acquired and liabilities transferred are reassessed in accordance with IFRS, except for leases and insurance contracts, which are classified and designated based on the contractual terms and conditions on the contract start date. Assets arising from contractual indemnities from the seller regarding the outcome of contingencies wholly or partly related to a specific liability of the combined entity, now have to be recognised and measured using the same principles and assumptions as related liabilities. Calculating the fair value of the assets and liabilities acquired takes into account the fair value of contingent liabilities that result from a present obligation caused by a past event (if the fair value can be reliably measured), regardless of a probable outflow being expected. The Group can choose to measure the "non-controlling interests" for each acquisition, at its fair value or the respective proportional share of the transferred assets and liabilities of the acquired company. The choice of one method or the other influences the calculation of the amount of goodwill to be recognised. When the business combination is undertaken in stages, the fair value at the preceding date of acquisition of the interests held is remeasured to the fair value on the date control is obtained, against profit or loss in the period in which control is achieved, which impacts on the calculation of goodwill. Goodwill is considered to have an indefinite useful life and is therefore not amortised. It undergoes annual impairment tests regardless of whether or not there are signs of it being impaired. Whenever a combination is not completed at the reporting date the provisional amounts recognised at the acquisition date and/or additional assets and liabilities recognised if new information is obtained about facts and circumstances that existed at the acquisition date and, had they been known would have resulted in the recognition of these assets and liabilities at that date, will be adjusted retrospectively during a maximum period of one year from the date of acquisition.

#### **Acquisitions prior to 2010:**

Main differences:

- The cost of an acquisition includes the costs directly attributable to the acquisition, thus impacting on the calculation of goodwill; Non-controlling interests in the acquired company (formerly known as "minority interests") were measured only according to their share of the identifiable net assets of the acquired company but not included in the calculation of goodwill/gain of the combination;
- When the business combination is undertaken in stages, the fair value on the acquisition date preceding the interests held is not remeasured on the date control is obtained, so the previously recognised goodwill remained unchanged;
- Any contingent acquisition value was only recognised if the Group had a present obligation, the outflow was considered probable and the estimate was reliably determinable; subsequent changes in this value were recognised against goodwill;

Intragroup balances and transactions, and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction shows proof of impairment of a transferred asset. Accounting policies of subsidiaries are changed whenever necessary to ensure consistency with the policies adopted by the Group. In situations where the Group holds, in substance, control of entities created for a specific purpose, even if it has no direct shareholding in these entities, they are consolidated by the full consolidation method.

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

Company	Head office	% share capital held	Equity equity	Equity	Res. Net in financial year	
Águas do Algarve, S.A.	Faro	54.44%	EUR	29 825 000	43 235 145	6 942 498
Águas do Centro Litoral, S.A.	Coimbra	60.33%	EUR	39 974 968	86 805 946	3 813 845
Águas do Lisboa e Vale do Tejo S.A.	Guarda	59.38%	EUR	167 807 560	342 248 130	15 089 817
Águas do Norte, S.A.	Vila Real	59.59%	EUR	139 833 164	281 713 520	13 444 321
Águas de Santo André, S.A.	Vila Nova de Santo André	100.00%	EUR	1 000 000	23 945 374	5 116 688
AgdA - Águas Públicas do Alentejo, S.A.	Beja	51.00%	EUR	3 000 000	3 158 071	146 355
AdRA - Águas da Região de Aveiro, S.A.	Aveiro	51.00%	EUR	15 000 000	16 235 989	851 149
EPAL, S.A.	Lisbon	100.00%	EUR	150 000 000	579 097 627	47 137 287
AdP Internacional, S.A.	Lisbon	100.00%	EUR	175 000	(1 340 407)	(1 427 908)
AdPTimor Leste, Lda.	Dili - East Timor	100.00%	USD	5 000	(326 285)	(453 641)
Águas do Brasil, S.A.	Rio de Janeiro - Brazil	100.00%	BRL	2 050 100	(1 331 794)	-
Aquatec, Lda.	Maputo - Mozambique	100.00%	MZN	2 476 580	(41 157 632)	(3 307 834)
AdP Serviços, S.A.	Lisbon	100.00%	EUR	50 000	9 512 615	2 156 732
Aquasis, S.A.	Lisbon	55.00%	EUR	50 000	142 817	144 926
AdP Energias, S.A.	Lisbon	100.00%	EUR	250 000	2 984 992	46 821

### 2.2.3 Holdings in associates

Holdings in associates are presented at the value resulting from the equity method. The consolidated financial statements, under this method, include the Group's share of the total recognised gains and losses from the date that significant influence commences until the date it effectively ends. Associates are entities in which the Group holds between 20% and 50% of the voting rights, or over which the Group has significant influence but cannot exert control. Unrealised gains or losses in transactions between the Group and its associates are eliminated. The dividends paid out by the company invested in are considered reductions of the investment held.

When the share of the losses of an associate exceeds the investment made in the associate, the book value of the investment is reduced to zero and the Group recognises additional losses in the future associated with liabilities already taken on. Any surplus of the acquisition cost of a financial investment over the Group's shareholding in the fair value of the assets, liabilities and contingent liabilities identified at the date of acquisition of the shareholding in the associate is recognised as goodwill, and it is included in the value of the shareholding and its recovery is annually assessed as an integral part of the investment. If the cost of acquisition is lower than the fair value of the net value of the assets of the acquired associate, the difference is registered directly in the income statement.

The entities qualifying as associates are listed below.

Companies		Head office	% capital held	Equity equity	Assets	Liabilities	Equity
Trevo Oeste, S.A. (i)	(a)	Alcobaça	43%	1 336 085	3 201 206	787 045	2 414 161
Miese	(a)	Lisbon	40%	200 000	15 043	46 428	(31 385)

(i) Amounts reporting to 2013.

(a) Companies not operating.

### 2.2.4 Investments in subsidiaries resident abroad

See Note 2.4.3.

### 2.2.5 Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the identifiable assets and liabilities attributable to the Group on the date of acquisition or the first consolidation. If the cost of acquisition is lower than the fair value of the net value of the assets of the acquired subsidiary, the difference is recognised directly in profit or loss. Goodwill is not amortised and it is assessed annually or whenever there is evidence, it is tested for recoverability (impairment). An impairment loss is recognised in profit or loss for the period whenever the book value of goodwill exceeds its recoverable value. For the purposes of testing for impairment, goodwill is allocated to the most elementary cash flow generating units (CGU) to which it belongs and compared with the present value of future cash flows generated by the same. The gain or loss on disposal of an entity includes the carrying amount of goodwill relating to that entity, unless the business to which this goodwill is associated keeps on generating benefits for the Group.

### 2.2.6 Balances and transactions

Intragroup balances and transactions, dividends distributed between Group companies, balances and unrealised gains on transactions between Group companies are eliminated.

## 2.3 Information by business area

A business area is a group of assets and operations engaged in supplying products or services that are subject to risks and benefits that are different from other business areas. A business area is engaged in supplying products or services in a specific economic environment with different risks and benefits to those influencing the business areas that operate in other economic environments. The AdP Group presents the current report by business area because the transactions by the Group's international companies are reported as a separate business area.

The business areas are:

### I – Regulated activities

- a. Water and wastewater treatment
- b. Waste (discontinued in 2015)

### II – Unregulated activities

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

## 2.4 Foreign exchange

### 2.4.1 Functional and presentation currency

The items included in the financial statements of the AdP Group are measured in the currency of the primary economic environment in which the entity operates (functional currency). The financial statements of the AdP Group and notes thereto are presented in euros, unless otherwise stated.

### 2.4.2 Transactions and balances in foreign currency

Transactions in currencies other than the euro are converted into the functional currency using the exchange rates on the transaction dates. Foreign exchange gains or losses resulting from the settlement of transactions and conversion of monetary assets and liabilities denominated in foreign currencies at the rate of the balance sheet date are recognised in the income statement, except when they relate to an extension of investment in a foreign operation, in which case they are deferred in equity in accordance with IAS 21. Non-monetary items measured at fair value are adjusted at the exchange rate on the date of their calculation. The exchange rate effect is recorded together with the change observed in the fair value of those items. Exchange rate differences are recognised in profit or loss or in "Other reserves", according to the appropriate registration for the recognition of gains or losses on the non-monetary item in question. The conversion of non-monetary items measured at historical cost into the functional currency of the AdP Group is obtained by using the exchange rate on the transaction date.

### 2.4.3 Group Companies

The results and financial position of all the entities of the AdP Group that have a functional currency different from the presentation currency and that is not the currency of a hyperinflated economy are translated into the presentation currency as follows: **(i)** the assets and liabilities of each balance sheet are converted at the exchange rate on the date of the consolidated balance sheet; **(ii)** income and expenses of each income statement are converted at average exchange rates (unless the average rate is not a reasonable approximation of the cumulative impact of the rates in force on the transaction dates, in which case the income and expenses are converted at the exchange rates prevailing on the transaction dates); and **(iii)** the resulting exchange differences are recognised as a separate component of the consolidated statement of comprehensive income.

On consolidation, exchange differences arising from the conversion of a monetary item that forms part of the net investment in foreign entities are reclassified to equity. When a foreign operation is sold, the exchange differences are recognised in the consolidated income statement as part of the gain or loss on the sale. Goodwill and fair value adjustments resulting from the acquisition of a foreign entity are handled as assets or liabilities of the subsidiary and converted at the exchange rate on the consolidated balance sheet date.

## 2.4.4 Exchange rates used

The foreign currency rates used for converting transactions denominated in currencies other than the euro or to update balances denominated in foreign currencies were as follows:

Country	Currency	31.12.2015		31.12.2014	
		average	closing	average	closing
Angola	Kwanza	133.18	147.83	129.99	125.11
Brazil	Reais	4.22	4.31	3.25	3.22
Cape Verde	Escudo C.V.	110.27	110.27	110.27	110.27
Mozambique	Meticais	43.53	49.29	40.67	38.53
Japan	Iene	132.34	131.07	147.06	145.23
E.U.A.	USD	1.09	1.09	1.23	1.21

Source: Bank of Portugal.

## 2.5 Concession and regulated activity

### 2.5.1 Introduction

The management companies of the MMSs (multi-municipal systems) operate in a regulated sector and are subject to the intervention of ERSAR (Law 10/2014 of 6 March, which approves the new statutes of ERSAR, in the framework of new attributes from the regulating entities fixed by Law 67/2013 of 28 August). The main effect of regulation on the companies' activity is the scrutiny by the regulator of the tariff charged for the services provided to users and its annual budget. With the amendment to the ERSAR statutes by Law 10/2014 of 6 March, tariffs charged for services provided to users are now approved by the regulator and are no longer subject to any intervention by the grantor.

Via the concession contract, the regulator now has the power to approve the amount of the cost recovery deviation that Águas do Norte, Águas do Centro Litoral and Águas de Lisboa e Vale do Tejo can record in their annual accounts. This gives the regulator the power to determine the costs that can be recovered by means of tariffs.

The management companies of the MMSs are also subject to intervention by the regulator on matters of quality of service, measured by a set of indicators that are assessed every year, and matters of drinking water quality, under the powers of the ERSAR as the national drinking water authority.

### 2.5.2 Framework – concession activity

IFRIC 12 defines the rules on accounting for concession contracts, given the services provided and the power of control over the concession assets. Pursuant to this standard, the Group's concession holding companies provide two kinds of services: construction, modernisation and renewal of the infrastructure of the system and the operation and management (operate and maintain) of the system composed of the infrastructure, necessary for the delivery of services to users.

Accordingly, the company must recognise and measure revenue (profit) from the services provided in accordance with the provisions of IAS 11 - Construction contracts and IAS 18 - Revenue. If the company provides more than one service under one single concession contract (i.e. construction or modernisation of the services and operation), the value (prices or tariffs) receivable should be distributed according to the fair values, when these are individually (separately) identifiable. The nature of the price and the tariff determines how they are handled in the accounting. The company must recognise the revenue and costs related to the construction or modernisation of infrastructure in accordance with IAS 11. The company must recognise the revenue and costs related to the operation in accordance with IAS 18.

Moreover, it establishes that infrastructure under IFRIC 12 must not be recognised as tangible assets of the operator (or concession holder) because the concession contract does not give them control rights. The operator has access to and operates the infrastructure to deliver a public service on behalf of the grantor in accordance with the terms of the contract. Pursuant to the concession contract, the operator (or concession holder) acts as a service provider for the purposes of interpretation under this standard. The operator (or concession holder) builds or modernises the infrastructure (construction or modernisation of services) used to provide the public services and operates and maintains them (operation) over a specific period of time.

If the operator (or concession holder) builds or modernises the infrastructure, the value (tariff) received or receivable by the operator must be recognised at fair value, and this corresponds to a value embodied in a right corresponding to: **(a)** a financial asset, or **(b)** an intangible asset.

The operator (or concession holder) must recognise a financial asset to the extent that it has a contractual right to receive cash or another financial asset from the grantor for services provided, which correspond to specific or determinable amounts. In this model,

the grantor has few or no discretionary powers to avoid payment because the agreement is generally legally binding. The operator (or concession holder) has unconditional entitlement to receive cash if the Concession Grantor contractually guarantees this payment to the operator, corresponding to **(a)** a specific sum, or **(b)** to the difference, if such exists, between the sums received from the users of the public service and another specific amount, even if the payment is contingent to the operator (or concession holder) ensuring the infrastructure is in agreement with quality and efficiency requirements.

The operator (or concession holder) must recognise an intangible asset since it receives a right (permission) to charge users for a public service. The right to charge users for a public service is not an unconditional right to collection because the amounts are dependent on the users actually using the service.

Up to 30 June 2015

Water and wastewater treatment	Concession/ Partnership	Term	Period	Addenda under analysis by the grantor	Shareholder remuneration - rate	Applying to <sup>(1)</sup>
Águas do Algarve	Concession	30 years	2001-2031	37 years	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas do Centro	Concession	30 years	2001-2031	50 years	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas do Centro Alentejo	Concession	30 years	2003-2032	50 years	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas do Douro e Paiva	Concession	30 years	1996-2026	-	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas do Mondego	Concession	35 years	2004-2039	-	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas do Norte Alentejano	Concession	30 years	2001-2030	50 years	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas do Noroeste	Concession	50 years	2010-2060	-	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas do Oeste	Concession	35 years	2001-2035	-	10-year Treasury Bond + 3%	Share capital + legal reserve
AdRA - Águas da Região de Aveiro	Partnership	50 years	2009-2059	-	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas de Santo André	Concession	30 years	2001-2030	-	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas de Trás-os-Montes e Alto Douro	Concession	30 years	2001-2031	50 years	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas do Zêzere e Côa	Concession	30 years	2000-2030	50 years	10-year Treasury Bond + 3%	Share capital + legal reserve
AgdA - Águas Públicas do Alentejo	Partnership	50 years	2009-2059	-	10-year Treasury Bond + 3%	Share capital + legal reserve
Sanest	Concession	25 years	1995-2020	-	TBA + 3%	Share capital + legal reserve
Simarsul	Concession	30 years	2004-2034	-	10-year Treasury Bond + 3%	Share capital + legal reserve
Simdouro	Concession	50 years	2009-2059	-	10-year Treasury Bond + 3%	Share capital + legal reserve
Simlis	Concession	30 years	2000-2029	50 years	Euribor 6-month rate + 3%	Share capital + legal reserve
Simria	Concession	50 years	2000-2049	-	10-year Treasury Bond + 3%	Share capital + legal reserve
Simtejo	Concession	43 years	2001-2044	-	10-year Treasury Bond + 3%	Share capital + legal reserve

After 30 June 2015 as a result of the aggregation of companies (see note 5.1)

Water and wastewater treatment	Concession/ Partnership	Term	Period	Addenda under analysis by the grantor	Shareholder remuneration - rate	Applying to <sup>(1)</sup>
Águas do Algarve	Concession	30 years	2001-2031	37 years	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas do Norte	Concession	30 years	2015-2045	-	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas do Centro Litoral	Concession	30 years	2015-2045	-	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas de Lisboa e Vale do Tejo	Concession	30 years	2015-2045	-	10-year Treasury Bond + 3%	Share capital + legal reserve
AdRA - Águas da Região de Aveiro	Partnership	50 years	2009-2059	-	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas de Santo André	Concession	30 years	2001-2030	-	10-year Treasury Bond + 3%	Share capital + legal reserve
AgdA - Águas Públicas do Alentejo	Partnership	50 years	2009-2059	-	10-year Treasury Bond + 3%	Share capital + legal reserve

### 2.5.3 Infrastructure classification

In view of the type and legal framework (right to charge users for a public service inherent in the fact that they use it) of the concession contracts of the MMS management companies, it was decided that the model best suited to the company's reality is intangible. The MMS management companies as concession holders classify the system's infrastructure that they operate as intangible assets – Right to use infrastructure.

The intangible assets (operation rights) are recorded at purchase or production cost, including costs and earnings (net) directly and indirectly related to the investment projects, which are capitalised under fixed assets in progress. The expenses that can be capitalised are those related to investments. Operating costs are assigned to fixed assets in progress as a percentage calculated in accordance with the allocation of staff to projects. Financial costs related to loans obtained for financing investments in progress are totally capitalised until the system goes into operation, meaning it is available for use.

Costs of major repairs and improvements (including replacements) through economic regulation of the concession, are specifically remunerated since they are a component in the calculation of the tariff (i.e. their recovery is implicit in the approval of the amortisation by the regulator). They are therefore reported in accounts as fixed assets and amortised on the same terms as other fixed assets. Current upkeep and maintenance costs are recognised in results in the financial year in which they occur.

#### 2.5.4 Amortisation

The intangible asset, rights of use of infrastructure, is amortised on a systematic basis according to the standard for obtaining economic benefits associated thereto, determined by economic regulation and by the approval of amortisation expenses in the annual calculation of the tariffs by the regulator.

Amortisation in water and wastewater treatment concession companies and partnerships is calculated by the sum of units method, i.e. by amortisation of the contracted investments established in the economic and financial feasibility study. It is based on the flow of effluent billed in that year and the effluent to be billed until the end of the concession period, as set out in the economic and financial feasibility study attached to the concession contract.

#### 2.5.5 Accrued expenses for contractual investment

In compliance with the provisions of the concession and partnership management contracts and regulatory rules, and where applicable, the annual share of the estimated costs needed to cover contractual investments (regulated) or investments in expansion (regulated) of the concession or partnership. These accruals are calculated on the basis of the standard of economic benefits associated with the contractual investment defined in the supporting economic model of the concession contract. In the AdP Group concession companies, the economic benefits obtained are determined by economic regulation. Accrued costs for contractual investments aim to guarantee the principle of accounting on an accruals basis and balancing of income (tariffs) and expenses (incurred and to be incurred) that form the basis of calculation, for the duration of the concession agreements concluded with the state. These accruals correspond, in practice, to an accountability for reimbursement at future tariffs, allowing their stabilisation as well as the balancing of the above-mentioned income (tariffs) and expenses (incurred and to be incurred), for the duration of the concession agreements concluded with the state. The accruals are recognised in costs in the amortisations item for the financial year and under liabilities (non-current). The liabilities are then transferred to accumulated amortisations on completion of the underlying investment.

#### 2.5.6 Cost recovery deviations

Cost recovery deviations are: **(i)** the difference on the date of closure of the concession companies of abolished systems between the company's net profits from the operation and management of the system and the amount to which the company is entitled under the contract by way of remuneration of the capital invested, and **(ii)** the difference found annually up to the end of the second five-year period of the concession between the company's net profits from the operation and management of the system and the amount to which the company is entitled under the rules stipulated in the determination of tariffs.

Deviations in the recovery of costs may be debits or credits pursuant to the concession contract. The new management companies Águas do Norte, Águas do Centro Litoral and Águas de Lisboa e Vale do Tejo record in their accounts cost recovery deviations occurring every year until the end of the second five-year period. At the same time as the conclusion of the concession contract, the cost recovery deviations determined on the date of closure of the concession companies of the systems aggregated pursuant to this decree-law are recorded, including shareholders' remuneration owed, capitalised at the rate of Portuguese 10-year Treasury Bonds plus three percentage points until the date the concession contract comes into effect, based on the separate accounts of the companies closed down.

The cost recovery deviations to be debited and credited existing on the date of closure of the concession companies on the date of closure of the aggregated systems and those generated during the concession up to the end of the second five-year period, capitalised on the terms of the concession contract, must be recovered via tariffs or reflected in the tariffs, as the case may be, by the end of the fifth five-year period of the concession.

Thus, the calculation of the difference between the earnings generated from operations and guaranteed remuneration on invested shareholder capital is performed annually. The gross value is recorded in an income account - tariff deviation - and the tax generated by this in a deferred tax account, offset against balance, in light of the recognition of regulatory assets and liabilities.

The value of the tariff deviation corresponds to the correction (credit or debit) to make to the revenue from regulated activities, so that the income of such activity is that required to comply with contractual provisions relating to full recovery of costs, including income taxes (IRC) and guaranteed annual remuneration.

#### 2.5.7 Residual value

Additional expansion or modernisation investment approved or imposed by the Concession Grantor, with a useful life extending beyond the concession period will give rise to an indemnity equal to the value not amortised at that date. Investments in such a situation are classified as non-current financial assets (receivables, measured at amortised cost, according to the effective interest rate method).

### 2.5.8 Revenue - construction services

According to IFRIC 12 – Concession arrangements, the construction of infrastructure by the operator constitutes a service that is provided to the grantor and is different from the operation and maintenance service and, as such, must be remunerated by the grantor. Revenue from construction services must be recognised in accordance with IAS 11 - Construction contracts. Nonetheless, when IFRIC 12 is applied, we assume that there is no margin in the construction, as this work is subcontracted to specialised companies. The risks and returns are transferred to a third party (who builds), and so the revenue and costs associated with the construction are the same. In spite of the above, income from construction and associated costs are recorded in the income statement of the year, in accordance with IFRIC 12 (see note 5.2).

## 2.6 Tangible fixed assets

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

A significant part of the tangible fixed assets of the AdP Group (EPAL) acquired before 31 December 2008 are recorded at acquisition cost or deemed cost, which encompasses the effects of revaluations made according to law and the effect of free revaluations, based on a valuation carried out by an independent specialised entity, with reference to the transition date (1 January 2009).

The subsequent costs are included in the book value of the asset or recognised as separate assets, as appropriate, only when it is probable that economic benefits will flow to the company and the cost can be reliably measured. The depreciation of these assets is done during their remaining useful life or until the next repair, whichever happens first. The replaced component of the asset is identified and recognised in the income statement.

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

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

The estimated useful lives for tangible fixed assets are expressed as the following percentages:

Type	Years
Buildings and other constructions	10 - 75
Basic equipment	3 - 55
Transport equipment	4 - 16
Tools and utensils	4 - 10
Office equipment	4 - 10

Land is not subject to depreciation.

The depreciation of assets intended for sale is suspended and these are classified as assets held for sale.

Whenever there are signs of the loss of value of tangible fixed assets, impairment tests are carried out to estimate the recoverable value of the asset and register an impairment loss if necessary. The recoverable value is determined as the higher of the net selling price and the value in use of the asset. Value in use is calculated based on the current value of estimated future cash flows, arising from the continued use and disposal of the asset at the end of its useful life.

At the end of each financial year the Board of Directors reviews the depreciation methods and the estimated useful life of each asset to ensure that the consumption trend of the benefits of the assets in the years used by AdP is faithfully reflected. Any changes to these assumptions will be handled as a change in an accounting estimate and earmarked for prospective application.

Gains or losses arising from write-downs or disposals are calculated as the difference between receivables from disposals and the accounting amount of the asset and are recognised in the income statement as income or expenses.

### 2.6.1 Leasing

The leasing of assets for which the AdP Group substantially holds all the risks and benefits inherent to ownership of the asset are classified as leasing. Also classified as finance leases are arrangements in which the analysis of one or more specific points of the contract indicate such a nature. This classification is made according to the substance and not the form of the contract. Finance leases

are capitalised at the start of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The liability is recognised in other long-term liabilities, net of financial charges. The assets acquired through finance lease agreements are depreciated for the lesser of the asset's useful life and the term of the lease agreement. All other leases are classified as operating leases. The payments of lease arrangements are recognised as an expense on a linear basis over the lease term.

## 2.7 Intangible assets

### 2.7.1 Rights to use infrastructure

See Note 2.5.3.

### 2.7.2 Other intangible assets

The intangible assets (software development expenditure, costs of intellectual property and other rights) are included in the accounts at cost net of accumulated amortisation. These headings are amortised using the straight-line method, usually for three to ten years. Investments that improve the performance of software programmes beyond their original specifications are added to the original cost of the software. The costs of implementing software recognised as assets are amortised using the straight-line method over their useful lives, i.e. from three to six years.

## 2.8 Investment properties

The AdP Group's investment properties are real estate held with the aim of obtaining income, capital appreciation or both. The investment properties are initially measured at cost, including the transaction expenses directly attributable to them. The investment properties are measured at depreciated cost after initial recognition. Investment properties are derecognised on disposal or when permanently withdrawn from use and no future economic benefits are expected from their disposal. As they are accounted for in the same way as tangible fixed assets, depreciations are calculated after the asset is ready for use, in accordance with the straight line method by twelfths, depending on the estimated useful life for each class of assets (see Note 2.7).

For the purpose of analysing and disclosing the recovery value of investment properties, the company has external appraisals made by specialised external entities at the end of each financial year in which there is considered to have been a change in market conditions or exceptional events that may cause significant variations in the fair value of investment properties, as determined in the appraisals made immediately before. Whenever, on the reporting date, the value of investment properties, net of accumulated depreciation (or recoverable value), is higher than its fair value on the reporting date, the company records the loss of impairment.

## 2.9 Financial assets and liabilities

### 2.9.1 Classification of financial assets

The financial assets of the AdP Group are classified in the categories indicated below. The classification depends on the purpose for acquiring the investment and it is determined at the time of initial recognition (trade date) of investments and revalued each subsequent reporting date. The Board of Directors decides the classification of its investments on the acquisition date and revalues this classification on a regular basis. The AdP Group classifies its financial assets in the following categories: **i)** loans and receivables, **ii)** held to maturity investments, **iii)** investments measured at fair value through profit or loss (held for trading); **iv)** financial assets available for sale.

#### Loans and receivables

These are financial assets other than derivatives, with fixed or determinable income for which there is no active listed market. These assets may be: **(i)** assets originating from normal operating activities and other associated services, and for which there is no intention to trade them; and **(ii)** investments in companies holding multi-municipal concessions which, according to the special terms and conditions of the underlying concession agreements, qualify as a loan granted, remunerated at an agreed rate.

Loans and receivables are initially recorded at fair value and afterwards at amortised cost based on the effective interest rate, less any impairment losses. Impairment losses are recorded based on the estimate and evaluation of losses associated with bad debts, at the balance sheet date, so that they may reflect their net realisable value.

Impairment losses are recorded when there are impartial indicators that the AdP Group will not collect all the amounts owed according to the original terms of the contract established. The indicators used to identify impairment situations are: analysis of breach; default for more than 6 months; debtor's financial difficulties; and probability of bankruptcy of the debtor.

When the sums receivable from trade receivables or other debtors are due and their terms are under renegotiation, they are no longer regarded as overdue and are treated as new credits.

### Investments held to maturity

Investments held to maturity are classified as non-current investments, unless they mature less than 12 months from the balance sheet date. The investments recorded under this heading are those with fixed maturity that the AdP Group intends to and has the ability to keep until such date. Investments held to maturity are recorded at amortised cost, less any impairment losses.

### Financial assets measured at fair value through profit or loss

This category encompasses: **(i)** financial assets for trading which are acquired principally for the purpose of being traded in the short term; **(ii)** financial assets designated at the time of their initial recognition at fair value with changes recognised in profit or loss.

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

The changes in fair value are recognised directly in the income statement for the year. These assets are classified as current assets if they are held for sale or if their realisation is expected within 12 months of the balance sheet date.

### Financial assets available for sale

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

The assets available for sale are recorded, after initial recognition, at fair value by reference to their market value at the balance sheet date without any deduction for transaction costs that may be incurred up to the sale. The respective changes in fair value are directly recognised in equity under the item "fair value reserve" until the asset is derecognised or an impairment loss is identified, at which time the accrued value of potential gains and losses recognised in reserves is transferred to the income statement. In relation to equity instruments, a significant or prolonged decline in the fair value to below cost is essential for declaring the existence of impairment.

Equity instruments that are not shares in subsidiaries, joint ventures or associates, are classified as financial assets available for sale, in accordance with IAS 39. If there is no market value, these assets are held at cost, subject to impairment tests.

## 2.9.2 Financial liabilities

Financial liabilities are classified according to the contractual terms, regardless of their legal form. IAS 39 - Financial Instruments: recognition and measurement envisages the classification of financial liabilities into two categories: **(i)** financial liabilities at fair value through profit or loss; **(ii)** other financial liabilities. Other financial liabilities include loans obtained, trade payables and other accounts payable.

### Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss include non-derivative liabilities for selling in the short term and derivative financial instruments that do not qualify for hedge accounting purposes, and are classified in this manner on initial recognition. Gains and losses arising from changes to the fair value of liabilities measured at fair value through profit or loss are recognised in the income statement.

### Bank loans

Loans are initially recognised at fair value net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the issue amount (net of transaction costs incurred) and the nominal value is recognised in profit or loss over the term of the loans in accordance with the effective interest method. Loans are classified as non-current liabilities, except if it is expected that the AdP Group settle the liability within 12 months of the balance sheet date, in which case they are classified as current liabilities.

### Trade payables and other accounts payable

The balances of trade payables and other accounts payable are initially recorded at their nominal value, which is taken to be fair value, and are afterwards recorded at amortised cost in accordance with the effective interest method. Financial liabilities are derecognised when the underlying obligations are eliminated by payment, are cancelled or expire.

## 2.10 Fair value hierarchy

The assets and liabilities of the AdP Group measured at fair value are classified according to the following levels of fair value hierarchy, as established in IFRS 7: **Level 1**, the fair value of financial instruments is based on active net market prices on the reference date of the balance sheet. This level essentially includes equity, debt (e.g. NYSE Euronext) and futures instruments listed on active markets; **Level 2**, the fair value of financial instruments is not based on active market prices but on the use of valuation models. The main inputs of the models used are observable in the market. This level includes, for example, over-the-counter derivatives and **Level 3**, the fair value of financial instruments is not determined based on active market prices but with valuation models whose main inputs are not observable in the market. The table with the assets and financial liabilities at fair value classified by level is presented in Note 7.2.

## 2.11 Derivative financial instruments and hedge accounting

The Group uses derivatives solely to manage the financial risks to which it is exposed. The Group does not use derivatives for speculation, in accordance with its financial policies. Even though the derivatives contracted by the AdP Group are effective instruments in the hedging of risks they do not all qualify as hedge accounting instruments under the rules and requirements of IAS 39. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them are recognised in profit or loss. The fair value of derivatives is estimated based on listed instruments, whenever available. In the absence of market prices, the fair value of derivatives is estimated through the discounted cash flow method and option pricing models, in accordance with generally accepted market assumptions. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is adjusted on a regular basis and any gains or losses resulting from this revaluation are recorded directly in the income statement for the period, except those referring to hedge derivatives. The recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

### 2.11.1 Hedge accounting

Hedge accounting is used whenever there is a relationship between the hedged item and the hedging instrument, meeting the following conditions:

- i) the hedge relationship is identified and formally documented on the date it starts;
- ii) the hedge relationship is expected to be highly effective at the transaction date (prospectively) and throughout the operation (retrospectively);
- iii) with respect to cash flow hedges, there should be a high probability that they will occur;
- iv) the hedge is evaluated on an ongoing basis and effectively determined as having been highly effective for the entire financial reporting period for which the hedge was designated.

Changes in the fair value of the derivatives classified as hedges are recognised directly in the consolidated statement of comprehensive income.

## 2.12 Trade receivables and other accounts receivable

The balances of trade receivables and other accounts receivable are amounts received for the sale of goods or services provided by the Group in the normal course of its business activities. They are initially recorded at fair value and afterwards measured at amortised cost by the effective interest method, less impairment losses.

## 2.13 Inventories

Inventories are valued at the lower of acquisition cost (which includes all expenses until entry in the warehouse) or net realisable value. The net realisable value results from the estimated sale price during the normal business activity of the Company, less variable selling expenses. The costing method used for the valuation of warehouse outflows is average cost.

## 2.14 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits, other short term highly liquid investments with original maturities of six months or less, and overdrafts, at no significant risk of a change in value. Bank overdrafts are reported on the balance sheet as current liabilities, under "Loans", which are also considered in the preparation of the consolidated cash flow statement.

## 2.15 Impairment

### 2.15.1 Impairment of financial assets

The AdP Group looks for objective evidence of a financial asset or group of financial assets being impaired on each balance sheet date.

### 2.15.2 Impairment of financial assets available for sale

For financial assets classified as available for sale, a prolonged or significant decline in the fair value of the instrument below its cost is regarded as indicating that the instruments are impaired. If there is any similar evidence for financial assets classified as available for sale, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset that has already been recognised in the income statement - is removed from equity and recognised on the income statement. Impairment losses of equity instruments recognised in profit or loss are not reversed through the income statement.

### 2.15.3 Impairment of trade receivables, debtors and other financial assets

Adjustments for impairment losses are recorded when there are impartial indicators that the Group will not collect all the amounts owed according to the original terms of the contracts established. The various indicators used to identify impairment situations include: (i) analysis of breach; (ii) debtor's financial difficulties; and (iii) probability of bankruptcy of the debtor.

The adjustment for impairment losses is determined by the difference between the recoverable amount and the carrying amount of the financial asset and it is recognised against the profit or loss of the financial year. The carrying amount of these assets is reduced to the recoverable value through the use of an adjustments account. When an amount receivable from customers and debtors is considered irrecoverable it is written off using the adjustments account for accrued impairment losses. Subsequent recoveries of amounts that may have been written off are recognised in profit or loss. When the sums receivable from trade receivables or other debtors are due and their terms are renegotiated, they are no longer regarded as overdue and are treated as new credits.

The Group does not generally recognise impairment losses on public entities, since it deems the current risk of their insolvency to be remote.

#### 2.15.4 Impairment of non-financial assets

The Group's assets are reviewed at each balance sheet date in order to detect indications of possible impairment losses. If such indication exists, the asset's recoverable amount is evaluated. In relation to goodwill and other intangible assets with an indefinite useful life, the recoverable amount is evaluated annually on the balance sheet date. The recoverable value is, bearing in mind the basis of the concession contracts, the value in use and this in turn corresponds to the guaranteed remuneration (share dividends) in each one of the years over the concession term. These sums are an integral part of the EVEF (economic and financial feasibility study) attached to the contracts of concession that are regularly sent to the sector's regulator. Whenever there are indications of potential losses due to impairment the recoverable value of the Group's assets is ascertained. When the book value of an asset or cash-generating unit to which it belongs exceeds the recoverable amount, it is reduced to the recoverable amount and this impairment loss is recognised in the income statement for the period.

The Group performs impairment tests on cash generating units that began business operations within a certain period of time (2 to 3 years). In the event the respective businesses have not yet reached sufficient maturity, impairment losses are recognised when there are unequivocal indicators that recoverability is considered remote.

#### 2.15.5 Determining assets' recoverable amount

The recoverable amount of receivables in the medium and long run corresponds to the present value of expected future receipts, using the effective interest rate of the original operation as a discount factor. The recoverable amount of other types of asset is whichever is the higher of its net sale price and its value in use. In the calculation of the value in use of an asset, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of the money and the specific risks of the asset in question. The recoverable amount of the assets that alone do not generate independent cash flows is determined together with the cash generating unit to which they belong.

#### 2.15.6 Reversal of impairment losses

Impairment losses recognised in medium and long-term receivables are only reversed when the reason for increasing the recoverable amount is based on an event that occurred after the date of recognition of the impairment loss. Impairment losses relative to other assets are reversed whenever there are changes in the estimates used to calculate the respective recoverable amount. Impairment losses are reversed up to the amount, net of amortisations, that the asset would have had if the impairment loss had not been recognised.

### 2.16 Share capital

Ordinary shares are classified in equity. Costs incurred directly from the issue of new shares or options are presented in equity as a deduction, net of taxes, on the amount issued.

### 2.17 Dividends payable

Dividends are recognised as a liability when declared.

### 2.18 Government grants

Grants related to assets (investment) are recognised when there is reasonable certainty that the grant will be received and that the AdP Group will meet all the obligations inherent in its receipt. Investment grants for the acquisition and/or construction of tangible and/or intangible assets are included under non-current liabilities and are credited on the income statement based on the same amortisation method as that for the underlying assets.

Other grants are deferred and recognised in the consolidated income statement in the same period as the expenses they are intended to offset.

### 2.19 Provisions, contingent assets and liabilities

Provisions are only recognised when an obligation exists that results from past events, the settlement of which is likely to require the allocation of internal resources in an amount that can be reasonably estimated. Whenever any criterion is not met or the existence

of the obligation depends on the (non-)occurrence of a particular future event, the AdP Group will disclose this fact as a contingent liability, unless an evaluation of the requirement to pay funds for its settlement is considered unlikely. When there are a large number of similar obligations, the probability of generating an outflow of internal resources is determined for them as a whole. The provision is recognised even where the likelihood of an outflow of internal resources relating to an item of the same class of obligations may be small. Current obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract exists when the company is an integral party to a contract which has associated costs with respect to its compliance and which cannot be avoided and exceed the future economic benefits derived from the same. The provisions are measured at the present value, on the balance sheet date, of the best estimate of the Board of Directors regarding the expenditure required to discharge the obligation. The discount rate used to calculate the present value reflects the current market expectation for the period of the discount and for the risk of the provision in question.

Provisions for future operating losses are not recognised.

### **Contingent assets and liabilities**

Contingent assets and liabilities are not recognised in the financial statements, but disclosed in the attached notes. When the likelihood of an outflow of resources that incorporate economic benefits is remote, or if it is unlikely that there will be an inflow of economic benefits, the relevant contingent liabilities or contingent assets are not disclosed.

## **2.20 Employee benefits**

EPAL has a system of social benefits for their workers, which comprises the payment of retirement pension top-ups (for old age or disability), in addition to supporting liabilities arising from pre-retirement situations. The system of pension benefits of the two companies embodies two types of pension plans, with defined contribution and defined benefits.

### **Defined contribution**

It is a pension plan in which the company's only monetary obligation is to make fixed contributions to a separate entity (a fund). These contributions are recognised as an expense in the period they refer to.

### **Defined benefit**

A defined benefits plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, normally dependent on one or more factors such as age, years of service and salary.

The obligation of the defined benefits plan is calculated annually/ half-yearly by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the discount of the future payments of benefits, using the interest rate of top-quality bonds in the same currency in which the benefits are to be paid and with maturities close to those of the liabilities taken on.

The liabilities recognised on the balance sheet relative to defined benefits plans are the present value of the benefit obligation defined at the balance sheet date, less the fair value of the assets of the plan, together with adjustments for past service expenses.

Past service expenses are recognised as income on a straight-line basis over the period until the corresponding benefits are actually acquired. They are immediately recognised since the benefits have already been fully acquired.

## **EPAL**

The EPAL benefits plan is restricted to the payment of a top-up of the retirement pension (for old age or disability) awarded by the Social Security system, and the payment of pre-retirement situations. Liabilities with the retirement top-up are financed through the independent fund that has been set up and the liabilities with pre-retirement are directly borne by EPAL, and independently managed by a financial institution. In other words, EPAL has set up an independent fund to provide a retirement top-up plan for its employees, comprising a defined benefits plan. The Company changed the defined benefits pension plan on 22 March 2008 for a mixed defined benefits and defined contribution plan.

## **2.21 Tax**

AdP SGPS is covered by the special scheme of taxation for groups of companies that includes all the companies in which AdP SGPS directly or indirectly holds at least 70% of the share capital and which are also resident in Portugal and liable for payment of corporate income tax. The other subsidiaries that are not covered by the special taxation scheme for the AdP Group are taxed individually, on the basis of their taxable income at the applicable rates.

The parent and subsidiaries in which control is directly or indirectly held are taxed at the 23% rate, plus the municipal tax rate to a maximum of 1.5% of the taxable profit. The State surtax is 2.5% on the taxable profit that exceeds EUR 1.5 million to a ceiling of

EUR 7.5 million, and then at the 4.5% rate for taxable profit over EUR 7.5 million, up to a limit of EUR 35 million. Amounts above EUR 35 million are taxed at 6.5%.

Income tax for the period includes current tax and deferred tax. Income tax is recognised in the consolidated income statement, except where it is related to items that are recognised directly in equity. The amount of current tax payable is calculated based on the pre-tax profit, adjusted in accordance with tax rules.

Deferred tax is recognised whenever temporary differences between the tax base of assets and liabilities and their carrying amount on the consolidated financial statements are deemed to exist. Deferred tax that arises from the initial recognition of an asset or liability in a transaction that is not a merger, and which on the transaction date has not affected either the accounting outcome or the tax outcome, is not recorded. Deferred tax assets are recognised when it is probable that future taxable profit will be available against which temporary differences can be utilised or when the reversal of a deferred tax asset is expected for the same time and with the same authority.

Deferred taxes are calculated based on the current rate or the rate officially announced at the balance sheet date (the tax rate in 2014 is 21%) and which is expected to apply on the date on which deferred tax assets are realised or deferred tax liabilities are paid. Differences that may arise from expected changes in the rates that will reverse temporary tax differences are considered in the consolidated income statement.

Deferred taxes are recognised on temporary differences arising from investment in subsidiaries and associates except when the AdP Group is able to control the timing of the reversal of the temporary difference and it is likely that the temporary difference will not be reversed in the foreseeable future.

Deferred taxes are recorded in the net profit or in other reserves, depending on how the transaction or event giving rise to them is recorded.

## 2.22 Assets and liabilities held for sale

This item includes non-current assets (or groups for divestment), whose book value will be recovered mainly by a sales transaction instead of by continued use and which meet the following conditions:

- they are available for immediate sale in their current condition subject only to the usual, customary terms for the sale of said assets (or groups for divestment) and their sale is highly likely.
- In other words:
  - the appropriate management hierarchy is committed to selling the asset (or group for divestment)
  - the programme for finding a buyer and concluding the plan has started
  - the asset (or group for divestment) has been widely publicised for sale at a reasonable price in relation to its fair value
  - the sale will be completed within one year of the classification date.

Events or circumstances that may prolong the period for completing the sale beyond one year do not preclude an asset (or group for divestment) being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and if there is sufficient proof that the entity is still committed to selling the asset (or group for divestment).

Immediately before the initial classification of the non-current assets (or groups for divestment) as held for sale, the book values of the assets (or all assets and liabilities in the group) are measured in accordance with applicable standards. On the date of initial recognition, non-current assets (or groups for divestment) held for sale are measured at their book amount or fair value less sales costs, whichever is lower, or, if acquired as part of a concentration of business activities, at fair value less sales costs. If the sale is expected to occur beyond one year ahead, sales costs are measured at their present value. Any increase in the present value of sales costs resulting from the passage of time is recognised in the income statement as a financing cost. Any initial or later reduction in the asset (or group for divestment) to fair value less sales costs is recognised as an impairment loss. Any gain resulting from a later increase in fair value less sales costs of an asset is recognised but not beyond the loss by cumulative impairment previously recognised. Interest and other costs attributable to liabilities of a group for divestment classified as held for sales are still recognised.

## 2.23 Revenue

Revenue comprises the fair value of the sale of goods and provision of services, net of taxes and discounts and after eliminating internal sales. The concession holding and regulated companies, as referred to in note 2.6.6, only recognise revenue that results from the charging of the tariffs approved by the Grantor or partnership commission and examined by the regulator. Revenue is recognised as follows:

### 2.23.1 Services provided

#### **Regulated activity - Upstream services - Sewerage and partnerships**

Revenue is recognised based on (i) minimum guaranteed amounts, or (ii) consumption, i.e. revenue is recorded as the product of the approved tariff and consumption measured and/or estimated.

#### **Regulated activity - Upstream services - Waste treatment and recovery - unsorted waste**

Revenue is recognised based on consumption, i.e. revenue is recorded as the product of the approved tariff and consumption measured and/or estimated.

#### **Unregulated activity**

The availability tariff is based on a contract established with the customer, with a defined rental price. The value of the contract is recognised every month in the month to which the delivery of the service refers.

### 2.23.2 Sale of goods

#### **Regulated activity - Upstream services - Water supply**

Revenue is recognised based on (i) minimum guaranteed amounts, or (ii) consumption, i.e. revenue is recorded as the product of the approved tariff and consumption measured and/or estimated.

#### **Regulated activity - Upstream services - Waste treatment and recovery - sale of products**

Treatment and recovery of waste - products: the sale of products obtained from the recycling of waste is registered at the time of the transaction.

#### **Regulated activity - Downstream services - Partnerships**

Revenue is composed of two components, one fixed and the other variable. Revenue is recorded as the product of the approved tariff for each bracket and the consumption measured and/or estimated of that bracket (variable component). The fixed component corresponds to the availability of the service and it is pegged to the meter's debit capacity. Recognition is done in fractions of twelve.

#### **Unregulated activity**

Water supply – end consumer: the sale of water to end consumers is based on m<sup>3</sup> consumed. The tariffs of each one of the concessions and non-concessions (EPAL) apply. In some cases consumption estimates are made, which are then corrected when the individual meters of each customer are read.

### 2.23.3 Regulated revenue related to the concession activity

See note 2.5.6 on cost recovery deviations and note 2.6.2 on revenue from construction services.

### 2.23.4 Interest

Interest income is recognised based on the effective interest rate and is recorded in the period in which it is earned, according to the accruals principle.

When a receivable is adjusted for impairment, the Group reduces its book value to its recoverable value, though estimated future cash flows are still discounted at the initial effective interest rate (before impairment) and the correction of the discount is considered to be interest income.

### 2.23.5 Dividends receivable

Dividends are recognised when the shareholder's right has been established, which is usually by decision of the General Meeting of the subsidiary or associate.

## 2.24 Own work capitalised

The costs of resources directly allocated to tangible and intangible assets during their development/construction stage are recognised in this item when it is concluded that they are recoverable through the realisation of those assets. Capitalised financial expenses as well as some personnel expenditure are particularly important. They are measured at cost based on internal information specially prepared for the purpose (internal costs) or on the respective purchase costs plus other expenses inherent therein, meaning therefore they are recognised without any profit margin. Capitalised expenses are carried directly on the balance sheet without impact on the income statement, and they are disclosed in the notes whenever such is applicable.

## 2.25 Expenses and losses

Expenses and losses are recorded in the period to which they relate, regardless of when they are paid or received, according to an accruals basis.

## 2.26 Subsequent events

Events occurring after the balance sheet date that convey additional information on conditions prevailing at the balance sheet date are reflected in the financial statements. Post-balance sheet date events that convey information on conditions that occur after the balance sheet date are, if material, disclosed in the notes to the financial statements.

## 3. Financial risk management policies

### 3.1 Risk factors

The business operations of the AdP Group are exposed to a number of financial risk factors: credit risk, liquidity risk and cash flow risk associated with the interest rate). The AdP Group has developed and implemented a risk management programme which, together with the permanent monitoring of the financial markets, seeks to minimise potential adverse effects on the financial performance of AdP and its subsidiaries. Risk management is the responsibility of the central treasury department, according to the policies approved by the Board of Directors. The treasury department identifies, assesses and undertakes operations designed to minimise the financial risks, in close cooperation with the AdP Group's operational units. The Board of Directors drafts the principles for risk management as a whole and policies that cover specific areas such as currency conversion risk, interest rate risk, credit risk, the use of derivatives, other non-structured instruments and the investment of surplus liquidity. The Board of Directors is responsible for establishing the general risk management principles and also the exposure limits. All transactions undertaken using derivatives require the prior approval of the Board of Directors and the ministry, which set the parameters for each transaction and approve the formal documents describing the specific objectives.

### 3.2 Credit risk

Credit risk is essentially related to the risk of a counterparty defaulting on their contractual obligations, resulting in a financial loss for the Group. The AdP Group is exposed to the credit risk in the course of its operational, investment and cash management activities. Credit risk in operations is basically related to receivables for services rendered to customers (water, wastewater and waste services). This risk is theoretically low, given the nature of the service rendered (to State entities - municipalities). However, given the specific economic and financial situation of the country in recent years, with direct consequences on local government, the amount of customer debts has remained at significant values (see notes 16 and 18 – trade receivables). Impairment losses for receivables are calculated considering: **i)** the customer's risk profile, depending on whether a corporate or business customer; **ii)** the average collection period, which varies from business to business; and **iii)** the customer's financial health. The AdP Group has been warning the Central Government of the unsustainability of the current arrears situation of some municipalities, with the aim being to try to find alternative ways of collecting the overdue amounts.

The Board of Directors of AdP SGPS constantly assesses the adoption of measures that aim to ensure the recovery of the balances receivable from the municipalities, which include the PAEL programme, activating the mechanism associated with preferential claims (which is focused on current debts) and the establishment of payment agreements, injunctions or lawsuits.

It is still the understanding of the Board of Directors of AdP SGPS that there are no indicators to date that may lead, in relation to such balances, to the recognition of impairment losses, despite the uncertainty that exists regarding the time period taken for municipal customers to ensure compliance with their obligations.

The following table shows the maximum exposure of the Group to credit risk (not including customers' and other debtors' balances) as at 31 December 2015, not considering any collateral held or other credit enhancements. The defined exposure for assets on the balance sheet is based on their carrying amount as reported on the main balance sheet.

<b>Banking financial assets</b>	<b>31.12.2015</b>	<b>31.12.2014</b>
Current accounts	49 226 099	51 140 074
Term deposits	119 907 915	207 377 232
Other securities	4 867 282	23 014 228
Capital replenishment fund	96 408 304	102 667 587
	<b>270 409 600</b>	<b>384 199 121</b>

Rating	31.12.2015
A1	-
A2	214 161
B1	49 564 624
Ba1	163 433 675
Ba3	5 677 699
Baa1	1 606 129
Baa3	511 321
Caa1	38 035 949
Caa2	214 770
No known rating	11 151 272
	<b>270 409 600</b>

Note: Rating obtained from financial institutions' sites in January 2016.

### 3.3 Exchange rate risk

Exposure to exchange rate risk is not relevant in the AdP Group. This risk basically encompasses future commercial transactions, recognised assets and liabilities, as well as net investments in foreign operations not incurred or expressed in the AdP Group's operating currency. The AdP Group's central treasury manages the net exposure of the Group in each currency, contracting swaps centrally so as to minimise commercial risks, recognised assets and liabilities. The AdP Group has investments denominated in foreign currency with net assets exposed to exchange rate risk through conversion, and funding in foreign currency exposed to exchange rate risk. The exchange rate risk inherent to the net assets in foreign currency is managed by taking out loans in the same currency, and loans with hedging exchange rate swaps.

### 3.4 Liquidity risk

The management of liquidity risk requires keeping a reasonable level of cash and cash equivalents and implies the consolidation of floating debt through an adequate amount of credit facilities and the ability to liquidate market positions. The AdP Group's treasury department, given the dynamics of the underlying businesses, intends to secure floating debt flexibility, keeping the credit lines available for that purpose. The Group manages liquidity risk by taking out and maintaining credit lines and financing facilities with a firm underwriting commitment, with domestic and international financial institutions providing immediate access to funds. This practice has been greatly influenced in recent financial years by Portugal's well-known difficulties in gaining access to the credit markets, and by the high level of customer debt. In view of this problem, the Group has analysed its investment commitments and rescheduled the Group's investments, mapping them according to importance and financial, economic, and environmental impact. This ensures the minimisation of all risks associated with commitments made to different entities. The table below shows the AdP Group's liabilities by intervals of contracted residual maturity. The amounts shown in the table are the non-discounted contractual cash flows, for future payment (without the interest which these liabilities incur).

	< 1 year	1 to 5 years	> 5 years
Loans	349 059 777	344 317 744	1 721 446 900
Trade payables and other liabilities	166 708 749	74 395 599	38 571 872

The AdP Group does not expect any difficulties in complying with its short-term liabilities. The AdP Group considers it is in a position to ensure the renewal of its main credit facilities, particularly short-term bank loans. Their immediate repayment is therefore not expected.

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

The interest rate risk of the AdP Group basically stems from taking out long-term loans. Such loans with interest at floating rates expose the AdP Group to cash flow risk whereas loans with fixed interest rates expose the Group to fair value risk linked to the interest rate. Águas de Portugal, SGPS manages interest rate-linked cash flow risk by taking out swaps that allow loans with floating interest rates to be converted to fixed interest rate loans. Likewise, the guaranteed remuneration of concession contracts, and consequently the tariff deviation, is associated with the volatility of interest rates. The table below provides an approximate sensitivity analysis of the financial costs of the AdP Group.

	31.12.2015	Average rate + 1%	Average rate - 1%
Interest incurred	70 320 621	93 038 546	47 653 889
	<b>70 320 621</b>	<b>93 038 546</b>	<b>47 653 889</b>

### 3.6 Capital risk

The AdP Group's goal with respect to managing capital, which is a broader concept than the capital disclosed on the balance sheet, is to maintain an optimal capital structure through the prudent use of debt to enable it to reduce the cost of capital. The aim of managing capital risk is to safeguard the Group as a going concern, with a reasonable return for shareholders and the generation of benefits for all stakeholders. The policy of the AdP Group is to have the parent company, AdP, SGPS, S.A. contract loans with financial corporations (except for EPAL and investment loans - EIB), which in turn gives loans to its subsidiaries. This policy aims to optimise the capital structure for greater efficiency and to reduce the average cost of capital.

	31.12.2015	31.12.2013
Non-current loans	2 065 764 644	2 139 652 747
Current loans	349 059 777	598 892 627
Cash assets	(169 250 505)	(281 885 233)
<b>Debt</b>	<b>2 245 573 916</b>	<b>2 456 660 141</b>
Investment grants	1 621 339 053	1 630 392 783
Total equity	1 428 255 637	1 327 664 514
<b>Capital and subsidies</b>	<b>5 295 168 606</b>	<b>5 414 717 438</b>
<b>Debt/ Total equity</b>	<b>0.42</b>	<b>0.45</b>

The financing model of the AdP Group is fundamentally based on two major categories that allow the equilibrium of the capital structure, bank loans, in particular loans contracted from EIB, and equity and non-repayable investment grants.

### 3.7 Regulatory risk

Regulation is the most significant restriction on the profit of the economic activities undertaken by the Group. The Regulator can take measures with a negative impact on cash flow, with all the adverse consequences arising therefrom. AdP has sought to monitor the activities of the Regulator more closely in order to minimise these risks, thereby seeking to anticipate potential negative impacts on the companies arising from rules issued by ERSAR.

Law 10/2014 of 6 March approved the new statutes of ERSAR, which is now an independent administrative body with greater autonomy in terms of organisation, functions and financial matters. It is equivalent to the other independent regulators. Law 12/2014 of 6 March altered Decree-Law 194/2009 of 20 August for the second time (already amended by Decree-Law 92/2010 of 26 July). It establishes the rules on municipal water supply, urban wastewater treatment and management of household waste, changing the rules on billing and misdemeanours.

The allocation of greater powers to ERSAR as an independent regulator accentuated the need for it to guarantee prices that ensure the economic and financial viability of household waste management companies. Under the powers vested in the Management Board of ERSAR, on 17 February 2014 it approved the tariff regulations for the household waste management service, which applies to all providers of these services, regardless of each one's management model. This regulation was published in Diário da República IIª Série on 15 April 2014.

## 4. Estimates and judgements

The estimates and judgements that have an impact on the AdP Group's financial statements are assessed continuously and they represent, at the date of each report, the best estimate of the Board of Directors, bearing in mind the historic performance, accumulated experience and expectations with respect to future events which, in the circumstances in question, are believed to be reasonable. The intrinsic nature of the estimates can mean that the real reflection of situations that have been the target of an estimate may, for the purposes of financial reporting, differ from the estimated amounts. The estimates and judgements that generate a significant risk of leading to a material adjustment in the book value of assets and liabilities over the next financial year are:

### 4.1 Provisions

The companies of the AdP Group regularly analyse any obligations arising from past events and which must be recognised or disclosed. The Group is party to several ongoing legal proceedings in relation to which it has made a judgement, based on the opinion of its lawyers, to decide if a provision should be set up for these contingencies (Notes 26 and 50.2).

The subjectivity inherent in determining the likelihood and amount of outflows of the internal resources needed to discharge obligations may lead to significant adjustments, either due to the change of those assumptions or through the future recognition of provisions previously disclosed as contingent liabilities.

## 4.2 Tangible and intangible assets

The determination of assets' useful lives and the depreciation/amortisation method are essential to calculate the amount of depreciation and amortisation to be recognised in the consolidated income statement.

These two parameters were defined in accordance with the best estimate of the Board of Directors for the assets and business in question. However, since it is mostly a concession and regulated activity, the useful life of assets is associated with the pattern of economic benefits obtained, which are determined by economic regulation (for the concession flows and term). The estimates of flows to be treated or supplied are subject to periodic revisions based on new information, which is being analysed as part of the restructuring of the sector.

When determining a contractual investment, the Group uses, as a depreciation base, the value of contractual investments provided for in concession contracts and/or EVEF's submitted later to the grantor, which may be subject to revision and approval by it with a resulting impact on the Group's financial statements.

## 4.3 Impairment of receivables

The calculation of an impairment loss can be triggered by a number of events, many of which are outside the influence of the AdP Group, such as the future availability of funding, the cost of capital and the maintenance of the present market regulation structure, not to mention any other internal or external changes to the AdP Group. The identification of impairment indicators, the estimate of future cash flows and the determination of the fair value of assets (or a group of assets) requires a high degree of judgement by the Board of Directors, in terms of identifying and assessing the different impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. In the specific case of the AdP Group, impairment indicators change with the growth of the infrastructure network, the expected tariff changes or the current strategies of AdP shareholders, which together with other factors may lead to changes in the pattern or amount of future cash flows. Impairment losses on trade receivables are mainly calculated based on the age of receivables, the risk profile of customers and their financial situation. The estimates related to the evaluation of the impairment of receivables differ from business to business.

The impairment of any of the reported assets at the issue date of the consolidated financial statements of the AdP Group is not considered likely, beyond the impairment losses already recognised in these financial statements. If, for the purpose of any assessment, any sign of impairment is found, the relevant book amount of the asset on the balance sheet will be adjusted against the profit or loss for the year. In addition to the above-mentioned uncertainties, there are some areas of judgement with an impact reflected in the financial statements. Although it is thought unlikely that they will lead to a material change in the next financial year they may nonetheless bring about a change in the assumptions or assessment by the Board of Directors of the AdP Group companies.

## 4.4 Fair value of derivatives

The fair value of financial instruments that do not have an active market is calculated based on evaluations that reflect the mark-to-market of such instruments. The Group uses its judgement to choose the evaluation techniques and assumptions to use to assess the derivatives contracted at the financial reporting date. Changes in the fair value of the derivatives that do not qualify as hedges are recognised in the income statement and those classified as hedges are recognised directly in the consolidated statement of comprehensive income.

## 4.5 Post-employment benefits

The determination of liabilities for retirement pensions and other employee benefits requires the use of assumptions and estimates, including the use of actuarial projections, estimated rates of return on investments, discount rates and growth of pensions and salaries and other factors that may impact on the costs and liabilities of pension plans, health care plans and on other benefits. The main actuarial assumptions used to calculate the liability for retirement benefits are described in Note 27.1.

## 4.6 Estimate of tax and deferred tax

The AdP Group believes that any review of tax returns will not result in material corrections in the consolidated financial statements, which may require the creation of any provision for taxes. Deferred tax assets are recognised for all recoverable losses to the extent it is probable that there will be taxable profits against which the losses can be offset.

The Board of Directors, considering the current climate and the impact such may have on future results, needs to make judgements to determine the amount of deferred tax assets that can be recognised in view of: the date and probable amount of future taxable profit and future tax planning strategies.

The estimates were based on the best information available at the date of preparation of the consolidated financial statements. However, situations may occur in subsequent periods that were not foreseeable at the time and were not considered in these estimates.

In accordance with IAS 8, changes to the estimates that occur after the consolidated financial statements date are corrected prospectively in the income statement.

## 5. Relevant events affecting profit or loss for the year

The profit and financial position of the AdP Group were influenced by some relevant events in 2014 and 2015. They are described in the notes below:

### 5.1 Geographical reorganisation

On 30 June 2015, as set out in the decrees-law published on 29 May 2015, the first general meetings were held of the three new regional companies responsible for the management of the multi-municipal water supply and treatment systems, Norte de Portugal, Centro Litoral de Portugal and Lisboa e Vale do Tejo. As these companies went into operation, the Águas de Portugal Group (AdP Group) completed the geographical reorganisation of its water supply and wastewater treatment, which involved closing 15 companies and setting up three new management entities: Águas do Norte, Águas do Centro Litoral and Águas do Lisboa e Vale do Tejo, whose system will be managed by EPAL.

Águas do Norte, S.A. was set up by Decree-Law 93/2015 of 29 May by aggregating the companies Águas do Douro e Paiva, S.A., Águas de Trás-os-Montes e Alto Douro, S.A., Simdouro – Saneamento do Grande Porto, S.A. and Águas do Noroeste, S.A., all belonging to the Águas de Portugal Group. The Portuguese government then granted it an exclusive 30-year concession to operate and manage the multi-municipal water supply and wastewater treatment system in the north of Portugal. Sistema Multimunicipal de Abastecimento de Água e de Saneamento do Centro Litoral de Portugal was set up on 29 May by Decree Law 92/2015. It is the result of the aggregation of the Aveiro multi-municipal wastewater treatment system (Simria), which was set up by Decree-Law 101/97 of 26 April, amended by Decree-Law 329/2000 of 22 December; the Lis multi-municipal wastewater treatment system (Simlis), set up by Decree-Law 543/99 of 13 December and the Baixo Mondego-Bairrada multi-municipal water supply and wastewater treatment system (Águas do Mondego), set up by Decree-Law 172/2004 of 17 July. A 30-year concession for the operation and management of Sistema Multimunicipal de Abastecimento de Água e de Saneamento do Centro Litoral de Portugal was granted to Águas do Centro Litoral, S.A., which takes over the rights and obligations of the three companies that were closed down: Simria - Saneamento Integrado dos Municípios da Ria, S.A., concession holder of the Ria de Aveiro multi-municipal treatment system, Simlis – Saneamento Integrado dos Municípios do Lis, S.A., concession holder of the Lis multi-municipal treatment system and Águas do Mondego - Sistema Multimunicipal de Abastecimento de Água e de Saneamento do Baixo Mondego - Bairrada, S.A., concession holder of the Baixo Mondego - Bairrada multi-municipal water supply and wastewater treatment system. Águas de Lisboa e Vale do Tejo is a state-owned public limited company set up by Decree-Law 94/2015 of 29 May, which delegated management to EPAL. It is the result of the aggregation that led to the closure of the following companies: Águas do Zêzere e Côa (water supply+wastewater treatment), Água do Centro (water supply+wastewater treatment), Águas do Oeste (water supply+wastewater treatment), Simtejo (wastewater treatment), Sanest (wastewater treatment), Simarsul (wastewater treatment), Águas do Norte Alentejano (water supply+wastewater treatment), Águas do Centro Alentejo (water supply+wastewater treatment). The concession for the operation and management of the Lisboa e Vale do Tejo multi-municipal water supply and treatment system was granted to Águas de Lisboa e Vale do Tejo and its management delegated to EPAL – Empresa Portuguesa das Águas Livres, S.A. The new companies take over the rights and obligations of the previous companies that were closed down and all their assets and liabilities have been transferred to them.

### 5.2 Revenue - construction services - IFRIC 12

The Group decided to disclose for the first time revenue associated with construction services (and their costs) and so the financial statements were restated to accommodate this recognition. The recognition of the revenue associated with construction services and their costs has no impact on operating profit or net profit (see note 2.5.8).

### 5.3 Classification of the EGF Group as held for sale/discontinued operations

In Decree-Law 45/2014 of 20 March, the government approved the reprivatisation of EGF by selling 100% of its share capital, which was held by AdP – Águas de Portugal, SGPS, S.A. The Decree-Law also determined that the divestment would be done by internal public tender. It set out the phases and the workers' right to acquire 5% of the share capital of EGF. It determined the sale option and pre-emptive rights to be granted to the municipalities holding shares in the multi-municipal systems in which EGF is a shareholder. In Council of Ministers Resolution 30/2014 of 3 April, published in Diário da República of 8 April, the government approved the specifications that regulate the terms of the public tender for the sale and determined its issue. On 31 July 2014, four of the seven bidders invited to tender for acquisition of the EGF shares submitted their bids. Council of Ministers Resolution 55-B/2014 of 19 September selected Agrupamento SUMA, formed by the companies Suma - Serviços Urbanos e Meio Ambiente, S.A., Mota - Engil Ambiente e Serviços, SGPS, S.A, and Urbaser, S.A., as the successful bidder in the public tender for the reprivatisation of EGF. On 6 November 2014 the purchase and sale contract for 95% of the share capital of EGF was signed by AdP - Águas de Portugal, SGPS,

S.A. and Suma Tratamento, S.A., the company set up by the members of Agrupamento SUMA. The remaining 5% of the share capital is reserved for purchase by EGF employees after the completion of the transaction. At the end of July 2015, after a favourable decision from the competition authority, shares representing 95% of this company's capital were transferred to SUMA Tratamento, S.A. for the amount of EUR 154 million, which generated a book-value capital gain of EUR 75.4 million, which was recorded in income from shareholdings. The capital gain generated in the separate financial statements differs from that shown in the table below as a result of different accounting practices (in the separate accounts the shareholding was valued at deemed cost on the date of transition to the IFRSs - 2010).

<b>Book-value capital gains</b>	
Assets	898 566 743
Liabilities	(759 253 565)
Minority Interests	(54 353 942)
<b>The EGF Group</b>	<b>84 959 236</b>
Financial investment 5%	(3 032 577)
	<b>81 926 659</b>
Net income first half 2015	(2 978 308)
	<b>78 948 351</b>
Amount of sales	154 405 563
<b>Book value capital gain (note 46)</b>	<b>75 457 212</b>

For this reason, in accordance with IFRS 5, these financial statements carry the balances, operations and results of the EGF Group as held for sale / operations discontinued in 2014 and in the first six months of 2015.

Assets and liabilities held for sale can be broken down as follows:

	<b>31.12.2015</b>	<b>31.12.2014</b>
<b>Assets</b>		
Intangible assets	-	660 984 028
Financial investments	-	30 603 288
Deferred tax assets	-	81 592 013
Trade receivables and other non-current assets	-	29 546 581
Current trade receivables	-	57 872 599
Other current assets	-	20 303 825
Cash and cash equivalents	-	45 061 376
Other assets	-	2 655 338
	-	<b>928 619 048</b>
<b>Liabilities</b>		
Loans	-	178 522 303
Deferred tax liabilities	-	35 007 824
Amortisation of contractual investment	-	182 015 569
Investment grants	-	273 180 468
Tariff deviation	-	77 263 273
Other liabilities	-	41 397 476
	-	<b>787 386 913</b>

Profit from discontinued operations can be broken down as follows:

	<b>31.12.2015</b>	<b>31.12.2014</b>
Turnover	85 495 547	169 804 250
Cost recovery tariff deficit/surplus	(8 926 948)	(3 194 472)
Sales costs/variation in inventories	(6 024 121)	(11 798 662)
Supplies and services	(26 901 117)	(59 698 442)
Personnel costs	(20 031 974)	(40 642 559)
Amortisations, depreciation and reversals in financial year	(28 980 076)	(59 036 905)
Investment grants	9 166 450	18 134 022
Other operating costs and income	(28 583)	(794 410)
<b>Operating Profit</b>	<b>3 769 178</b>	<b>12 772 822</b>
Financial income	19 315	371 264
Tax	(810 185)	(7 633 003)
<b>Net profit of financial year as a going concern</b>	<b>2 978 308</b>	<b>5 511 083</b>
Net profit allocatable to shareholders of AdP SGPS	2 061 846	3 393 633
Net profit allocatable to non-controlling interests	916 462	2 117 450
	<b>2 978 308</b>	<b>5 511 083</b>

## 5.4 Income from investment properties

In 2014, as a result of an agreement with Lisbon Municipal Council, EPAL incorporated in its assets a plot of land that was recorded as investment property with a value of approximately EUR 12.8 million against profit or loss as it was a donation (see detail in Note 10).

## 6. Information by business segment

<b>31.12.2015</b>	Regulated activity	Unregulated activity EPAL	Unregulated activity International	Unregulated activity Corporate services	Adjustments	Net profit or loss from discontinued operations	Consolidated total
External sales	529 471 580	133 968 510	3 825 538	2 604 888	-	-	669 870 516
Income from construction of assets for concession (IFRIC 12)	138 672 990	-	-	-	-	-	138 672 990
Inter-segment sales	13 210 174	9 965 441	-	16 097 110	(39 272 725)	-	-
<b>Total revenue</b>	<b>681 354 744</b>	<b>143 933 951</b>	<b>3 825 538</b>	<b>18 701 998</b>	<b>(39 272 725)</b>	<b>-</b>	<b>808 543 506</b>
Cost of sales/variation of inventories	(17 305 699)	(2 233 525)	-	(407 300)	-	-	(19 946 524)
Costs of construction of assets for concession (IFRIC 12)	(138 672 990)	-	-	-	-	-	(138 672 990)
Supplies and services	(149 616 342)	(25 922 593)	(2 741 794)	(7 402 357)	-	-	(185 683 086)
Personnel costs	(47 609 981)	(32 828 202)	(1 289 450)	(9 384 436)	-	-	(91 112 069)
Amort. deprec. and reversals in financial year	(171 401 557)	(25 293 804)	(73 487)	(1 695 210)	-	-	(198 464 058)
Provisions and reversals in financial year	1 262 987	5 801	(232 024)	(315 863)	-	-	720 901
Impairment losses and reversals	(21 985 897)	(515 756)	-	(9 832)	-	-	(22 511 485)
Investment grants	52 231 150	1 275 977	-	-	-	-	53 507 127
Other operating expenses and losses	(6 795 628)	(1 545 916)	(283 946)	(192 416)	-	-	(8 817 906)
Other operating income and gains	7 185 214	3 345 658	372 779	185 462	-	-	11 089 113
Inter-segment Operating Profit	(46 617 438)	7 738 793	(833 441)	448 856	39 263 230	-	-
<b>Total operating profits</b>	<b>142 028 563</b>	<b>67 960 384</b>	<b>(1 255 825)</b>	<b>(71 098)</b>	<b>(9 495)</b>	<b>-</b>	<b>208 652 529</b>
External financial income	(32 463 970)	(1 866 321)	(63 630)	68 513 155	-	-	34 119 234
Inter-segment financial income	(20 946 502)	(1 066)	(232 546)	21 170 619	9 495	-	-
<b>Profit before tax</b>	<b>88 618 091</b>	<b>66 092 997</b>	<b>(1 552 001)</b>	<b>89 612 676</b>	<b>-</b>	<b>-</b>	<b>242 771 763</b>
Income tax	(37 815 298)	(18 955 710)	150 137	(3 804 858)	-	-	(60 425 729)
<b>Net profit of financial year as a going concern</b>	<b>50 802 793</b>	<b>47 137 287</b>	<b>(1 401 864)</b>	<b>85 807 818</b>	<b>-</b>	<b>-</b>	<b>182 346 034</b>
Net profit from discontinued operations	-	-	-	-	-	2 978 308	2 978 308
<b>Net profit for the period</b>	<b>50 802 793</b>	<b>47 137 287</b>	<b>(1 401 864)</b>	<b>85 807 818</b>	<b>-</b>	<b>2 978 308</b>	<b>185 324 342</b>
Allocatable to non-controlling interests	18 374 242	-	-	65 216	-	916 462	19 355 920
Allocatable to shareholders of AdP SGPS, S.A.	32 428 551	47 137 287	(1 401 864)	85 742 602	-	2 061 846	165 968 422
	<b>50 802 793</b>	<b>47 137 287</b>	<b>(1 401 864)</b>	<b>85 807 818</b>	<b>-</b>	<b>2 978 308</b>	<b>185 324 342</b>

31.12.2014	Regulated activity	Unregulated activity EPAL	Unregulated activity International	Unregulated activity Corporate services	Adjustments	Net profit or loss from discontinued operations	Consolidated total
External sales	490 616 016	130 175 013	4 166 340	1 228 629	-	-	626 185 998
Inter-segment sales	13 762 825	11 783 390	-	19 150 879	(44 697 094)	-	-
<b>Total revenue</b>	<b>504 378 841</b>	<b>141 958 403</b>	<b>4 166 340</b>	<b>20 379 508</b>	<b>(44 697 094)</b>	<b>-</b>	<b>626 185 998</b>
Cost of sales/variation of inventories	(16 994 468)	(2 189 866)	-	(282 085)	-	-	(19 466 419)
Supplies and services	(141 723 284)	(25 667 118)	(4 149 351)	(2 461 598)	-	-	(174 001 351)
Personnel costs	(56 569 153)	(22 649 295)	(1 402 727)	(9 247 716)	-	-	(89 868 891)
Amort. deprec. and reversals in financial year	(163 571 047)	(25 009 466)	(92 036)	(1 312 148)	-	-	(189 984 697)
Provisions and reversals in financial year	(980 946)	(63 456)	450 878	1	-	-	(593 523)
Impairment losses and reversals	(2 051 564)	(52 146)	-	(405 374)	-	-	(2 509 084)
Investment grants	54 508 264	1 275 977	-	-	-	-	55 784 241
Other operating expenses and losses	(7 322 412)	(1 298 604)	(522 970)	(213 854)	-	-	(9 357 840)
Other operating income and gains	4 848 258	14 235 759	354 385	448 962	-	-	19 887 364
Inter-segment Operating Profit	(39 380 078)	(3 129 242)	(409 873)	(1 787 250)	44 706 443	-	-
<b>Total operating profits</b>	<b>135 142 411</b>	<b>77 410 946</b>	<b>(1 605 354)</b>	<b>5 118 446</b>	<b>9 349</b>	<b>-</b>	<b>216 075 798</b>
External financial income	(40 603 298)	(1 586 681)	(264 457)	(15 595 910)	-	-	(58 050 346)
Inter-segment financial income	(25 013 168)	48 281	(141 453)	25 115 689	(9 349)	-	-
<b>Profit before tax</b>	<b>69 525 945</b>	<b>75 872 546</b>	<b>(2 011 264)</b>	<b>14 638 225</b>	<b>-</b>	<b>-</b>	<b>158 025 452</b>
Income tax	(17 696 811)	(19 932 758)	602 521	(3 653 375)	-	-	(40 680 423)
<b>Net profit of financial year as a going concern</b>	<b>51 829 134</b>	<b>55 939 788</b>	<b>(1 408 743)</b>	<b>10 984 850</b>	<b>-</b>	<b>-</b>	<b>117 345 029</b>
Net profit from discontinued operations	-	-	-	-	-	5 511 083	5 511 083
<b>Net profit for the period</b>	<b>51 829 134</b>	<b>55 939 788</b>	<b>(1 408 743)</b>	<b>10 984 850</b>	<b>-</b>	<b>5 511 083</b>	<b>122 856 112</b>
Allocatable to non-controlling interests	18 570 874	-	-	(156 132)	-	2 117 450	20 532 192
Allocatable to shareholders of AdP SGPS, S.A.	33 258 260	55 939 788	(1 408 743)	11 140 982	-	3 393 633	102 323 920
	<b>51 829 134</b>	<b>55 939 788</b>	<b>(1 408 743)</b>	<b>10 984 850</b>	<b>-</b>	<b>5 511 083</b>	<b>122 856 112</b>

Note: Total revenue includes tariff deviation of the period.

## 7. Financial instruments by IAS 39 category

### 7.1 Classification of financial assets and liabilities according to IAS 39

31.12.2015	Financial assets at fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total financial instruments
Financial investments	4 754 020	99 531 308	-	-	104 285 329
Trade receivables and other non-current assets	-	353 218 547	-	-	353 218 547
Customers	-	5 122 137	-	-	5 122 137
Other current assets	-	93 121 341	-	-	93 121 341
Cash and cash equivalents	-	169 250 505	-	-	169 250 505
	<b>4 754 020</b>	<b>720 243 838</b>	<b>-</b>	<b>-</b>	<b>724 997 859</b>
Non-current loans	-	-	-	2 065 764 644	2 065 764 644
Trade payables and other non-current liabilities	-	-	-	112 967 471	112 967 471
Derivatives	-	-	15 725 111	-	15 725 111
Loans	-	-	-	349 059 777	349 059 777
Suppliers	-	-	-	66 929 698	66 929 698
Other current liabilities	-	-	-	99 779 051	99 779 051
	<b>-</b>	<b>-</b>	<b>15 725 111</b>	<b>2 694 500 641</b>	<b>2 710 225 752</b>

31.12.2014	Financial assets at fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total financial instruments
Financial investments	6 405 500	102 931 018	-	-	109 336 518
Trade receivables and other non-current assets	-	127 712 085	-	-	127 712 085
Customers	-	413 731 193	-	-	413 731 193
Other current assets	-	85 722 768	-	-	85 722 768
Cash and cash equivalents	-	281 885 233	-	-	281 885 233
	<b>6 405 500</b>	<b>1 011 982 297</b>	<b>-</b>	<b>-</b>	<b>1 018 387 797</b>
Non-current loans	-	-	-	2 139 652 747	2 139 652 747
Trade payables and other non-current liabilities	-	-	-	115 094 242	115 094 242
Derivatives	-	-	20 174 297	-	20 174 297
Loans	-	-	-	598 892 627	598 892 627
Suppliers	-	-	-	68 256 956	68 256 956
Other current liabilities	-	-	-	121 699 235	121 699 235
	-	-	<b>20 174 297</b>	<b>3 043 595 807</b>	<b>3 063 770 104</b>

## 7.2 Fair value hierarchy

All financial instruments at fair value are classified in one of three hierarchy levels, as follows:

	31.12.2015			31.12.2014		
	level 1	level 2	level 3	level 1	level 2	level 3
<b>Financial assets at fair value through profit or loss</b>						
Investments in bonds	-	4 756 574	-	-	6 405 500	-
<b>Financial liabilities at fair value through profit or loss</b>						
Derivatives	-	11 085 953	-	14 986 669	-	-
<b>Financial liabilities at fair value through comprehensive income</b>						
Derivatives	-	4 639 158	-	-	5 187 628	-

## 8. Intangible assets

	31.12.2015	31.12.2014
Right to use infrastructure - IFRIC 12	3 795 420 663	3 719 752 618
Goodwill and lease transfers	209 965	209 965
Development costs	2 667 443	2 650 922
Industrial property and other rights	1 527 621	2 685 677
Computer software	27 178	23 813
Other intangible assets	14 692 510	13 370 622
Intangible assets in progress	227 941 717	262 138 223
	<b>4 042 487 097</b>	<b>4 000 831 840</b>

The Group does not recognise internally generated intangible assets.

### 8.1 Movements in the period

Gross value	31.12.2014	Increases	Currency Conversion	Decreases/ disposals	Reclassification	Transfers	31.12.2015
Right to use infrastructure	5 011 990 933	57 500 257	-	(2 439 037)	16 705 071	163 081 438	5 246 838 662
Goodwill	209 965	-	-	-	-	-	209 965
Development projects	6 297 313	139 543	(2 918)	-	-	(57 820)	6 376 118
Industrial property	11 302 061	2 000	-	-	-	29	11 304 090
Computer software	30 567	-	-	-	-	5 068	35 635
Other intangible assets	22 546 105	64 840	2 336	-	-	2 166 141	24 779 422
Intangible assets in progress	262 138 223	131 136 064	-	(43 393)	(20 114)	(165 269 063)	227 941 717
	<b>5 314 515 167</b>	<b>188 842 704</b>	<b>(582)</b>	<b>(2 482 430)</b>	<b>16 684 957</b>	<b>(74 207)</b>	<b>5 517 485 609</b>

Accumulated amortisation	31.12.2014	Increases	Currency Conversion	Decreases/disposals	Reclassification	Transfers	31.12.2015
Right to use infrastructure	(1 292 238 315)	(121 028 584)	-	940	(38 149 252)	(2 788)	(1 451 417 999)
Development projects	(3 646 391)	(97 543)	2 918	-	(46)	32 387	(3 708 675)
Industrial property	(8 616 384)	(1 160 055)	-	-	-	(30)	(9 776 469)
Computer software	(6 754)	(854)	-	-	-	(849)	(8 457)
Other intangible assets	(9 175 483)	(457 652)	(2 336)	-	(441 151)	(10 290)	(10 086 912)
	<b>(1 313 683 327)</b>	<b>(122 744 688)</b>	<b>582</b>	<b>940</b>	<b>(38 590 449)</b>	<b>18 430</b>	<b>(1 474 998 512)</b>
Net value	<b>4 000 831 840</b>	<b>66 098 016</b>	<b>-</b>	<b>(2 481 490)</b>	<b>(21 905 492)</b>	<b>(55 777)</b>	<b>4 042 487 097</b>

## 8.2 Right to use infrastructure and intangible assets in progress

Gross value	31.12.2014	Increases	Decreases/disposals	Reclassification	Transfers	31.12.2015
Right to use infrastructure	5 011 990 933	57 500 257	(2 439 037)	16 705 071	163 081 438	5 246 838 662
Intangible assets in progress	262 138 223	131 136 064	(43 393)	(20 114)	(165 269 063)	227 941 717
	<b>5 274 129 156</b>	<b>188 636 321</b>	<b>(2 482 430)</b>	<b>16 684 957</b>	<b>(2 187 625)</b>	<b>5 474 780 379</b>

Accumulated amortisation	31.12.2014	Increases	Decreases/disposals	Reclassification	Transfers	31.12.2015
Right to use infrastructure	(1 292 238 315)	(121 028 584)	940	(38 149 252)	(2 788)	(1 451 417 999)
	<b>(1 292 238 315)</b>	<b>(121 028 584)</b>	<b>940</b>	<b>(38 149 252)</b>	<b>(2 788)</b>	<b>(1 451 417 999)</b>
Net value	<b>3 981 890 841</b>	<b>67 607 737</b>	<b>(2 481 490)</b>	<b>(21 464 295)</b>	<b>(2 190 413)</b>	<b>4 023 362 380</b>

The most significant investments of the year by company and nature are:

(these amounts have been rounded up or down)

Water supply	Abstractions	Water treatment plants	Water mains	Pumping stations	Reservoirs
Águas do Norte	7 537 000	8 810 000	11 421 000	1 941 000	9 894 000
AdRA - Águas da Região de Aveiro	222 000	-	293 000	-	313 000
Águas do Centro Litoral	131 000	146 000	1 322 000	-	224 000
Águas de Lisboa e Vale do Tejo	-	150 000	10 007 000	1 276 000	2 892 000
EPAL	-	-	-	-	-
AgdA - Águas Públicas do Alentejo	110 000	1 038 000	9 097 000	144 000	1 688 000
Águas de Santo André	-	-	-	-	-
Águas do Algarve	-	-	218 000	706 000	-
	<b>8 000 000</b>	<b>10 144 000</b>	<b>32 358 000</b>	<b>4 067 000</b>	<b>15 011 000</b>

## 8.3 Goodwill

	31.12.2015	31.12.2014
Goodwill		
Aquasis, S.A.	209 965	209 965
	<b>209 965</b>	<b>209 965</b>

## 8.4 Leasing

Net book value of intangible assets acquired by leasing:

	31.12.2015	31.12.2014
DUI - Land and natural resources	897 394	918 453
DUI - Buildings and other constructions	2 697 565	2 762 247
	<b>3 594 959</b>	<b>3 680 700</b>

## 9. Tangible fixed assets

	<b>31.12.2015</b>	<b>31.12.2014</b>
Land and natural resources	122 809 604	122 710 236
Buildings and other constructions	110 145 579	114 816 384
Basic equipment	495 119 034	509 974 784
Transport equipment	296 058	239 732
Office equipment	3 022 660	2 999 730
Other	2 544 641	2 334 901
Investments in progress	12 997 219	8 631 349
	<b>746 934 795</b>	<b>761 707 116</b>

### 9.1 Movements in the period

Gross value	31.12.2014	Increases	Currency conversion	Decreases/disposals	Reclassification	31.12.2015
Land and natural resources	122 710 236	99 801	-	(6 777)	6 344	122 809 604
Buildings and other constructions	224 090 055	36 876	-	-	995 931	225 122 862
Basic equipment	1 051 343 626	1 421 041	-	(961 174)	3 693 761	1 055 497 254
Transport equipment	2 512 313	204 130	(799)	(148 826)	-	2 566 818
Office equipment	30 354 546	898 547	(12 529)	(24 090)	241 042	31 457 516
Other	24 829 622	111 333	(8 300)	(27 148)	542 178	25 447 685
Investments in progress	8 631 349	9 783 039	-	(12 150)	(5 405 019)	12 997 219
	<b>1 464 471 747</b>	<b>12 554 767</b>	<b>(21 628)</b>	<b>(1 180 165)</b>	<b>74 237</b>	<b>1 475 898 958</b>

Accumulated amortisation	31.12.2014	Increases	Currency conversion	Decreases/disposals	Reclassification	31.12.2015
Land and natural resources	-	-	-	-	-	-
Buildings and other constructions	(109 273 671)	(5 323 867)	-	-	(9 745)	(114 607 283)
Basic equipment	(541 368 842)	(19 943 246)	-	934 892	(1 024)	(560 378 220)
Transport equipment	(2 272 581)	(125 007)	4 150	122 678	-	(2 270 760)
Office equipment	(27 354 816)	(1 086 658)	9 847	5 524	(8 753)	(28 434 856)
Other	(22 494 721)	(433 895)	8 300	16 211	1 061	(22 903 044)
	<b>(702 764 631)</b>	<b>(26 912 673)</b>	<b>22 297</b>	<b>1 079 305</b>	<b>(18 461)</b>	<b>(728 594 163)</b>

Impairment losses	31.12.2014	Increases	Foreign exchange	Decreases/disposals	Reclassification	31.12.2015
Basic equipment	-	(370 000)	-	-	-	(370 000)
	-	<b>(370 000)</b>	-	-	-	<b>(370 000)</b>
Net value	761 707 116	(14 727 906)	669	(100 860)	55 776	746 934 795

Almost all the tangible assets originate from EPAL (except the Group's head office).

### 9.2 Leasing

Net book value of tangible fixed assets acquired using leasing:

	<b>31.12.2015</b>	<b>31.12.2014</b>
Land and natural resources	5 050 000	5 050 000
Buildings and other constructions	13 487 055	13 471 259
Transport equipment	-	22 424
	<b>18 537 055</b>	<b>18 543 683</b>

## 10. Investment properties

		<b>31.12.2015</b>	<b>31.12.2014</b>
Land	i)	12 883 737	12 883 737
Buildings		2 537 817	2 537 817
Accumulated depreciation		(1 770 660)	(1 675 881)
		<b>13 650 894</b>	<b>13 745 673</b>

i) As a result of an agreement with Lisbon Municipal Council, EPAL incorporated in its assets a plot of land that was recorded as investment property with a value of approximately EUR 12.8 million against profit or loss as it was a donation. Pursuant to said agreement, concluded in 1992, Lisbon Municipal Council undertook to transfer building land to EPAL. Developments in 2014 culminated in the effective transfer on 31 December by public deed between Lisbon Municipal Council and EPAL (see Note 43).

The fair value of the investment properties is not significantly different from their book value. The fair value of each investment property was determined by valuation with reference to 31 December 2014, performed by a duly qualified, specialised independent entity. The Board of Directors of the Group does not consider it to have changed significantly as at 31 December 2014.

## 11. Financial investments

		<b>31.12.2015</b>	<b>31.12.2014</b>
Capital replenishment fund		96 408 304	102 667 586
Shareholding in EGF		3 032 577	-
Other financial investments		4 844 447	6 668 933
		<b>104 285 328</b>	<b>109 336 519</b>

On the date of the establishment of the multi-municipal concession-holding companies, these were obliged to keep the goods and resources assigned to the concession in good working order, maintenance and safety conditions, ensuring such by carrying out the necessary repairs, renewals and adaptations. The Company, after the beginning of the service operations, should have set up a Renewal Fund for this purpose. Decree-Law 195/2009 of 20 August amended the legal scheme of the multi-municipal systems, whereby the companies were no longer obliged to keep such renewal funds, from 1 January 2010, the date on which that law came into force. The concession holding and regulated companies are obliged, in accordance with the concession contracts, to set up a Capital Replenishment Fund in an institution authorised by the Bank of Portugal. The amount of that fund corresponds to the annual amortisation amount of the capital for the creation of a Capital Replenishment Fund, which will be managed by the concession holder and which it is entitled to receive at the end of the contract. The income of the Fund shall be deducted from expenses and charges in each year, in order to safeguard the interests of users, since the rate of return on invested capital is incorporated in the tariff. These funds were transferred and are deposited with IGCP - the Agency that manages the Treasury and Public Debt. For the Group companies that had their concession period extended, the Capital Replenishment Fund was not increased, since it was already higher at that time than that required by contract. In these cases it was not used, i.e. it was not reduced, maintaining the value already deposited and duly securitised with IGCP. For new concession contracts, the need for set up a capital replenishment fund was waived. The decrees-law that set up the companies Águas do Norte, Águas do Centro Litoral and Águas do Lisboa e Vale do Tejo do not require constitution of a resolution fund as they have these amounts to reduce their debts.

The table below details the value of the funds by Group company:

	<b>31.12.2015</b>	<b>31.12.2014</b>
	Capital replenishment fund	Capital replenishment fund
Águas do Mondego, S.A.	-	5 217 927
Simlis, S.A.	-	2 084 319
Simria, S.A.	-	4 848 355
<b>Águas do Centro Litoral, S.A.</b>	<b>10 644 638</b>	<b>12 150 601</b>
Águas do Centro Alentejo, S.A.	-	1 136 390
Águas do Centro, S.A.	-	7 860 016
Águas do Norte Alentejano, S.A.	-	2 177 301
Águas do Oeste, S.A.	-	9 666 478
Águas do Zêzere e Côa, S.A.	-	6 397 595
Sanest, S.A.	-	8 445 198
Simarsul, S.A.	-	6 116 343
Simtejo, S.A.	-	8 859 593
<b>Águas do Lisboa e Vale do Tejo S.A.</b>	<b>42 265 133</b>	<b>50 658 914</b>
Águas do Douro e Paiva, S.A.	-	12 010 557
Águas do Noroeste, S.A.	-	11 584 853
Águas de Trás-os-Montes e Alto Douro, S.A.	-	6 444 684
Simdouro, S.A.	-	1 179 079
<b>Águas do Norte, S.A.</b>	<b>31 219 173</b>	<b>31 219 173</b>
Águas do Algarve, S.A.	11 899 004	8 267 571
Águas de Santo André, S.A.	380 356	371 327
	<b>96 408 304</b>	<b>102 667 586</b>

## 12. Investments in associates

	<b>31.12.2015</b>	<b>31.12.2014</b>
Miese, Lda. (a)	208 783	208 783
Trevo Oeste (loans) (a)	55 758	55 758
	<b>264 541</b>	<b>264 541</b>

a) The amount have been totally provisioned.

## 13. Deferred tax

	<b>31.12.2015</b>	<b>31.12.2014</b>
Deferred tax assets	164 480 155	166 348 090
	<b>164 480 155</b>	<b>166 348 090</b>
Deferred tax liabilities	256 888 051	235 998 708
	<b>256 888 051</b>	<b>235 998 708</b>

## 13.1 Movements in the period

	Opening balance	Corrections	Reclassification	Allocation	Utilisation	Closing balance
<b>DEFERRED TAX ASSETS</b>						
<b>Provisions</b>						
Provisions - risks and charges	2 745 335	-	-	751 178	(1 525 581)	1 970 932
Provisions - impairment losses	8 913 702	-	-	174 603	(277 585)	8 810 720
Provisions – pensions	340 000	-	-	-	-	340 000
Provisions – other	294 370	-	-	-	-	294 370
Losses	-	-	-	9 148 040	(7 943 942)	1 204 098
Other	-	-	-	-	-	-
Amortisation not accepted as valid/ unrealised contractual investment	472 703 504	-	-	34 138 647	(2 782 720)	504 059 431
Tax amortisation/ accounting/ grant difference	113 845 955	-	-	23 552 625	(8 059 224)	129 339 356
Tariff deviation	62 483 176	748 180	(61 014 412)	976 177	(2 250 065)	943 056
Transition adjustments - Grants	3 143 311	-	-	-	(222 211)	2 921 100
Other	15 358 863	-	-	-	(14 892 193)	466 670
<b>Assessment base</b>	<b>679 828 216</b>	<b>748 180</b>	<b>(61 014 412)</b>	<b>68 741 270</b>	<b>(37 953 521)</b>	<b>650 349 733</b>
Corporate Income Tax	145 973 072	4 182 644	(12 813 026)	15 105 823	(8 126 241)	144 322 272
Surtax	20 375 018	-	(915 216)	1 792 278	(1 094 197)	20 157 883
<b>Recognised deferred tax assets</b>	<b>166 348 090</b>	<b>4 182 644</b>	<b>(13 728 242)</b>	<b>16 898 101</b>	<b>(9 220 438)</b>	<b>164 480 155</b>
<b>DEFERRED TAX LIABILITIES</b>						
<b>Revaluations</b>						
Tax revaluations	23 885 804	-	-	-	-	23 885 804
Free revaluations	111 129 068	-	-	-	(54 308)	111 074 760
Replacement investments	159 897	-	-	-	-	159 897
Outros	-	-	-	-	-	-
Amortisation not accepted as valid/ unrealised contractual investment	235 004 260	-	-	388 509	(7 781 357)	227 611 412
Tax amortisation/ accounting/ grant difference	31 916 026	-	-	2 056 169	(4 801 076)	29 171 119
Tariff deviation	590 618 916	1 606 760	(61 014 412)	91 100 322	-	622 311 586
<b>Assessment base</b>	<b>992 713 971</b>	<b>1 606 760</b>	<b>(61 014 412)</b>	<b>93 545 000</b>	<b>(12 636 741)</b>	<b>1 014 214 578</b>
Corporate Income Tax	213 309 898	15 508 224	(12 813 026)	17 855 768	(3 579 531)	230 281 333
Surtax	22 688 809	2 426 697	(915 216)	2 858 305	(451 875)	26 606 720
<b>Recognised deferred tax liabilities</b>	<b>235 998 707</b>	<b>17 934 921</b>	<b>(13 728 242)</b>	<b>20 714 073</b>	<b>(4 031 406)</b>	<b>256 888 051</b>

Deferred tax	Value
Tax assets	(1 867 935)
Tax liabilities	(20 889 345)
<b>Deferred tax in period</b>	<b>(22 757 280)</b>
Adjustments	706 909
<b>Tax recognised on income statement</b>	<b>(22 050 371)</b>

A number of Group companies have expected tax results in the future that will not allow the deferred tax assets generated by the reported losses to be recovered, and so deferred tax assets were not calculated.

Tax losses not reported as deferred taxes (by extinction date)	31.12.2015
2016	1 456 970
2017	842 179
2018	1 266 051
2019	5 074 328
2020	748 357
	<b>9 387 885</b>

## 14. Derivatives

On balance sheet	31.12.2015	31.12.2014
Exchange swaps	-	(20 712 040)
Impact of JPY exchange rate	-	18 697 370
<b>Net effect</b>	<b>-</b>	<b>(2 014 670)</b>
Interest rate swaps	(15 725 111)	(18 159 627)
	<b>(15 725 111)</b>	<b>(20 174 297)</b>

In profit or loss	Notes	31.12.2015	31.12.2014
Exchange rate swap		2 014 660	1 701 550
Interest rate swaps (positive)		-	-
Interest rate swaps (negative)		1 886 047	(4 098 000)
	45	3 900 707	(2 396 450)

Swaps	Risk hedged	Notional	Maturity	F.V. 2015	F.V. 2014	In profit or loss	In equity
Mitsubishi – exchange rate	EUR/JPY exchange rate	100000000	2015	-	(20 712 040)	20 712 040	-
Foreign exchange update	EUR/JPY exchange rate	100000000	2015	-	18 697 370	(18 697 370)	-
<b>Subtotal</b>			-	-	(2 014 670)	2 014 670	-
City Bank- interest rate	Interest rate	50000000	2022	(11 085 953)	(12 972 000)	1 886 047	-
BBVA - interest rate	Interest rate	20000000	2023	(4 639 158)	(5 187 627)	-	548 470
<b>Subtotal</b>				(15 725 111)	(18 159 627)	1 886 047	548 470
<b>Total</b>				(15 725 111)	(20 174 297)	3 900 707	548 470

AdP uses derivatives solely to manage the financial risks to which it is exposed. AdP does not use derivatives for speculation, in accordance with its financial policies. Even though the derivatives contracted by AdP are effective in hedging risks they do not all qualify as hedge accounting instruments under the rules and requirements of IAS 39. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them are recognised in profit or loss. The fair value of derivatives is estimated based on listed instruments, whenever available. In the absence of market prices, the fair value of derivatives is estimated by the discounted cash flow method determined by external entities, based on generally accepted market valuation techniques. Derivatives are recognised on their trade date, at their fair value. Afterwards, the fair value of derivatives is adjusted on a regular basis and any gains or losses resulting from this revaluation are recorded directly in the income statement for the period, except those referring to hedge derivatives. The recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model used.

Financial instruments associated with the loans from Depfa (notional of EUR 20 million) are considered as cash flow hedging instruments, and so any changes in fair value is recorded directly in equity as of 2012. Evaluations of the effectiveness of the instruments were made and the results were within the 80% to 125% range.

## 15. Tariff deviation

	31.12.2015	31.12.2014
Regulatory assets - gross tariff deviation	622 311 585	590 618 917
Regulatory liabilities - gross tariff deviation	(943 055)	(61 014 412)
<b>Total</b>	621 368 530	529 604 505

Conciliation of gross tariff deviation	Notes	31.12.2014	In profit or loss	Reversal	31.12.2015
Águas do Douro e Paiva		(1 421 003)	-	-	
Águas do Noroeste		1 18 930 214	-	-	
Águas de Trás-os-Montes e Alto Douro		62 684 327	-	-	
Simdouro		10 552 318	-	-	
<b>Águas do Norte</b>		<b>190 745 856</b>	<b>32 812 338</b>	-	<b>223 558 194</b>
Águas do Mondego		10 315 104	-	-	
Simlis		15 407 285	-	-	
Simria		34 414 351	-	-	
<b>Águas do Centro Litoral</b>		<b>60 136 740</b>	<b>1 745 701</b>	-	<b>61 882 441</b>
Águas do Centro Alentejo		10 680 015	-	-	
Águas do Centro		73 347 371	-	-	
Águas do Norte Alentejano		35 252 996	-	-	
Águas do Oeste		72 806 887	-	-	
Águas do Zêzere e Côa		54 118 230	-	-	
Simarsul		44 293 960	-	-	
Sanest		(21 932 204)	-	-	
Simtejo		(35 444 261)	-	-	
<b>Águas do Lisboa e Vale do Tejo</b>		<b>233 122 994</b>	<b>60 052 338</b>	<b>(610 184)</b>	<b>292 565 148</b>
Águas do Algarve		12 294 900	(5 660 699)	-	6 634 201
AdRA - Águas da Região de Aveiro		5 007 730	(2 604 709)	-	2 403 021
AdRA - Águas da Região de Aveiro (Reserve of separate accounts)		30 513 229	4 755 351	-	35 268 580
AgdA - Águas Públicas do Alentejo		(2 216 944)	(976 176)	2 250 065	(943 055)
		<b>45 598 915</b>	<b>90 124 144</b>	<b>1 639 881</b>	<b>621 368 530</b>
Asset deviation		590 618 917	-	-	622 311 585
Liabilities deviation		(61 014 412)	-	-	(943 055)
		<b>529 604 505</b>	<b>90 124 144</b>		<b>621 368 530</b>

In 2015 AgdA - Águas Públicas do Alentejo distributed EUR 2.25 million in tariff deviation to its customers, pursuant to its partnership agreement.

## 16. Trade receivables and other non-current assets

	Notes	31.12.2015	31.12.2014
Customers		50 784 083	65 041 610
Investment grants - Cohesion Fund and others	20.1	1 966 785	1 097 021
Concession charges - Accrued investment		28 835	31 844
Residual value	16.2	12 422 810	39 343 996
Other	16.3	22 216 274	23 502 313
		<b>87 418 787</b>	<b>129 016 784</b>
Impairment losses	16.4	(1 355 551)	(1 304 699)
		<b>86 063 236</b>	<b>127 712 085</b>

### 16.1 Trade receivables

	Notes	31.12.2015	31.12.2014
General		456 080	201 037
Municipalities	18.3	50 328 003	64 840 573
		<b>50 784 083</b>	<b>65 041 610</b>

The following table presents the main municipalities with debts under non-current trade receivables, i.e. resulting from agreements signed with customers:

	Notes	31.12.2015	31.12.2014
VRSA SGU EM, S.A.	i)	9 284 909	-
Ambiolhão, EM		4 297 180	6 665 204
Seixal Municipality		3 176 965	8 490 162
Alenquer Municipality		2 149 124	-
Caminha Municipality		2 075 075	158 784
TROFÁGUAS - Serviços Ambientais, EEM		1 985 979	2 225 979
Lamego Municipality		1 908 298	-
Celorico da Beira Municipality		1 787 404	-
Vila Nova de Poiares Municipality		1 708 363	1 910 611
Reguengos de Monsaraz Municipality		1 684 905	2 097 066
Grândola Municipality		1 564 660	2 129 748
Other Group customers	ii)	18 705 141	41 163 019
		<b>50 328 003</b>	<b>64 840 573</b>

The variation in the item Customers - Municipalities is the result of a reduction due to payment of agreements and default on others (reclassification to current), and:

- i) reclassification of the debt of Águas do Algarve from short term to medium and long term;
- ii) payment of around EUR 23 million by Lisbon Municipal Council to Simtejo.

## 16.2 Residual value

Significant changes in the amount of investment with a substantial useful life beyond the concession period mean that, as set out in the concession contracts, recognition of the residual value corresponds to the balances presented.

	Notes	31.12.2015	31.12.2014
Águas do Douro e Paiva, S.A.		-	11 755 192
<b>Águas do Norte, S.A.</b>	i)	-	<b>11 755 192</b>
Sanest, S.A.			16 062 568
<b>Águas do Lisboa e Vale do Tejo S.A.</b>	i)	-	<b>16 062 568</b>
Águas do Algarve, S.A.		12 422 810	11 526 236
<b>Total</b>		<b>12 422 810</b>	<b>39 343 996</b>

i) In the current year, with the restructuring process and the extension of concession durations, these amounts were transferred to DUI (right to use infrastructure).

## 16.3 Other non-current assets

	Notes	31.12.2015	31.12.2014
Simlis, S.A.		-	1 304 700
Simria, S.A.		-	16 179 339
<b>Águas do Centro Litoral, S.A.</b>	i)	<b>17 145 088</b>	<b>17 484 039</b>
EPAL, S.A.	ii)	4 432 613	4 585 841
Other		638 573	1 432 433
<b>Total</b>		<b>22 216 274</b>	<b>23 502 313</b>

This item also reflects a significant variation originating from the following subsidiaries:

- (i) Simria signed a payment agreement in a concession contract with the municipalities, involving future distribution of dividends that the municipalities renounce to the amount of EUR 14 million. Trade receivables were duly reclassified.
- (ii) the amount recorded by EPAL also includes the EUR 3,865,000 of surplus hedging of the pension plan, as disclosed in Note 27.2.

## 16.4 Accumulated impairment losses on other non-current assets

	<b>31.12.2015</b>
Opening balance	(1 304 699)
Decrease	149
Reclassification of Impairment of other short-term receivables	(51 001)
<b>Closing balance</b>	<b>(1 355 551)</b>

## 17. Inventories

	<b>31.12.2015</b>	31.12.2014
Goods	222 268	235 888
Raw materials and consumables	6 130 390	5 702 711
Reclassification and correction of stocks	-	11 777
Accumulated impairment losses on inventories	(542 951)	(356 819)
	<b>5 809 707</b>	<b>5 593 557</b>

## 17.1 Accumulated impairment losses on inventories

	<b>31.12.2015</b>
Opening balance	(356 819)
Increase	(228 441)
Reversals	42 309
<b>Closing balance</b>	<b>(542 951)</b>

## 18. Current trade receivables

	Notes	<b>31.12.2015</b>	31.12.2014
Trade receivables - current account		306 337 174	344 987 425
Trade receivables - late-payment interest	18.2	24 246 897	27 561 804
Doubtful debtors		41 344 005	20 149 535
Estimate of services to be billed		21 003 679	39 190 676
Impairment losses on trade receivables		(39 713 208)	(18 158 247)
		<b>353 218 547</b>	<b>413 731 193</b>

Trade receivables - current account	Notes	<b>31.12.2015</b>	31.12.2014
General	18.1	37 910 777	33 975 730
Municipalities	18.3	334 017 298	358 723 034
Estimate of services to be billed		21 003 680	39 190 676
		<b>392 931 755</b>	<b>431 889 440</b>
Impairment losses on trade receivables	18.4	(39 713 208)	(18 158 247)
		<b>353 218 547</b>	<b>413 731 193</b>

## 18.1 Trade receivables

	31.12.2015	31.12.2014
<b>General trade receivables</b>		
Águas do Noroeste, S.A.	-	1 156 623
Águas de Trás-os-Montes e Alto Douro, S.A.	-	6 099
<b>Águas do Norte, S.A.</b>	<b>4 174 885</b>	<b>1 162 722</b>
Águas do Centro Alentejo, S.A.	-	2 667
Águas do Centro, S.A.	-	409 482
Águas do Norte Alentejano, S.A.	-	35 524
Águas do Oeste, S.A.	-	123 092
Águas do Zêzere e Côa, S.A.	-	98 230
Simarsul, S.A.	-	37 320
Simtejo, S.A.	-	47 777
<b>Águas do Lisboa e Vale do Tejo S.A.</b>	<b>1 730 972</b>	<b>754 092</b>
EPAL, S.A.	15 881 213	20 573 402
AdP Internacional, S.A.	5 176 004	2 404 028
AdRA - Águas da Região de Aveiro, S.A.	4 916 951	4 508 478
Águas de Santo André, S.A.	2 762 760	2 413 859
Aquasis, S.A.	1 214 309	1 198 483
Other Group companies	2 053 683	960 666
	<b>37 910 777</b>	<b>33 975 730</b>

General trade receivables result mostly from downstream distribution activity (EPAL, AdRA - Águas da Região de Aveiro and Águas de Santo André).

## 18.2 Late-payment interest

	31.12.2015	31.12.2014
General	667 117	411 041
Municipalities	23 579 780	27 150 763
	<b>24 246 897</b>	<b>27 561 804</b>

The debit of late-payment interest is the result of default on payment of services rendered by the agreed deadline.

## 18.3 Late-payment interest

Reconciliation of debt of current and non-current trade receivables with the framework of debts by municipality:

	Notes	31.12.2015	31.12.2014
<b>Non-current municipal customers</b>			
Municipal customers – agreements	16.1	50 328 003	64 840 573
<b>Total non-current municipal trade receivables</b>		<b>50 328 003</b>	<b>64 840 573</b>
<b>Current municipal customers</b>			
Municipal trade receivables - TRH		2 602 599	2 959 354
Municipal customers - agreements		35 764 566	24 575 387
Municipal customers - injunctions		134 483 901	95 012 510
Municipal customers - others		107 601 539	198 805 794
Municipal customers - doubtful debts		29 984 913	10 219 226
Municipal trade receivables - late-payment interest		23 579 780	27 150 763
	18.1	334 017 298	358 723 034
Customer impairments - municipalities		(30 480 749)	(10 016 037)
<b>Total current municipal trade receivables</b>		<b>303 536 549</b>	<b>348 706 997</b>
<b>Total municipal trade receivables</b>		<b>384 345 301</b>	<b>423 563 607</b>
<b>Total municipal trade receivables (nominal value)</b>		<b>353 864 552</b>	<b>413 547 570</b>

Taking account of an agreement on principle between Águas de Portugal, Águas do Zêzere e Côa and municipalities in the Águas do Zêzere e Côa system, which will require approval from the Minister of the Environment, Spatial Planning and Energy, an impairment was recognised in the year to the amount of around EUR 19.6 million, as a result of a downward revision of tariffs

charged and billed in previous years. The tariff revision was based on state compensation to the municipalities using the system as a result of the grantor's decision to separate Covilhã Municipality from Sistema Multimunicipal de Água e de Saneamento do Alto Zêzere e Côa, contrary to the original plan. The separation of Covilhã Municipality, in accordance with the addendum to the concession contract and its feasibility study represented a loss of around 28.5% of the treatment flow. Its departure resulted in an economic imbalance in the system and its users.

#### Debts of municipal entities over EUR 2,000,000

	Outstanding at N-2	Outstanding at N-1	Outstanding at N	Total Outstanding	Total not yet due	Total debt <b>31.12.2015</b>	Total debt <b>31.12.2014</b>
Évora Municipality	9 790 852	10 905 050	5 395 327	26 091 229	2 046 462	<b>28 137 691</b>	22 151 928
Guarda Municipality	10 336 256	6 184 560	4 391 054	20 911 870	1 153 993	<b>22 065 863</b>	18 511 222
Fundão Municipality	12 544 309	5 886 312	2 771 367	21 201 987	683 174	<b>21 885 161</b>	18 907 829
VRSA SGU EM, SA	2 327 201	2 890 966	3 702 211	8 920 379	10 513 711	<b>19 434 090</b>	13 917 418
Chaves Municipality	1 925 367	353 232	8 289 858	10 568 457	528 081	<b>11 096 538</b>	11 996 310
Seixal Municipality	407 312	751 501	187 410	1 346 224	9 194 729	<b>10 540 952</b>	10 365 611
Coimbra Municipality	724 652	50 092	5 013 475	5 788 219	4 140 551	<b>9 928 770</b>	4 396 403
Alcobaça Municipality	2 326 913	1 635 198	5 224 687	9 186 798	527 753	<b>9 714 551</b>	6 866 050
Alenquer Municipality	-	-	248 439	248 439	7 081 006	<b>7 329 445</b>	6 152 480
Lamego Municipality	1 135 598	1 083 478	1 420 412	3 639 488	3 563 367	<b>7 202 855</b>	4 780 710
Águas e Parque Biológico de Gaia, EEM	-	-	4 046 731	4 046 731	3 096 429	<b>7 143 161</b>	1 892 466
Sabugal Municipality	3 619 381	1 332 098	1 760 716	6 712 195	167 329	<b>6 879 524</b>	5 335 744
Ambiolhão, EM	-	-	721 078	721 078	6 058 455	<b>6 779 533</b>	7 663 572
EMAR - Água e Resíduos de Vila Real, E.M.	1 202 804	790 373	2 689 644	4 682 821	1 608 500	<b>6 291 321</b>	-
Gouveia Municipality	2 644 003	1 851 074	1 279 105	5 774 183	414 032	<b>6 188 214</b>	4 805 385
Reguengos de Monsaraz Municipality	-	161 197	800 928	962 125	5 030 546	<b>5 992 671</b>	5 091 183
Macedo de Cavaleiros Municipality	1 195 032	(23 587)	3 993 229	5 164 674	383 578	<b>5 548 252</b>	3 463 257
Santiago do Cacém Municipality	3 205 041	420 980	546 726	4 172 747	919 182	<b>5 091 929</b>	5 422 806
Pinhel Municipality	2 181 564	1 510 441	1 100 593	4 792 598	290 645	<b>5 083 243</b>	3 890 226
Portalegre Municipality	-	-	348 299	348 299	4 607 065	<b>4 955 364</b>	4 895 630
Peso da Régua Municipality	2 052 864	-	1 023 703	3 076 567	1 523 616	<b>4 600 183</b>	3 199 487
TROFÁGUAS - Serviços Ambientais, EEM	2 913 769	(381 660)	(1 149 520)	1 382 589	3 131 204	<b>4 513 793</b>	4 444 181
Almeida Municipality	1 602 907	1 583 021	1 004 221	4 190 150	320 880	<b>4 511 030</b>	3 415 492
Sines Municipality	3 367 886	585 247	419 307	4 372 441	84 145	<b>4 456 586</b>	4 103 205
Alcochete Municipality	2 038 974	967 738	764 669	3 771 381	189 281	<b>3 960 663</b>	3 870 465
Caminha Municipality	(151 823)	(64 453)	997 611	781 335	3 086 165	<b>3 867 500</b>	2 380 365
Alandroal Municipality	-	1 171 554	256 631	1 428 185	2 332 748	<b>3 760 932</b>	3 476 712
Belmonte Municipality	1 058 218	1 023 511	906 641	2 988 370	736 930	<b>3 725 300</b>	2 819 023
Bragança Municipality	1 089 206	703 749	1 674 522	3 467 476	63 923	<b>3 531 399</b>	3 189 112
Palmela Municipality	-	110 465	-	110 465	3 282 016	<b>3 392 481</b>	5 260 954
Vila do Conde Municipality	1 299 188	245 975	170 842	1 716 005	1 643 196	<b>3 359 201</b>	2 881 639
Valpaços Municipality	512 991	819 387	926 516	2 258 895	1 009 042	<b>3 267 937</b>	2 320 417
Mirandela Municipality	522 268	346 793	1 889 689	2 758 749	364 066	<b>3 122 815</b>	5 298 510
Lisbon Municipality	-	136 434	246 260	382 695	2 624 230	<b>3 006 925</b>	32 063 243
FAGAR, EM	1 875 197	164 064	-	2 039 261	929 625	<b>2 968 886</b>	2 962 216
Smas Sintra	1 845 277	340 378	-	2 185 656	780 178	<b>2 965 834</b>	2 949 627
Torres Vedras Municipality	297 900	333 299	1 077 668	1 708 867	1 223 554	<b>2 932 421</b>	2 020 876
Celorico da Beira Municipality	144 339	526 503	87 378	758 220	2 014 431	<b>2 772 650</b>	2 783 522
Tavirverde, EM	1 630 676	102 494	752 590	2 485 760	284 482	<b>2 770 242</b>	4 766 437
Sesimbra Municipality	-	1 282	1 559 507	1 560 790	1 164 683	<b>2 725 472</b>	2 892 019
Tabuaço Municipality	830 229	803 850	936 159	2 570 238	75 677	<b>2 645 915</b>	2 305 756
Azambuja Municipality	806 915	676 554	434 299	1 917 768	528 055	<b>2 445 823</b>	2 566 718
Barreiro Municipality	4 162	3 084	429 731	436 977	2 001 009	<b>2 437 986</b>	2 609 485
Tomar Municipality	953 074	58 692	4 714	1 016 480	1 404 662	<b>2 421 142</b>	1 328 999
Resende Municipality	792 195	437 478	635 826	1 865 499	522 061	<b>2 387 559</b>	1 985 851
Grândola Municipality	-	-	208 299	208 299	2 157 877	<b>2 366 176</b>	2 715 449
S. João da Pesqueira Municipality	287 160	250 514	1 625 438	2 163 112	177 145	<b>2 340 257</b>	1 431 279
Vila Nova de Poiares Municipality	180 193	1 142 315	925 230	2 247 738	44 762	<b>2 292 501</b>	2 558 225
Figueira de Castelo Rodrigo Municipality	81 165	944 249	155 316	1 180 730	1 091 483	<b>2 272 213</b>	3 180 151
Nazaré Municipality	3 518 099	335 840	(1 729 784)	2 124 155	116 257	<b>2 240 412</b>	4 926 839
Leiria Municipality	-	-	1 713 767	1 713 767	473 101	<b>2 186 868</b>	3 096 583
Mogadouro Municipality	161 215	409 981	694 371	1 265 567	817 947	<b>2 083 514</b>	1 252 752
Sobral de Monte Agraço Municipality	-	-	124 830	124 830	1 874 333	<b>1 999 163</b>	1 754 195
Outros Municípios	8 556 160	8 825 992	15 334 771	32 716 921	43 982 584	<b>76 724 394</b>	134 247 593
	<b>93 836 689</b>	<b>58 387 295</b>	<b>88 032 491</b>	<b>240 256 479</b>	<b>144 063 936</b>	<b>384 345 301</b>	<b>423 563 607</b>

Note: the balances include the balances of municipal companies when applicable.

Given the maturity of debt (2 years) the Group companies have been using the legal mechanisms available to ensure the recovery of the amounts in question, namely bringing proceedings for an injunction and/or other legal proceedings.

## 18.4 Impairment losses on trade receivables

	<b>31.12.2015</b>
<b>Opening balance</b>	<b>(18 158 247)</b>
Increase	(21 712 228)
Reversals	143 730
Foreign exchange differences	1 257
Decrease	12 280
<b>Closing balance</b>	<b>(39 713 208)</b>

Recognition of balances with impairments of current trade receivables in 2015 occurred mainly in the following Group companies:

	<b>31.12.2015</b>
Águas do Lisboa e Vale do Tejo S.A.	(19 955 893)
Águas de Santo André, S.A.	(910 696)
AdRA - Águas da Região de Aveiro, S.A.	(139 114)
Águas do Norte, S.A.	(109 927)
EPAL, S.A.	(586 766)
AdP Energias, S.A.	(9 832)
	<b>(21 712 228)</b>

## 19. State and other public entities

	<b>31.12.2015</b>	<b>31.12.2014</b>
Income tax withheld by third parties	23 210	311 626
VAT receivable	4 285 626	2 639 673
Other	813 301	2 675 443
<b>State and other public entities - assets</b>	<b>5 122 137</b>	<b>5 626 742</b>
Income tax withheld on behalf of third parties – IRC (corporate income tax)	(711 902)	(1 156 219)
VAT payable	(1 450 155)	(1 956 208)
Social security contributions	(1 119 829)	(1 169 120)
Local government tax	-	(4 728)
TRH/ TGR	(12 681 664)	(13 586 622)
Other taxes and charges	(1 683 983)	(1 566 102)
<b>State and other public entities - liabilities</b>	<b>(17 647 533)</b>	<b>(19 438 999)</b>
<b>Net value of state and other public entities balances</b>	<b>(12 525 396)</b>	<b>(13 812 257)</b>

## 20. Other current assets

	Notes	<b>31.12.2015</b>	<b>31.12.2014</b>
Advances to suppliers		3 525 341	4 670 588
Personnel		202 285	174 399
Accrued interest and other income	i)	44 941 826	22 770 488
Investment grants - Cohesion fund and others	20.1	12 098 224	30 084 066
Advances to investment suppliers		1 648 387	1 416 856
Deferrals	<b>7 873 569</b>	9 401 003	
Other accounts receivable		26 546 682	20 924 021
Accumulated impairment losses		(3 714 973)	(3 718 653)
		<b>93 121 341</b>	<b>85 722 768</b>

i) The change in this item is due to the deferral of billing of write-offs from Águas do Norte in the first months of 2016.

## 20.1 Investment grants by Group company

	Notes	31.12.2015	31.12.2014
Investment grants - Cohesion fund MLT	16	1 966 785	1 097 021
Investment grants - Cohesion fund		12 098 224	30 084 067
		14 065 009	31 181 088
Investment grants - Cohesion fund (liabilities)		(13 434 075)	(18 372 718)
		630 934	12 808 370

Investment grants - Cohesion fund and others	31.12.2015	31.12.2014
<b>Águas do Centro Litoral, S.A.</b>	(116 609)	
Águas do Centro Alentejo, S.A.	-	136 010
Águas do Centro, S.A.	-	964 538
Águas do Norte Alentejano, S.A.	-	2 125 917
Águas do Oeste, S.A.	-	4 961 904
Águas do Zêzere e Côa, S.A.	-	2 190 268
Simarsul, S.A.	-	239 190
Simtejo, S.A.	-	1 281 574
<b>Águas do Lisboa e Vale do Tejo S.A.</b>	3 102 631	11 899 401
Águas do Noroeste, S.A.		9 601 597
Simdouro, S.A.		442 262
<b>Águas do Norte, S.A.</b>	8 910 204	10 043 859
Águas do Algarve, S.A.	933 660	831 686
AdRA - Águas da Região de Aveiro, S.A.	1 235 123	3 014 153
AgdA - Águas Públicas do Alentejo, S.A.		5 391 989
	14 065 009	31 181 088

Advances on payments from the Cohesion Fund	31.12.2015	31.12.2014
Simria, S.A.		126 383
<b>Águas do Centro Litoral, S.A.</b>		126 383
Águas de Trás-os-Montes e Alto Douro, S.A.		2 023 381
Simdouro, S.A.		4 454 706
<b>Águas do Norte, S.A.</b>	4 532 277	6 478 087
AgdA - Águas Públicas do Alentejo, S.A.	2 636 577	8 235 733
Águas do Algarve, S.A.	6 265 221	3 532 515
	13 434 075	18 372 718

The change in this item is due to the receipt of part of the funds:

	Note	31.12.2015	31.12.2014
Amounts receivable from the Cohesion Fund opening balance	31.1.1	12 808 370	77 483 483
Recognition of fund entitlement	20.1.1	44 458 849	37 442 454
Income in period	31.1.2	(56 510 244)	(83 636 791)
Correction to fund entitlement			(12 326 005)
Other corrections		(126 040)	2 710 080
Assets held for sale			(8 864 852)
<b>Amounts receivable from the cohesion fund opening balance</b>		630 935	12 808 369

### 20.1.1 Receivables

The difference between the amount of receivables reflected under this item and under the amount receivable item (Note 20.1) and cash flow refers to amounts received and directly reflected under income to be recognised and receivables of other subsidies, respectively.

	<b>31.12.2015</b>
<b>Receivables</b>	
Amounts receivable from the Cohesion Fund	56 510 244
<b>Cash flow receivables</b>	56 510 244
Income from other grants	652 813
<b>Cash flow receivables</b>	<b>57 163 057 )</b>

## 20.2 Impairment losses on other current assets

	<b>31.12.2015</b>
<b>Opening balance</b>	(3 718 653)
Increases	(64 872)
Reversals	17 551
Reclassification	51 001
<b>Closing balance</b>	<b>(3 714 973)</b>

## 21. Cash and cash equivalents

	<b>31.12.2015</b>	31.12.2014
Cash	116 491	6 867 927
Current accounts	49 226 099	51 140 074
Term deposits	119 907 915	207 377 232
Other securities	-	16 500 000
	<b>169 250 505</b>	<b>281 885 233</b>

## 22. Equity

The share capital of EUR 434,500,000 is composed of 86,900,000 shares of EUR 5,00 each and is fully paid up.

### 22.1 Shareholders

	<b>31.12.2015</b>		31.12.2014	
	Value	%	Value	%
Parública, S.G.P.S., S.A.	351 945 000	81%	351 945 000	81%
Parcaixa, S.G.P.S., S.A.	82 555 000	19%	82 555 000	19%
	<b>434 500 000</b>	<b>100%</b>	<b>434 500 000</b>	<b>100%</b>

### 22.2 Net earnings per share

	<b>31.12.2015</b>	31.12.2014
Net profit of financial year	165 968 422	102 323 920
Average number of shares	86 900 000	86 900 000
<b>Earnings per share (basic and diluted)</b>	<b>1.91</b>	<b>1.18</b>

## 23. Reserves and other adjustments

	<b>31.12.2015</b>	<b>31.12.2014</b>
Legal Reserves	20 730 230	18 331 201
Free reserve	2 431 884	2 547 085
Reserves - Fair value negative hedging instruments	(2 200 772)	(2 749 242)
Currency conversion reserve	504 994	164 636
	<b>21 466 336</b>	<b>18 293 680</b>

	Notes	31.12.2014	Increases/ decreases	Dividends	Allocation of net profit	<b>31.12.2015</b>
Legal Reserves		18 331 201			2 399 029	20 730 230
Free reserve	2 547 085	(115 201)			2 431 884	
Reserves - Fair value negative hedging instruments	14	(2 749 242)	548 470			(2 200 772)
Currency conversion reserve	i)	164 636	340 358			504 994
		<b>18 293 680</b>	<b>773 627</b>	-	<b>2 399 029</b>	<b>21 466 336</b>
Retained earnings		431 729 030		(23 990 293)	99 924 891	507 663 627
Net profit		102 323 920	166 884 884		(102 323 920)	166 884 884
		<b>534 052 950</b>	<b>166 884 884</b>	<b>(23 990 293)</b>	<b>(2 399 029)</b>	<b>674 548 511</b>
		<b>552 346 630</b>	<b>167 658 511</b>	<b>(23 990 293)</b>	-	<b>696 014 847</b>

### 23.1 Variation in currency conversion reserve

	<b>31.12.2015</b>	<b>31.12.2014</b>
Opening balance	164 636	229 542
- Águas do Brasil, S.A.	104 615	(4 696)
- Águas de Timor, Lda.	12 424	1 617
- Aquatec, Lda.	223 319	(61 827)
Closing balance	<b>504 994</b>	<b>164 636</b>

## 24. Retained earnings

	<b>31.12.2015</b>
Opening balance	431 729 030
Appropriation of net profit of 2014	99 924 891
Dividends paid out	(23 990 293)
Other variations	-
Closing balance	<b>507 663 627</b>

## 25. Non-controlling interests

	<b>31.12.2015</b>
Opening balance	340 817 884
Dividends distributed	(6 865 854)
Net profit	19 355 920
The EGF Group	(55 917 592)
Paid-in capital	1 396 536
Other	(129 642)
Closing balance	<b>298 657 252</b>

The subsidiaries that underwent share capital increases and paid-in capital were:

	Paid-in capital
Águas do Algarve, S.A.	243 347
Águas do Norte, S.A.	428 234
AgdA - Águas Públicas do Alentejo, S.A.	724 955
	<b>1 396 536</b>

## 26. Provisions

	31.12.2015	31.12.2014
Tax	-	-
Legal proceedings	1 139 224	1 150 308
Occupational accidents	60 725	81 703
Others	8 913 976	9 636 743
	<b>10 113 925</b>	<b>10 868 754</b>

### 26.1 Movements in the period

	31.12.2014	Increase	Decrease	Reversals	Reclassification	Foreign exchange differences	31.12.2015
Tax	-	-	-	-	-	-	-
Legal proceedings	1 150 307	249 284	(8 037)	(207 047)	(40 369)	(4 914)	1 139 224
Occupational accidents	81 702	-	-	(20 977)	-	-	60 725
Others	9 636 745	732 024	-	(1 495 162)	40 369	-	8 913 976
	<b>10 868 754</b>	<b>981 308</b>	<b>(8 037)</b>	<b>(1 723 186)</b>		<b>(4 914)</b>	<b>10 113 925</b>

The movements in the period by Group company are:

Provisions - others	31.12.2014	Increase	Reversals	Reclassification	31.12.2015
Simlis, S.A.	39 560				
Simria, S.A.	12 223				
<b>Águas do Centro Litoral, S.A.</b>	<b>51 783</b>	-	-	-	<b>51 783</b>
Águas do Norte Alentejano, S.A.	46 918				
Sanest, S.A.	369 590				
<b>Águas do Lisboa e Vale do Tejo S.A.</b>	<b>416 508</b>	-	(29 212)	-	<b>387 296</b>
<b>Águas do Norte, S.A.</b>	<b>-</b>	-	(40 369)	40 369	<b>-</b>
Águas do Algarve, S.A.	598 339				598 339
AdP - Águas de Portugal, SGPS, S.A.	5 326 966	500 000			5 826 966
AdP Internacional, S.A.	885 961	232 024			1 117 985
AdP Serviços, S.A.	338 896		(184 137)		154 759
Águas de Santo André, S.A.	1 568 292		(1 241 444)		326 848
EPAL, S.A.	450 000				450 000
<b>Total</b>	<b>9 636 745</b>	<b>732 024</b>	<b>(1 495 162)</b>	<b>40 369</b>	<b>8 913 976</b>

The provision recognised in other liabilities is related to potential contractual liabilities.

## 27. Pension liabilities

	31.12.2015	31.12.2014
EPAL pension fund	2 912 000	4 540 000
	<b>2 912 000</b>	<b>4 540 000</b>

## 27.1 Actuarial assumptions

	31.12.2015	31.12.2014
Standard retirement age	66 years	66 years
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80
Discount rate	2.00%	2.50%
Wage growth rate	2.50%	2.50%
Pension growth rate	1.25%	1.30%
Pre-retirement contributions growth rate	1.25%	1.30%

## 27.2 Fund summary

	31.12.2015	31.12.2014
Liabilities at end of period	37 574 000	39 814 000
Value of assets at end of period	(38 527 000)	(39 474 000)
<b>Provision for liabilities</b>	<b>(953 000)</b>	<b>340 000</b>

	31.12.2015	31.12.2014
Other current assets	3 865 000	4 200 000
Pension liabilities	(2 912 000)	(4 540 000)
	953 000	(340 000)

The overall liabilities (EPAL) are hedged through assets of the pension fund and a specific provision recorded in liabilities, in the amount of EUR 2,912,000 (EUR 4,540,000 on 31 December 2014) Non-current assets (Note 16) record an excess of coverage for the defined benefits plan in the amount of EUR 3,865,000.

## 27.3 Change in liabilities

	31.12.2015	31.12.2014
<b>Liabilities at start of period</b>	<b>39 814 000</b>	<b>41 368 042</b>
Cost of current services	138 000	166 000
Interest costs	947 000	1 191 000
Actuarial (gains) and losses	(1 151 000)	(841 000)
(Gains)/losses changes in financial assumptions	1 603 000	1 989 000
Benefits paid	(3 777 000)	(4 059 042)
<b>Liabilities at end of period</b>	<b>37 574 000</b>	<b>39 814 000</b>

The liability sensitivity for defined benefits against variations in the main assumptions (discount rate) is as follows:

	Change in assumptions	Defined benefit liabilities
Fund return	-0.3%	Increase of 2.9%

The 2.9% increase in liabilities corresponds to a variation in liabilities of around EUR 1 million, meaning that they rose to around EUR 36.7 million. The sensitivity analysis shown was calculated by varying assumptions (discount rate) and maintaining the other constant variables. In practice, this scenario is unlikely, as the changes in some assumptions may be correlated.

## 27.4 Change in fund assets

	31.12.2015	31.12.2014
<b>Fund at start of period</b>	<b>39.474 000</b>	<b>37 810 000</b>
Fund return	960 000	1 164 000
(Actuarial) gains and losses	292 000	2 705 000
Benefits paid	(2 199 000)	(2 205 000)
<b>Fund at end of period</b>	<b>38 527 000</b>	<b>39 474 000</b>

## 27.5 Cost of period

	31.12.2015	31.12.2014
Cost of current services	138 000	166 000
Interest costs	(13 000)	27 000
<b>Total</b>	<b>125 000</b>	<b>193 000</b>

## 27.6 Composition of fund assets

	31.12.2015	31.12.2014
Equity instruments	12 154 547	12 671 786
Debt instruments	23 257 541	23 514 803
Other	3 114 912	3 287 411
	<b>38 527 000</b>	<b>39 474 000</b>

### Investment policy

The investment policy of the Pension Fund takes into account the nature of the benefits covered by the Pension Plans, the characteristics of the population covered and the time horizon of the liabilities assumed (including the breakdown between liabilities with the participants and beneficiaries of the pension fund), the level of hedging of the Pension Fund and the management structure of the Pension Fund. The investment policy will be subject to review at least every three years or when a change in the assumptions listed above justifies such. The investment policy of the Pension Fund aims to maximise the potential return of the fund investments in the medium and long term, based on rules and procedures founded on prudence and in-depth knowledge of the markets in order to avoid inappropriate risks of loss. Investment in financial investments should be made in a diversified and prudent manner, with particular regard to the interest rate, credit and liquidity risks.

### Restrictions/Notes on the Overall Fund and each Portfolio:

- Investing in stocks and/or bonds may be done directly or through collective investment in transferable securities (UCITS) that meet the requirements of legislation adopted pursuant to Council Directive No. 85/611/EEC of 20 December, amended by Directive No. 2001/108/EC of 21 January 2002.
- In principle, the fund makes foreign exchange risk hedging for shares denominated in currencies other than the euro, so there should be no significant currency risk in these investments.
- Direct investment in bonds will be made in securities denominated in euros or another currency, provided the corresponding currency hedging is undertaken.
- In principle, the fund makes foreign exchange risk hedging for other instruments denominated in currencies other than the Euro that are not direct investments in bonds or shares, so there should be no significant currency risk in these investments.
- For the purposes of compliance with the allocation to non-Euro bonds, the criterion of classification of securities shall be the currency of issuance of the bonds, and not exposure to foreign exchange risk. Hence, a bond issued in USD will be considered a non-Euro bond, regardless of the currency hedging policy of the management entity.
- Exposure to the bond class is limited to rated bonds.
- Fixed rate Euro bonds should have a minimum rating of "BBB" or equivalent. The share of 'BBB' rated bonds should not exceed 30% of the bond component. The 'BBB' rating covers debt securities with ratings of 'BBB-' and 'BBB+'. Bonds rated below BBB, except Portuguese sovereign debt, shall be classified in the class of high yield and their share may go up to 7.5% of the entire asset value. Portuguese (private and public) debt bonds will be classified in the Euro fixed rate class and are not subject to the minimum BBB rating. They may represent up to 15% of the bond component.
- Whenever the downgrade of a bond occurs that involves non-compliance with the rating limits, and if the Management entity wants to keep the security in the portfolio, then the situation should be reported to the Member and the respective approval obtained.
- Any change to the classification for purposes of the limits set forth in the Investment Policy shall require the prior written approval of the Member.
- The "Government" component of the bonds shall not constitute less than 40% of the bond class. "Government" means the fixed rate debt issued by central government and quasi-government agencies. Emerging markets and high yield issues (albeit in Euros) are not included. Portuguese government debt issues are included.
- The limit on securities that are not traded on stock exchanges or other regulated markets in Member States of the European Union, or similar markets of OECD countries, is 5%.
- Assets denominated in non-Euro currencies may not exceed the 25% ceiling.
- No investment in venture capital funds may be made without the prior written approval of the Member.
- The manager will ensure the sectoral management (public debt/private debt), management of the country and duration of the bond component within the limits and restrictions set forth in this investment policy.

The Pension Fund may use repo transactions and securities lending operations with the aim of increasing the portfolio's profitability. Operations with derivatives and lending operations must be mandatorily carried out: i) on a regulated market; or ii) with a financial institution legally authorised to do so in a Member State of the European Economic Area or in another OECD country, provided that the rating of this institution is qualitatively equal to or greater than "BBB"/"Baa2" in accordance with ratings universally used or other classifications proven to be equivalent. The risk of the pension fund portfolio is monitored, in terms of evaluation and control of financial risks (market risk, credit risk and exchange risk), in accordance with internally set limits using the VaR (Value at Risk) methodology for this purpose.

## 27.7 Liabilities over the last 5 years

	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011
Liabilities at end of period	37 574 000	39 814 000	41 368 042	41 406 079	42 943 162
Value of assets at end of period	38 527 000	39 474 000	37 810 000	37 480 000	35 360 261
Unrecognised actuarial gains and losses			-	-	(1 808 008)
Hedging excess	(3 865 000)	(4 200 000)	(702 037)	(2 115 000)	24
<b>Provision for liabilities</b>	<b>2 912 000</b>	<b>4 540 000</b>	<b>4 260 079</b>	<b>6 041 079</b>	<b>9 390 885</b>

## 27.8 Defined contribution plan - contributions to the fund

The contributions paid in the 2015 financial year under the defined contribution plan totalled EUR 468,000 paid by the company and EUR 20,400 paid by the employees.

## 28. Loans

Non-current	31.12.2015	31.12.2014
Bank loans - EIB	1 509 683 189	1 571 834 202
Bond loans	500 000 000	500 000 000
Other bank loans and private placement of debt	42 578 147	53 002 296
Loans obtained - adjustment for amortised cost	5 825	(413 539)
Other loans	32 600	97 799
<b>Bank loans</b>	<b>2 052 299 761</b>	<b>2 124 520 758</b>
Debts to leasing companies	13 464 883	15 131 989
<b>Total non-current loans</b>	<b>2 065 764 644</b>	<b>2 139 652 747</b>

Current	31.12.2015	31.12.2014
Bank overdrafts	130 156 029	178 303 799
Bank loans	216 971 488	418 841 917
Other bank loans	283 260	65 197
<b>Bank loans</b>	<b>347 410 777</b>	<b>597 210 913</b>
Debts to leasing companies	1 649 000	1 681 714
<b>Total current loans</b>	<b>349 059 777</b>	<b>598 892 627</b>
<b>Total bank loans</b>	<b>2 399 710 538</b>	<b>2 721 731 671</b>
<b>Total loans</b>	<b>2 414 824 421</b>	<b>2 738 545 374</b>

Loans in foreign currency and bonds are subject to ownership clauses, which state that any changes to the shareholder structure of the company can lead to immediate repayment of the debt. In relation to loan agreements with the European Investment Bank, the AdP Group, besides the usual constraints (payment default, compliance with general and environmental law, cross default, pari passu, negative pledge, false statements, bankruptcy, insolvency, settlement, material changes), also takes into consideration:

- Changes in the shareholder structure of the companies of the AdP Group
- Changes due to spin-off, merger or sale of companies
- Changes to companies' assets
- Change / termination of businesses
- Changes in the shareholder structure of AdP/ EGF
- Operations performed with a guarantee/collateral of AdP/ EGF

- Compliance with obligations defined in the concession/ management agreements
- Changes in turnover of the companies

Moreover, and in connection with such financing agreements, the Portuguese Republic is the guarantor of the AdP Group to the European Investment Bank for the timely and full implementation of all financial obligations and payments.

## 28.1 Loans by maturity

	31.12.2015	31.12.2014
<b>Non-current</b>		
Bank loans - EIB	1 509 683 189	1 571 834 202
Bond loans	500 000 000	500 000 000
Other bank loans and private placement of debt	42 578 147	53 002 296
<b>Current</b>		
Bank loans	216 971 488	418 841 917
	<b>2 269 232 824</b>	<b>2 543 678 415</b>

By maturity	31.12.2015	31.12.2014
Up to 1 year	216 971 488	418 841 917
1 to 2 years	88 856 697	75 568 034
2 to 3 years	85 882 116	95 845 339
3 to 4 years	79 696 306	90 396 304
4 to 5 years	76 379 317	85 979 678
Over 5 years	1 721 446 900	1 777 047 143
	<b>2 269 232 824</b>	<b>2 543 678 415</b>

## 28.2 Loans by interest rate type

Floating interest rate	31.12.2015	31.12.2014
Up to 1 year	158 428 901	268 022 782
1 to 2 years	8 962 081	15 038 492
2 to 3 years	8 716 756	15 316 050
Over 3 years	518 783 230	667 008 430
	<b>694 890 968</b>	<b>965 385 754</b>

Fixed interest rate	31.12.2015	31.12.2014
Up to 1 year	58 542 587	150 819 135
1 to 2 years	79 894 616	60 529 542
2 to 3 years	77 165 360	80 529 289
Over 3 years	1 358 739 293	1 286 414 695
	<b>1 574 341 856</b>	<b>1 578 292 661</b>
	<b>2 269 232 824</b>	<b>2 543 678 415</b>

## 28.3 Leasing

Leasing	31.12.2015	31.12.2014
Current	1 649 000	1 681 714
Non-current	13 464 883	15 131 989
	<b>15 113 883</b>	<b>16 813 703</b>

<b>Outstanding principal by type of asset acquired</b>	<b>31.12.2015</b>	<b>31.12.2014</b>
Buildings and other constructions	15 113 055	16 753 076
Basic equipment	-	-
Transport equipment	828	60 627
Office equipment	-	-
	<b>15 113 883</b>	<b>16 813 703</b>

<b>Future minimum payments</b>	<b>31.12.2015</b>	<b>31.12.2014</b>
Up to 1 year	1 781 146	1 757 960
1 to 5 years	7 133 126	6 931 080
Over 5 years	6 778 945	8 531 608
	<b>15 693 217</b>	<b>17 220 648</b>

<b>Interest</b>	<b>31.12.2015</b>	<b>31.12.2014</b>
Up to 1 year	132 146	76 246
1 to 5 years	368 006	230 799
Over 5 years	79 182	99 900
	<b>579 334</b>	<b>406 945</b>

<b>Present value of minimum payments</b>	<b>31.12.2015</b>	<b>31.12.2014</b>
Up to 1 year	1 649 000	1 681 714
1 to 5 years	6 765 120	6 700 281
Over 5 years	6 699 763	8 431 708
	<b>15 113 883</b>	<b>16 813 703</b>

## 28.4 Fair value of funding

	<b>Book value 31.12.2015</b>	<b>Fair value of the year</b>	<b>Book value 31.12.2014</b>	<b>Fair value of the year</b>
Finance obtained - MLT	2 065 764 644	1 919 452 813	2 139 652 747	1 503 217 160
	<b>2 065 764 644</b>	<b>1 919 452 813</b>	<b>2 139 652 747</b>	<b>1 503 217 160</b>

## 29. Trade payables and other non-current liabilities

	<b>31.12.2015</b>	<b>31.12.2014</b>
Investment suppliers	109 648 855	110 264 720
Other accounts payable	3 318 616	4 829 522
	<b>112 967 471</b>	<b>115 094 242</b>

## 29.1 Detail by Group company

	31.12.2015	31.12.2014
Águas do Mondego, S.A.	-	2 144 238
<b>Águas do Centro Litoral, S.A.</b>	<b>1 098 534</b>	<b>2 144 238</b>
Águas do Centro Alentejo, S.A.	-	1 545 440
Águas do Centro, S.A.	-	6 223 884
Águas do Oeste, S.A.	-	1 059 897
Águas do Zêzere e Côa, S.A.	-	13 698 352
Simarsul, S.A.	-	5 232 258
<b>Águas do Lisboa e Vale do Tejo S.A.</b>	<b>26 110 406</b>	<b>27 759 831</b>
Águas do Noroeste, S.A.	-	2 832 792
Águas de Trás-os-Montes e Alto Douro, S.A.	-	5 646 405
Simdouro, S.A.	-	12 668 091
<b>Águas do Norte, S.A.</b>	<b>27 887 694</b>	<b>21 147 384</b>
Águas do Algarve, S.A.	4 237 420	4 817 838
AdRA - Águas da Região de Aveiro, S.A.	44 778 814	42 711 497
Águas de Santo André, S.A.	5 535 987	5 825 697
AgdA - Águas Públicas do Alentejo, S.A.	-	4 265 792
	<b>109 648 855</b>	<b>108 672 277</b>
Other suppliers of investment and other natures	3 318 616	6 421 965
	<b>112 967 471</b>	<b>115 094 242</b>

## 30. Accrued contractual investment expenses

The companies, as stated in note 2.5.5 and based on the provisions of the concession and management agreements of the partnerships, as well as in accordance with regulatory requirements, and where applicable, annually recognise the share of estimated expenses to meet contractual costs with unrealised investments or expansion and modernisation investments approved or imposed by the Concession Grantor. Thus, the accrued contractual investment expenses recognised are those expressed in the following table:

	31.12.2015	31.12.2014
Águas do Mondego, S.A.	-	10 244 460
Simlis, S.A.	-	3 039 448
Simria, S.A.	-	5 933 976
<b>Águas do Centro Litoral, S.A.</b>	<b>23 076 419</b>	<b>19 217 884</b>
Águas do Centro Alentejo, S.A.	-	3 939 516
Águas do Centro, S.A.	-	6 465 206
Águas do Norte Alentejano, S.A.	-	3 829 169
Águas do Oeste, S.A.	-	10 407 754
Águas do Zêzere e Côa, S.A.	-	6 572 682
Sanest, S.A.	-	36 290 042
Simarsul, S.A.	-	9 636 159
Simtejo, S.A.	-	75 708 513
<b>Águas do Lisboa e Vale do Tejo S.A.</b>	<b>153 209 287</b>	<b>152 849 041</b>
Águas do Douro e Paiva, S.A.	-	21 867 445
Águas do Noroeste, S.A.	-	28 694 757
Águas de Trás-os-Montes e Alto Douro, S.A.	-	26 590 946
Simdouro, S.A.	-	5 601 524
<b>Águas do Norte, S.A.</b>	<b>80 183 581</b>	<b>82 754 672</b>
Águas do Algarve, S.A.	55 442 472	50 575 787
AdRA - Águas da Região de Aveiro, S.A.	34 832 882	29 622 156
Águas de Santo André, S.A.	10 795 194	9 993 628
AgdA - Águas Públicas do Alentejo, S.A.	573 385	2 989 514
	<b>358 113 220</b>	<b>348 002 682</b>

## 30.1 Movements in the period

	Notes	31.12.2015	31.12.2014
<b>Amortisation contractual investment opening balance</b>		<b>348 002 682</b>	<b>497 244 254</b>
Amortisation in financial year	39	48 700 987	33 051 692
Definitive transfer	8.2	(38 149 252)	(7 552 429)
Assets held for sale			(174 573 521)
Other		(441 197)	(167 314)
<b>Amortisation contractual investment closing balance</b>		<b>358 113 220</b>	<b>348 002 682</b>

## 31. Investment grants

	31.12.2015	31.12.2014
Investment grants - Cohesion Fund	1 381 665 369	1 381 320 516
Investment grants - Others	9 910 389	8 603 891
Addition to infrastructure assets	229 763 295	240 468 376
	<b>1 621 339 053</b>	<b>1 630 392 783</b>

## 31.1 Movements in the period

	31.12.2015
<b>Investment grants opening balance</b>	<b>1 381 320 516</b>
Recognition of fund entitlement	44 458 849
Recognition of income	(43 782 101)
Corrections to recognition of income and requests	(331 895)
<b>Investment grants closing balance</b>	<b>1 381 665 369</b>

## 31.2 Recognition of fund entitlement

	31.12.2015
Águas do Algarve, S.A.	798 689
Águas de Lisboa e Vale do Tejo S.A.	9 689 847
Águas do Norte, S.A.	23 929 056
AgdA - Águas Públicas do Alentejo, S.A.	10 041 257
	<b>44 458 849</b>

## 31.3 Amounts recognised in profit or loss of the period

	31.12.2015	31.12.2014
Investment grants - Cohesion Fund	43 782 101	43 523 174
Investment grants - Others	3 518 202	776 624
Addition to infrastructure assets	6 206 824	11 484 443
	<b>53 507 127</b>	<b>55 784 241</b>

## 32. (Current) trade payables

	31.12.2015	31.12.2014
Trade payables current account - General	30 820 955	26 024 866
Investment suppliers	33 213 920	40 075 829
Trade payables - invoices being checked	1 133 855	940 987
Other trade payables balances	1 760 968	1 215 274
	<b>66 929 698</b>	<b>68 256 956</b>

The amounts recorded for investment suppliers chiefly relate to debts to municipalities for the integration of assets in the multi-municipal systems (non-current debts are presented in note 29). The table below contains the subsidiaries with the most significant values:

Investment suppliers	31.12.2015	31.12.2014
Águas do Mondego, S.A.	-	3 272 727
Simlis, S.A.	-	134 200
Simria, S.A.	-	328 053
<b>Águas do Centro Litoral, S.A.</b>	<b>3 553 754</b>	<b>3 734 980</b>
Águas do Douro e Paiva, S.A.	-	641 855
Águas do Noroeste, S.A.	-	7 189 786
Águas de Trás-os-Montes e Alto Douro, S.A.	-	4 269 848
Simdouro, S.A.	-	3 224 441
<b>Águas do Norte, S.A.</b>	<b>16 512 850</b>	<b>15 325 930</b>
Águas do Centro Alentejo, S.A.	-	608 539
Águas do Centro, S.A.	-	1 766 565
Águas do Norte Alentejano, S.A.	-	326 260
Águas do Oeste, S.A.	-	1 052 117
Águas do Zêzere e Côa, S.A.	-	1 818 637
Sanest, S.A.	-	25 899
Simarsul, S.A.	-	450 984
Simtejo, S.A.	-	2 902 826
<b>Águas do Lisboa e Vale do Tejo S.A.</b>	<b>6 178 658</b>	<b>8 951 827</b>
AgdA - Águas Públicas do Alentejo, S.A.	2 458 673	5 293 168
EPAL, S.A.	1 878 417	1 768 854
Águas do Algarve, S.A.	1 574 895	1 076 276
Other Group companies	1 056 673	3 924 794
	<b>33 213 920</b>	<b>40 075 829</b>

### 33. Other current liabilities

	31.12.2015	31.12.2014
Advances to trade receivables	48 971	151 548
Accrued personnel costs	11 435 445	11 312 984
Shareholders	239 928	30 368
Accrued expenses creditors (interest, electricity, others) (i)	23 716 659	25 782 716
Deposits to suppliers	6 155 714	4 886 203
Municipal sanitation charges and solid household waste (ii)	17 017 167	16 333 422
Advance on Investment grants - Cohesion Fund	13 434 075	18 372 718
Advances on account of sale of EGF	-	14 204 044
Other Creditors	8 005 998	10 095 103
Deferrals	19 725 094	20 530 129
	<b>99 779 051</b>	<b>121 699 235</b>

(i) accrued expenses contains accrued interest, electricity, insurance, etc.

(ii) this item includes a subsoil charge payable to Lisbon Municipal Council by EPAL to the amount of EUR 15,254,000 and solid household waste by the subsidiary AdRA to the amount of EUR 1,763,000.

### 34. Income tax payable

	31.12.2015	31.12.2014
Income tax - Assets	-	-
Income tax - Liabilities	561 642	2 665 453
	<b>561 642</b>	<b>2 665 453</b>

The balance represents the value of income tax in the period. There are no payments in arrears to tax authorities.

## 35. Sales and services

	<b>31.12.2015</b>	<b>31.12.2014</b>
<b>Sales</b>		
Water - Production, Treatment and Transport	204 470 655	212 178 263
EPAL	132 665 014	129 078 389
Water - Production, Treatment and Transport	192 266	114 591
	<b>337 327 935</b>	<b>341 371 243</b>
<b>Services rendered</b>		
Water - Production, Treatment and Transport	234 876 779	252 129 654
EPAL	1 303 496	1 096 624
International	3 825 538	4 166 340
Corporate services	2 412 624	1 114 038
	<b>242 418 437</b>	<b>258 506 656</b>
<b>Income from construction of assets for concession (IFRIC) 12</b>	<b>138 672 990</b>	<b>137 901 479</b>
	<b>138 672 990</b>	<b>137 901 479</b>
<b>Deviation in cost recovery</b>		
Water - Production, Treatment and Transport	90 124 144	26 308 099
	<b>90 124 144</b>	<b>26 308 099</b>
	<b>808 543 506</b>	<b>764 087 477</b>

Águas do Norte (over EUR 25.6 million) and Águas de Lisboa e Vale do Tejo (over EUR 40.8 million) contributed mostly to the increase in deviations in cost recovery in 2015 compared to 2014. In the former case, a decrease in turnover and an increase in supplies and services and amortisation due a reduction in the concession period of Águas do Noroeste were the main causes. Write-off activity, which is still in its start-up phase, contributed around EUR 10 million to deviations in 2015. At Águas de Lisboa e Vale do Tejo, recognition of impairments and gains in productivity had a direct effect on the significant increase in the deviation in the period (see together with Note 15).

## 36. Cost of sales

	<b>31.12.2015</b>	<b>31.12.2014</b>
	<b>304 610</b>	311 127
Cost of goods sold & services rendered - Goods	12 939 927	12 370 226
Cost of goods sold & services rendered - Raw materials	4 982 464	4 896 037
Cost of goods sold & services rendered - Consumables	1 878 507	1 955 408
Cost of goods sold & services rendered - Sundry materials	(125 937)	1 703
Prior-year corrections	<b>19 979 571</b>	<b>19 534 501</b>
Capitalisation of cost of goods sold & services rendered	(33 047)	(68 082)
	<b>19 946 524</b>	<b>19 466 419</b>
Costs of construction of assets for concession (IFRIC 12)	<b>138 672 990</b>	<b>137 901 479</b>
	<b>158 619 514</b>	<b>157 367 898</b>

## 37. Supplies and services

	31.12.2015	31.12.2014
Subcontracts	27 625 210	28 026 890
Specialised work - Technical assistance	3 472 462	2 951 633
Specialised work - Waste treatment	8 147 528	7 147 498
Specialised services - Security	2 388 433	2 242 336
Specialised work - IT assistance	2 169 010	3 204 363
Maintenance and repairs	25 139 992	22 170 762
Specialised services - others	16 952 666	15 419 049
Materials	2 285 974	1 918 889
Energy	69 455 525	68 137 413
Travel and accommodation	1 821 276	1 690 483
Rents and leases	8 579 602	7 978 346
Communications	4 583 241	4 571 133
Insurance	5 677 219	6 253 669
Other	10 949 973	6 457 222
Prior-year corrections	261 179	(6 165)
	<b>189 509 290</b>	<b>178 163 521</b>
Capitalised external services	(3 826 204)	(4 162 170)
	<b>185 683 086</b>	<b>174 001 351</b>

## 38. Personnel costs

	31.12.2015	31.12.2014
Remuneration	72 577 582	72 424 874
Payroll expenses	16 187 513	16 325 004
Insurance	3 986 068	3 999 444
Compensation for contract termination	1 511 259	1 078 563
Other personnel costs	2 296 903	2 861 473
Prior-year corrections	69 529	255 359
	<b>96 628 854</b>	<b>96 944 717</b>
Capitalised personnel costs	(5 516 785)	(7 075 826)
	<b>91 112 069</b>	<b>89 868 891</b>

In 2014, the reductions in salaries pursuant to the State Budget and the reversals established by the Constitutional Courts resulted in the following account during the year: (i) there were cuts ranging from 2.5% to 12% between January and May; (ii) there were no reductions between June and mid-September and there were reductions from 3.5% to 10% between mid-September and December, as in 2013 (which began in January 2011). The aforementioned reductions in remuneration for September to December 2014 were reversed by 20% as of 1 January 2015.

### 38.1 Remuneration of governing bodies

	31.12.2015	31.12.2014
Board of Directors	258 903	350 415
Supervisory Board	33 650	43 564
Statutory auditor	21 663	22 923
General Meeting	4 429	1 570
	<b>318 645</b>	<b>418 472</b>

The reduction in expenditure with the governing bodies was due to the fact that the Board of Directors temporarily had four members only.

## 38.2 Average number of employees

	31.12.2015	31.12.2014
Governing bodies	63	103
Permanent employees and others	3 136	3 141
	<b>3 199</b>	<b>3 244</b>

## 39. Amortisations, depreciation and reversals in financial year

	Notes	31.12.2015	31.12.2014
Amortisation - Investment properties		94 779	94 779
Amortisation - Tangible assets		26 912 676	26 650 734
Amortisation - Intangible assets		1 716 104	1 445 927
Amortisation - DUI		121 028 584	128 744 634
Depreciation of contractual investment	30	48 700 987	33 051 692
		<b>198 453 130</b>	<b>189 987 766</b>
Reversals, depreciation and amortisation		10 928	(3 069)
		<b>198 464 058</b>	<b>189 984 697</b>
Corrections for previous years			
		<b>198 464 058</b>	<b>189 984 697</b>

## 40. Provisions and reversals in financial year

	31.12.2015	31.12.2014
Provisions in financial year - Ongoing legal proceedings	249 284	858 472
Provisions in financial year - Others	732 024	1 037 189
	<b>981 308</b>	<b>1 895 661</b>
Reversal of provisions - Ongoing legal proceedings	(207 047)	(97 517)
Reversal of provisions - Others	(1 495 162)	(723 743)
	<b>(1 702 209)</b>	<b>(821 260)</b>
Corrections for previous years	-	(480 878)
	<b>(720 901)</b>	<b>593 523</b>

Consult together with note 26.

## 41. Impairment losses and reversals in financial year

	31.12.2015	31.12.2014
Impairment losses - debts receivable - current accounts	21 712 228	3 705 932
Impairment losses - debts receivable - other debtors	64 872	25 908
Impairment losses - Inventories - Raw materials and consumables	228 441	-
Impairment losses - Financial investments	-	-
Impairment losses - Intangible fixed assets	370 000	-
Impairment losses - Prior-year corrections	339 534	-
	<b>22 715 075</b>	<b>3 731 840</b>
Reversal of impairment losses - Trade receivables	(143 730)	(456 260)
Reversal of impairment losses - Other trade receivables	(17 551)	(766 496)
Reversal of impairment losses - Inventories - Goods	(42 309)	-
Impairment losses - Financial investments	-	-
	<b>(203 590)</b>	<b>(1 222 756)</b>
	<b>22 511 485</b>	<b>2 509 084</b>

## 42. Other operating expenses

	Notes	31.12.2015	31.12.2014
Direct and indirect taxes	42.1	7 102 909	7 315 336
Losses on inventories		87 558	16 133
Losses on non-financial investments		83 006	29 690
Donations		212 655	239 997
Exchange differences in non-financial operations		154 758	318 030
Other expenses and losses		1 388 915	1 425 923
Prior-year corrections		(211 697)	36 983
		8 818 104	9 382 092
Capitalised expenses		(198)	(24 252)
		8 817 906	9 357 840

### 42.1 Direct and indirect taxes

	31.12.2015	31.12.2014
Stamp duty	1 640 380	1 928 256
ERSAR charge	4 293 944	4 189 496
Water resource levy	9 630	176 360
Charges	290 033	422 290
Other	868 922	598 934
	7 102 909	7 315 336

## 43. Other operating income

	Notes	31.12.2015	31.12.2014
Additional income	43.1	7 272 291	5 289 359
Operating grants		306 939	232 638
Other income and gains	10	3 533 386	14 267 921
Prior-year corrections		(23 503)	97 446
		11 089 113	19 887 364

### 43.1 Additional Income

	Notes	31.12.2015	31.12.2014
Equipment hire		4 144	4 156
Sale of energy		1 573 474	1 289 106
Studies, projects and technological assistance		11 557	22 147
Company positions		-	37 024
Social services		11 307	10 730
Other	ii)	5 671 809	3 926 196
		7 272 291	5 289 359

i) The other additional income item includes works carried out by Group companies on behalf of and debited to third parties.

## 44. Financial expenses

	Notes	31.12.2015	31.12.2014
Interest incurred	44.1	70 733 782	87 640 704
Unfavourable foreign exchange differences		93	12 391
Other financial expenses	44.2	7 643 877	12 317 678
Prior-year corrections		(646 343)	(48 201)
		<b>77 731 409</b>	<b>99 922 572</b>
Financial expenses capitalised		(3 349 926)	(4 110 450)
		<b>74 381 483</b>	<b>95 812 122</b>

The decrease in financial expenses capitalised is directly related to the decrease in the volume of investments.

### 44.1 Interest incurred

Interest incurred	Notes	31.12.2015	31.12.2014
Interest incurred - Commercial paper		124 258	1 277 881
Interest incurred - EIB		45 290 470	43 435 426
Interest incurred - Leasing operations		67 007	342 375
Interest incurred - Bond loans		4 429 106	5 520 115
Late payment interest		323 074	849 062
Interest incurred - Bank finance	44.1.1	20 499 867	36 215 845
		<b>70 733 782</b>	<b>87 640 704</b>

#### 44.1.1 Interest paid for bank funding (by Group company)

Interest incurred - Bank finance	Notes	31.12.2015	31.12.2014
Águas do Mondego, S.A.		-	1 963 466
Simlis, S.A.		-	323 501
Simria, S.A.		-	1 580 493
<b>Águas do Centro Litoral, S.A.</b>		<b>2 240 110</b>	<b>3 867 460</b>
Águas do Centro Alentejo, S.A.		-	1 445 472
Águas do Centro, S.A.		-	2 099 318
Águas do Norte Alentejano, S.A.		-	1 011 952
Águas do Oeste, S.A.		-	222 254
Sanest, S.A.		-	9 788
Simarsul, S.A.		-	1 159 220
Simtejo, S.A.		-	106 066
<b>Águas do Lisboa e Vale do Tejo S.A.</b>		<b>3 826 702</b>	<b>6 054 070</b>
Águas do Noroeste, S.A.		-	5 370 423
Águas do Douro e Paiva, S.A.		-	3 505 636
Simdouro, S.A.		-	2 043 295
Águas de Trás-os-Montes e Alto Douro, S.A.		-	5 713 720
<b>Águas do Norte, S.A.</b>	i)	<b>8 332 709</b>	<b>16 633 074</b>
AdRA - Águas da Região de Aveiro, S.A.		3 442 431	4 455 124
AdP - Águas de Portugal, SGPS, S.A.		1 990 775	2 705 020
AgdA - Águas Públicas do Alentejo, S.A.		410 726	734 029
Águas de Santo André, S.A.		189 136	197 574
Other subsidiaries		67 278	1 569 494
		<b>20 499 867</b>	<b>36 215 845</b>

## 44.2 Other financial expenses

	Notes	31.12.2015	31.12.2014
Loans - Commissions/guarantees		4 260 656	4 442 645
Losses on financial instruments at fair value	14	-	2 396 450
Other		3 383 221	5 478 583
		<b>7 643 877</b>	<b>12 317 678</b>

## 45. Financial income

	Notes	31.12.2015	31.12.2014
Interest earned	45.1	28 178 555	36 947 702
Other financial income and gains		991 600	822 686
Gains on financial instruments at fair value	14	3 900 707	-
Prior-year corrections		(18 257)	(8 112)
		<b>33 052 605</b>	<b>37 762 276</b>

### 45.1 Interest earned

	Notes	31.12.2015	31.12.2014
Deposits		1 142 109	3 288 482
Financial investments		8 147 921	6 934 762
Late-payment interest	45.1.1	14 960 789	23 528 165
Other interest		3 927 736	3 196 293
		<b>28 178 555</b>	<b>36 947 702</b>

#### 45.1.1 Late-payment interest (by Group company)

	31.12.2015	31.12.2014
Águas do Mondego, S.A.	-	179 345
Simlis, S.A.	-	170 523
Simria, S.A.	-	119 000
<b>Águas do Centro Litoral, S.A.</b>	<b>372 096</b>	<b>468 868</b>
Águas do Centro Alentejo, S.A.	-	1 996 046
Águas do Centro, S.A.	-	111 601
Águas do Norte Alentejano, S.A.	-	541 864
Águas do Oeste, S.A.	-	1 119 897
Águas do Zêzere e Côa, S.A.	-	3 812 286
Simarsul, S.A.	-	1 292 640
Simtejo, S.A.	-	3 615 506
<b>Águas do Lisboa e Vale do Tejo S.A.</b>	<b>7 666 099</b>	<b>12 489 840</b>
Águas do Douro e Paiva, S.A.	-	79 988
Águas do Noroeste, S.A.	-	1 668 467
Águas de Trás-os-Montes e Alto Douro, S.A.	-	3 963 412
<b>Águas do Norte, S.A.</b>	<b>5 166 932</b>	<b>5 711 867</b>
Águas do Algarve, S.A.	1 080 891	3 845 474
AdRA - Águas da Região de Aveiro, S.A.	49 191	57 560
Águas de Santo André, S.A.	371 149	347 343
AgdA - Águas Públicas do Alentejo, S.A.	254 431	607 213
	<b>14 960 789</b>	<b>23 528 165</b>

## 46. Income from shareholdings

	31.12.2015	31.12.2014
Expenses and losses - other	(9 101)	(500)
Income and gains – other	75 457 213	-
	75 448 112	(500)

See note 5.3.

## 47. Income tax for the year

	31.12.2015	31.12.2014
Income tax for the year	(38 134 305)	(57 002 050)
Excess income tax estimate	337 292	895 224
Other adjustments tax provision	-	-
Underestimated income tax	(578 345)	(339 627)
	(38 375 358)	(56 446 453)
Deferred tax	(22 050 371)	15 766 030
	(22 050 371)	15 766 030
	(60 425 729)	(40 680 423)

Item	31.12.2015	31.12.2014
<b>Consolidated profit before tax</b>	<b>242 771 764</b>	<b>158 025 452</b>
Temporary and permanent differences	-	-
Losses	748 357	6 945 666
Depreciation and amortisation	(12 499 079)	34 508 641
Asset variations	(15 895 760)	26 849 350
Provisions	24 666 034	15 896 898
Recovery of impairment losses	(7 943 942)	(3 662 858)
Other (IFRC 12 and tariff deviation)	(46 902 612)	(3 330 211)
<b>Assessment base</b>	<b>184 944 762</b>	<b>235 232 938</b>
Municipal surtax base	184 196 405	233 184 751
<b>Tax</b>	<b>50 660 747</b>	<b>32 668 970</b>
State surtax	7 960 978	7 916 861
Amounts separately taxed and others	244 112	666 496
Settlement of prior-year's tax	1 318 839	(16 307)
<b>Tax overheads</b>	<b>60 184 676</b>	<b>41 236 020</b>
Current tax	38 134 305	57 002 050
Deferred tax	22 050 371	(15 766 030)

## 48. Balances and transactions with related parties

<b>2015</b>	Parent company	Other shareholders	Executive committee	Other related parties
<b>Assets</b>				
Municipalities	-	-	-	382 812 664
<b>Liabilities</b>				
Municipalities	-	-	-	61 113 595
<b>Income</b>				
Sales and services to municipalities	-	-	-	368 079 314
Other income from municipalities	-	-	-	7 296 177
<b>Expenses</b>				
Costs of non-executive directors	-	-	-	-
Costs of executive directors	-	-	292 553	-
Other expenses municipalities	-	-	-	5 231 051
Dividends	19 432 137	4 558 156	-	-
	<b>19 432 137</b>	<b>4 558 156</b>	<b>292 553</b>	<b>824 532 801</b>

<b>2014</b>	Parent company	Other shareholders	Executive committee	Other related parties
<b>Assets</b>				
Municipalities	-	-	-	441 760 174
<b>Liabilities</b>				
Municipalities	-	-	-	50 638 936
<b>Income</b>				
Sales and services to municipalities	-	-	-	279 133 591
Other income from municipalities	-	-	-	12 957 380
<b>Expenses</b>				
Costs of non-executive directors	-	-	-	-
Costs of executive directors	-	-	350 415	-
Other expenses municipalities	-	-	-	5 791 629
Dividends	25 515 000	5 985 000	-	-
	<b>25 515 000</b>	<b>5 985 000</b>	<b>350 415</b>	<b>790 281 710</b>

## 49. Contractual investment

The estimated off-balance sheet financial commitments made by the AdP Group, arising from the award of the concession contracts relative to initial investment, replacement, renovation and expansion to occur during the remaining term of the concession is as follows:

	Contractual investment	Investments already made	Investments in progress	Unrealised contractual investment (N+1)	Unrealised contractual investment (N+2 .. N+5)	Unrealised contractual investment (>N+5)
UNA-PD	7 556 065 734	5 094 279 047	198 707 759	229 170 300	479 766 032	1 554 146 596
	<b>7 556 065 734</b>	<b>5 094 279 047</b>	<b>198 707 759</b>	<b>229 170 300</b>	<b>479 766 032</b>	<b>1 554 146 596</b>

The following table presents the future commitments of the Group regarding rents payable to the municipalities for the integration of the infrastructures, as defined in the concession contracts.

	Rent already recognised	Rent recognised as overdue	Future rents - (N+1)	Future rents - Remaining	31.12.2015	31.12.2014
Águas do Mondego, S.A.	-	-	-	-	-	36 267 273
Simlis, S.A.	-	-	-	-	-	2 879 077
<b>Águas do Centro Litoral, S.A.</b>	<b>35 349 284</b>	<b>769 923</b>	<b>1 671 377</b>	<b>1 542 861</b>	<b>39 333 445</b>	<b>39 146 350</b>
Águas do Centro Alentejo, S.A.	-	-	-	-	-	3 294 026
Águas do Norte Alentejano, S.A.	-	-	-	-	-	1 573 939
Águas do Oeste, S.A.	-	-	-	-	-	157 557
Águas do Zêzere e Côa, S.A.	-	-	-	-	-	27 674 594
Simarsul, S.A.	-	-	-	-	-	8 128 204
<b>Águas do Lisboa e Vale do Tejo S.A.</b>	<b>77 306 499</b>	<b>18 647 506</b>	<b>1 237 635</b>	<b>25 361 557</b>	<b>122 553 197</b>	<b>40 828 320</b>
Águas do Noroeste, S.A.	-	-	-	-	-	8 891 422
Águas de Trás-os-Montes e Alto Douro, S.A.	-	-	-	-	-	19 862 965
Simdouro, S.A.	-	-	-	-	-	74 357 308
<b>Águas do Norte, S.A.</b>	<b>90 431 555</b>	<b>5 201 116</b>	<b>19 419 573</b>	<b>17 361 985</b>	<b>132 414 230</b>	<b>103 111 695</b>
Águas do Algarve, S.A.	1 883 678	-	228 125	4 237 420	6 349 223	6 349 223
Águas de Santo André, S.A.	6 703 843	-	478 846	7 182 689	14 365 379	14 365 379
AgdA - Águas Públicas do Alentejo, S.A.	-	1 941 344	-	-	1 941 344	14 871 418
<b>December 2015</b>	<b>211 674 859</b>	<b>26 559 889</b>	<b>23 035 556</b>	<b>55 686 512</b>	<b>316 956 818</b>	<b>218 672 385</b>

## 50. Contingent assets and liabilities

### 50.1 Treasury Unit (Águas de Portugal Group)

Following an audit by the Court of Auditors on the degree of compliance of the Treasury Unit of the State by State Enterprises set out in the State Budget Law of 2010 and reiterated in the subsequent State Budget Laws, some AdP Group companies were notified by this Court that they were not complying with that law for the 2012 financial year. Accordingly, the AdP Group exercised its right of reply on the notification of the Court of Auditors, defending its understanding that there was no non-compliance since, pursuant to that law, it had requested a partial waiver of compliance with that legislation, and it had presented the relevant grounds for that purpose. Moreover, in this respect and in relation to the same process, the Secretary of State of the Treasury stated the following [included in the Court of Auditors report]: "The reasons given by State-owned companies to waive compliance with the principle of the Treasury Unit are wholly justifiable in the current economic climate." The definitive findings of the case are not yet known, and the Board of Directors of AdP, SGPS, S.A. does not expect that any punitive action will be taken against the Group companies. The Group companies were excluded from application of the above-mentioned legislative provision for 2013, 2014 and 2015 (Ordinance 834/2015).

### 50.2 Sale of the EGF Group

AdP – Águas de Portugal, SGPS, S.A. and Parública, Participações Públicas, SGPS, S.A. announced that, as part of the reprivatization of Empresa Geral do Fomento, S.A. (EGF) and after a favourable decision from the competition authority on 28 July 2015, shares representing 95% of the capital of this company were transferred to SUMA Tratamento, S.A.

However, pursuant to "Clause 16 - Extraordinary compensation: rights to acquire and basic value of regulated assets" of the purchase and sales contract, particularly Clause 16.4, if there is a change of the value of the regulated asset base, this will result in the right to compensation between the parties, which will affect the profits of the period in which the event comes to their knowledge. At this time, we do not know the effects, if any, of these compensations.

### 50.3 Injunctions

As a result of the strategy set out for the water sector in Decree-Law 92/2013 of 11 July, 15 of the systems and their concession holders were closed down. Three new, larger multi-municipal systems were formed and three new concession companies were incorporated and took over the rights and obligations of the former concession holders. As they disagreed with the strategy, several municipalities, as shareholders of the closed companies and the new companies, lodged a total of eight injunctions and three main lawsuits in 2015. Involved as defendants or opponents are Grupo Águas de Portugal, i.e. AdP - Águas de Portugal, SGPS, S.A., Águas do Norte, S.A. and the companies that were closed and from which the Group took over; Águas do Centro Litoral, S.A. and Águas de Lisboa e Vale do Tejo, S.A. In the first three months of 2016 two new lawsuits were brought. So far all the requests for injunctions have been denied in the first instance and the court found in favour of the AdP Group companies in four of the injunctions.

## 50.4 Lawsuits in progress

Company	Description of proceedings	Valuation	Favourable to the company	Favourable to third parties
AdRA - Águas Região de Aveiro, S.A.	There are no cases with a value of more than EUR 1,500,000			
Águas de Santo André, S.A.	Injunction and ordinary administrative cases against Santiago do Cacém Municipal Council concerning collecting and treating urban wastewater.	1 876 479,15 EUR	x	
Águas de Santo André, S.A.	Injunction and ordinary administrative cases against Sines Municipal Council concerning collecting and treating urban wastewater and upstream supply of drinking water.	3 527 980,06 EUR	x	
Águas do Algarve, S.A.	Case no. 46/09.3BELLE filed in Loulé Administrative and Tax Court by Somague Engigás Neopol-Constructores, ACE against Águas do Algarve S.A. The case concerns the construction contract "Design/construction of the system of water supply and treatment to the islands of Culatra and Armona as upstream services - Crossings of the River Formosa Estuary by directed horizontal perforation" based on the technical impossibility of the construction of the crossings of the River Formosa Estuary, which has led to a legal petition in the amount of EUR 8,332,017.21. In the same suit, the plaintiff challenged three decisions to deny requests to prolong the time limit for the works that had been submitted to Águas do Algarve, S.A. and also challenged the fines that Águas do Algarve, S.A. imposed on it to the amount of EUR 666,014.13 for violation of the binding partial time limits and the overall time limit for the works. The suit was contested by Águas do Algarve, S.A., which brought to the case scientific opinions from Laboratório Nacional de Engenharia Civil (LNEC) refuting the alleged technical non-feasibility of the crossing of Ria Formosa on which the contractor's suit was based. In addition, in its challenge, Águas do Algarve, S.A. argued the expiry of the suit regarding the partial request for EUR 1,164,598.98 because, in that part, the suit had been brought beyond the time limit of 132 business days fixed by law. (This issue had already been decided by the court, which released Águas do Algarve, S.A. from the obligation to pay this amount, though the opposing party lodged an appeal which is currently pending). The court decided that the suit was unfounded and Águas do Algarve, S.A. was released from the entire application. The opposing party filed an appeal with the Central Administrative Court of Southern Portugal. This appeal was not admitted in the first instance on the grounds of its untimely submission. The opposing party filed an appeal with the Central Administrative Court of Southern Portugal against denial of this appeal and it is currently pending.	8 332 017 EUR	x	
Águas do Algarve, S.A.	A suit brought at the Loulé Administrative and Tax Court against Águas do Algarve, S.A. by Somague, Engigás, Neopol, Constructores, S.A., in which, with the same argument of the technical non-feasibility of the crossings of Ria Formosa (thereby arguing the partial nullity of the works contract), challenges the decision made by Águas do Algarve, S.A. to rescind with due cause the works contract due to breach by the joint venture contractor; in which a request for EUR 9,191,597.54 is made (a mere update of the request for EUR 8,332,017.21 made in the previous suit, no. 46/09.3 BELLE). The suit was challenged by Águas do Algarve, S.A. on the same grounds as the previous suit, no. 46/09.3BELLE). An order was issued determining the suspension of the case until the above suit 46/09.3BELLE had been decided. The suit's progress has therefore been suspended.	9 191 598 EUR	x	
Águas do Algarve, S.A.	On 31 December 2015, Linklaters was representing Águas do Algarve, S.A. in case no. 232/2000 - the proceedings are in the Administrative Court of the Lisbon Circuit, filed by Sociedade de Construções Soares da Costa, S.A. The claim filed against Águas do Algarve, S.A. originally against Águas do Sotavento Algarvio, S.A., is in the amount of EUR 2,662,385.97 (two million six hundred and sixty-two thousand three hundred and eighty-five euros and ninety-seven cents). The hearing stage is completed, now the decision of the judges based on the facts is awaited.	2 662 386 EUR	x	
Águas do Algarve, S.A.	Common administrative suit Case 65/10.7BELLE Plaintiff: Águas do Algarve, S.A. Defendant: Tavira Municipality / Tavira Verde – Empresa Municipal de Ambiente, E.M. Value: EUR 764,999.77 (value of the case) + EUR 865,948.80 (counterclaim) = EUR 1,630,948.57 - an administrative suit was brought on 22/01/2010.	1 630 949 EUR		Parte
Águas do Algarve, S.A.	Common administrative suit Case 427/11.2BELLE Plaintiff: Águas do Algarve, S.A. Defendant: Tavira Municipality / Tavira Verde – Empresa Municipal de Ambiente, E.M. Value: EUR 1,002,659.64 (value of the case) + EUR 1,531,119.66 (counterclaim) = EUR 2,533,779.30 - an administrative suit was brought on 14/07/2011. The defendants submitted their challenge on 06/10/2011. We sent our reply to the court on 9/11/2011. We were informed by the defendants' representative of the rejoinder sent to the court. We were informed of the date of the preliminary hearing scheduled for 10 a.m. on 17/04/2012. The continuation of the preliminary hearing took place on 21/05/2012. We were notified by the court on 24/05/2012 of the order for the case to wait in the secretariat for the cancellation of case 65/10.7BELLE, after which case 427/11.2BELLE would be attached to case 65/10.7BELLE. Awaiting the court's decision.	2 533 779 EUR		Parte
Águas do Algarve, S.A.	Case no. 296791/11.4YIPRT – case 104/12.7BELLE Complainant: Águas do Algarve, S.A. Defendant: Vila Real de Santo António Municipality Vale: EUR 2,495,898.41 (current value). We sued VRSA Municipality on 05/12/2011 for payment of the amount of EUR 2,495,898.41. We were notified on 23/01/2012 of an opposition by the defendant and that the proceeding would be sent to Loulé Administrative and Tax Court for allocation. After learning of the allocation of the case, which was given the number 104/12.7BELLE, on 08/02/2012 we paid the justice fee of EUR 1,315.80. We were ordered to optimise the initial plea and it was sent to the court on 01/03/2012. The defendants submitted their challenge on 11/04/2012. We submitted our reply on 02/05/2012. We were informed of the date of the preliminary hearing scheduled for 10 a.m. on 31/01/2013. On 30/01/2013, we were informed of the approval of the case and an order cancelling the preliminary hearing. Awaiting the court's decision.	2 495 898 EUR	x	

Company	Description of proceedings	Valuation	Favourable to the company	Favourable to third parties
Águas do Algarve, S.A.	Case filed in Loulé Administrative and Tax Court by Águas do Algarve, S.A. against Somague Engigás Neopul- Construtores, ACE and against the respective companies of that consortium. The case concerns the petition of EUR 1,894,762.79 for definitive non-compliance with the construction contract, imputable to the contractor (it is the same construction contract "Design/construction of the system of water supply and sewerage to the islands of Culatra and Armona as upstream services - Crossings of the River Formosa Estuary by directed horizontal perforation"). The ruling was published that acquitted the defendants. This ruling did not appraise the main issues raised in the case (basically, the justness of the termination of the construction contract and the claim for damages arising therefrom by Águas do Algarve). Having been solely based on, in the understanding of the Court, the fact that the case had been filed outside of the expiry deadline of 132 days as provided for in Article 255 of the RJEOP (Law on Public Works Contracts), which was approved by Decree-Law No. 59/99 of 2 March. This decision is manifestly illegal. The legal provision (Article 255 of RJEOP) that sets the expiry deadline of 132 days invoked by the ruling shall only apply to cases filed by the contractor and not also to cases filed by the developer (Águas do Algarve in this case). Even if that provision were applicable to the present case, the case was filed on the 130th day following the termination of that contract. Thus, an appeal was filed with the Central Administrative Court of South Portugal, which is pending. The filling of this appeal will only result in the case continuing its normal processing to determine whether termination of the contract by Águas do Algarve is based on good cause or not and also to ascertain what damages are payable as a result.	1 894 763 EUR	x	
Águas do Algarve, S.A.	Case no. 296790/11.6YIPRT – case 105/12.7BELLE Complainant: Águas do Algarve, S.A. Defendant: Vila Real de Santo António Municipality Value: 1,596,416,00 (current value). We sued VRSA Municipality on 05/12/2011 for payment of the amount of EUR1,596,738.95. We were notified on 24/01/2012 of an opposition by the defendant and that the proceeding would be sent to Loulé Administrative and Tax Court for allocation. After learning of the allocation of the case, which was given the number 105/12.5BELLE, on 08/02/2012 we paid the justice fee of EUR1,315.80. The defendants submitted their challenge on 08/02/2012. We submitted our reply on 28/02/2012. On 22/05/2012, the court issued a decision to dismiss the entire case due to the unfitness of the initial plea and consequently acquitted the defendant de Vila Real de Santo António Municipality. An appeal was filed against this decision on 02/07/2012 with the Central Administrative Court of South Portugal, as we disagreed with the decision. The opposing party also lodged an appeal against the decision. We were notified by the Central Administrative Court of South Portugal Tribunal that the case files from Loulé Administrative and Tax Court had been allocated to this court, 2nd Jurisdiction, Section 1, on 13/11/2012 and had been given the number 09414/12. Awaiting the court's decision.	1 596 416 EUR	x	
Águas do Algarve, S.A.	Complainant DTE, SA and DOMINGOS SILVA TEIXEIRA S.A., defendant: Águas do Algarve, S.A. 9 March 2015 - The plaintiffs brought a pre-contractual suit against the defendant challenging the award of the "Contract for the planning and construction of the Companhia water treatment plant", in which they applied for the annulment of the award made pursuant to the public tender announced under number 346/2014, published in Diário da República, 2ª Serie, nº 18 of 27 January 2014, and the admission of the plaintiffs' tender; with all the legal consequences. 13 March 2015 - the plaintiff was summonsed to submit a challenge. 9 April 2015 - The plaintiff submitted a challenge, in which it demonstrated that there were a number of prior questions and exceptions preventing the proceedings from going forward and also demonstrated the validity of the challenge. 13 April 2015 - The challenge submitted by the opponents Acciona Água, S.A. and Oliveiras, S.A. 15 April 2015 - The Public Prosecutor was ordered to intervene, pursuant to Article 85 of the Code of Administrative Court Proceedings. 6 May 2015 - a decision was made under which the court accepted the exception of procedural illegitimacy of the plaintiffs and therefore acquitted the defendant and the opponents. 7 May 2015 - The decision was recorded in Registration Book 19 and the parties were notified. 25 May 2015 - The plaintiffs lodged a jurisdictional appeal against the decision on 06.05.2015. 22 June 2015 - The court ruled that it was not possible to accept the jurisdictional appeal as a challenge for conferral and it was denied. 7 July 2015 - The plaintiffs lodged a new jurisdictional appeal by reference to the decision issued on 22.06.2015, requesting the acceptance of the appeal filed on 25.05.2015 as a challenge for conferral. 13 July 2015 - The court annulled its decision to 22.06.2015, i.e., it accepted the appeal submitted by the plaintiff on 25.05.2015 as a challenge for conferral. 14 July 2015 - The defendant filed a challenge for conferral by reference to the decision dated 13.07.2015, requesting the maintenance of the decision not to allow the jurisdictional appeal lodged by the plaintiffs on 25.05.2015. 20 July 2015 - The plaintiff submitted to the court a request for clarification by reference to the decision of 13.07.2015, which had denied the jurisdictional appeal lodged by the plaintiffs. 28 July 2015 - The plaintiffs submitted a request for the challenge for conferral submitted by the plaintiff on 14.07.2015 to be dismissed. 31 July 2015 - The court maintained its decision of 13.07.2015. 5 August 2015 - The defendant submitted a request for clarification as to the content of the decision issued on 31.07.2015 and of the decision issued on 13.07.2015. 6 August 2015 - The Almada Administrative and Tax Court ordered the defendant to come and obtain clarification from the cases files whether the second request for clarification had to do with the decision of 22.06.2015 or 13.07.2015. 24 September 2015 - The TAF Loulé ATC set 28.10.2015 for the hearing of the proceeding by conferral. 28 October 2015 - a ruling was issued deciding to deny the challenge and confirm the decision against which the challenge was made. 17 November 2015 - The plaintiffs appealed against the Loulé ATC ruling on 28.10.2015. 7 December 2015 - The defendant submitted its counter arguments. 10 December 2015 - Loulé ATC issued a decision under which the appeal lodged by the plaintiffs was timely with a suspensive and appeal effect and ordered the case files to be sent up to the Central Administrative Court of South Portugal.	9 850 032,80 EUR	x	

Company	Description of proceedings	Valuation	Favourable to the company	Favourable to third parties
Águas do Algarve, S.A.	Complainant DTE, SA and DOMINGOS SILVA TEIXEIRA S.A., defendant: Águas do Algarve, S.A. 10 March 2015 - The complainants submitted an injunction to suspend the efficacy of the award of the contract (instrumental to the aforementioned pre-contractual litigation suit), with the resulting suspension of the procedure to form a contract. This, in a contract, prevents the defendant from concluding the works contract with the opponent Consórcio Acciona Agua, S.A.U /Oliveiras, S.A., or if it had already been concluded, applied for its suspension. 13 March 2015 - The defendant was summonsed. 31 March 2015 -The defendant submitted a reasoned resolution pursuant to Article 128 of the Code of Administrative Court Procedure, under which it demonstrated that the approval of the execution of the administrative act (the award) would be seriously prejudicial to the public interest. On the same date, the defendant submitted its opposing arguments. 2 April 2015 -The opponents Acciona SA and Oliveiras, SA submitted their opposing arguments. 29 April 2015 -The documented administrative suit sent by the defendant was attached to the case files. 19 June 2015 - A decision was issued ordering the administrative suit to be added. 23 June 2015 -The defendant submitted a request for the extinction of the injunction due to the occurrence of a decision made in the main case, which ruled this action inadmissible and it had become res judicata. 10 July 2015 - a decision was issued in which the court stated that the decision of 22-06-2015 issued as part of the main case was appealed against due to the non-admission of the change to a challenge for conferral. 28 July 2015 - a decision was issued in which the court ordered the notification of the complainants of the opposition (pursuant to Article 118 (3) of the CPTA) and the reasoned resolution pursuant to Article 128 (4) of the CPTA. 6 October 2015 -The defendant was notified in a letter with the reference 004283558 of the decision issued by the Loulé ATC, which it accepted the exception of illegitimacy of the complainants, and therefore acquitted the defendant and the opponents. 11 October 2015 –The complainants lodged a jurisdictional appeal against the decision by the Loulé ATC. 19 October 2015 –The opponents submitted their opposing arguments. 23 November 2015 –The defendant submitted its opposing arguments. 26 November 2015 –The Loulé ATC issued a decision to accept the appeal lodged by the plaintiffs and ordered the case files to be sent up to the Central Administrative Court of South Portugal. 14 December 2015 – In letter Ref 004298295 sent by the Loulé ATC on 14-12-2015, the case files were sent to Central Administrative Court of South Portugal.	9 850 032,80 EUR	x	
Águas do Algarve, S.A.	Complainant: SISÁQUA S.A.; defendant: Águas do Algarve S.A. 15 April 2015 - The plaintiff brought against the defendant a suit to challenge the award of the service contract (which was the main case of the injunction proceeding no. 297/15.IBELLE), with the following requests : " a) annulment of the award by which the defendant decided to award the contract to the tender of bidder no 4 (AGS/MANVIA/INDAQUA), as it was illegal and violated the essential principles of public procurement, to wit the principle of competition, equality, transparency, intangibility of tenders and also violation of the law, Article 60 (3) of the CCP and tender provisions, b) if the contract had already been concluded, the court should decree its annulment and that of all new acts that had been performed after the illegal award to bidder no. 4, c) order to the defendant to reclassify and re-order the tenders in accordance with the above principles of public procurement and with the law, Article 60 (3) of the CCP and tender provisions and the defendant should issue a new award and award the contract to bidder no. 2 (the plaintiff ), as it had submitted the most advantageous bid, d) the court should order the defendant to perform all the necessary acts to restore legality and as a result of the court's decision, following subsequent procedures until the end", 17 April 2015 - A decision was issued determining the attachment of the injunction procedure. 20 April 2015 - The defendant was summonsed. 12 May 2015 - Injunction 297/15.IBELLE was attached to these case files. 15 May 2015 - The opponents AGS, MANVIA and INDAQUA submitted their challenge. 18 May 2015 - The plaintiff submitted its challenge. 25 May 2015 - It was attached to these case files of the documented administrative suit sent by the defendant. 27 May 2015 - A decision was issued that the plaintiff should be ordered to answer the preliminary questions asked by the defendant, which, if they constituted an exception, might prevent full knowledge of the case. 03 June 2015 - the plaintiff, in compliance with the order of 27.05.2015, submitted its answers to the preliminary questions/exceptions invoked by the opponents and the defendant. 09 June 2015 - A decision was issued ordering the defendant to give its opinion on the request for a guilty verdict for acting in bad faith submitted by the plaintiff. 16 June 2015 - in compliance with the decision of 09.06.2015, the defendant submitted a request for a response to the request for a guilty verdict for acting in bad faith. 22 June 2015 - After being informed of the response of the defendant to the request for acting in bad faith made by the plaintiff in its reply to the preliminary questions/exceptions in the challenge, the plaintiff submitted an application for a reply. 23 June 2015 - The defendant submitted a request for a reply. 22 July 2015 - A decision was issued in which the court found inadmissible the preliminary questions/exceptions invoked by the defendant and the opponents. It also refused the question the witnesses offered by the party. It also ordered the parties to submit their written arguments, pursuant to Article 91 (4) of the CPTA. 03 August 2015 - In view of this decision, the defendant submitted a challenge for conferral. 10 August 2015 - The Beja Administrative and Tax Court issued an order that the plaintiff and opponents should give their opinion on the challenge for conferral. In compliance with said order, the plaintiff submitted its reply. 13 August 2015 - The plaintiff submitted its arguments. 19 August 2015 - The defendant submitted a request for the court to clarify the status of the challenge for conferral and also to determine the suspension of the time limit for the defendant to submit written arguments until the clarification of the inadmissibility of the as preliminary questions/exception. 26 August 2015 -The defendant was notified in letter Ref 004275484 of the content of the decision issued by the Loulé ATC on 25.08.2015, which allowed the challenge for conferral and decided on the suspension of the time limit for the opponent to submit its arguments. 2 October 2015 -The defendant was notified in letter Ref 004282880 of the content of the decision of Loulé ATC on 01.10.2015, which denied the decision issued on 25.08.2015. 13 October 2015 - the defendant was notified in letter Ref 004284734 of the content of the decision of the Loulé ATC on 12.10.2015, by which the challenge of case 311/15.0BELLE was attached to these case files. 26 October 2015 - the defendant submitted its written arguments. 3 November 2015 - in compliance with the decision issued by Loulé ATC on 27.10.2015, the plaintiff gave its opinion on the request to suspend the case made by the defendant. 26 November 2015 - the defendant was notified in letter Ref 004294819 of the content of the decision issued by the Loulé ATC on 25.11.2015, which denied the request to suspend the case. 11 November 2015 - the defendant was notified in letter Ref 004301970 of the detachment of the challenge regarding case 311/15.0BELLE-A.	8 901 924,95 EUR	x	

Company	Description of proceedings	Valuation	Favourable to the company	Favourable to third parties
Águas do Algarve, S.A.	Complainant: SISÁQUA S.A.; defendant: Águas do Algarve S.A. 12 October 2015 - The defendant submitted a challenge to the decision of the Loulé ATC issued on 01-10-2015. 14 October 2015 - a decision of Loulé ATC, ordered the parties to respond, if they wished, within 10 (ten) days. 26 November 2015 - the opponent was notified by letter Ref 004294836, of the content of the decision issued by Loulé ATC on 25-11-2015 to deny the request to suspend the proceeding. 4 January 2016 - the opponent was notified of the content of the decision issued by Loulé ATC that the case files should be sent up to the Administrative Court of South Portugal. 11 January 2016 - A opponent was notified by letter Ref 004301975 that the case files had been sent up to the Administrative Court of South Portugal.	8 901 924,95 EUR	x	
Águas do Centro Litoral, S.A.	Common administrative suit 385/15.4BECBR being heard at the 1st Unit of the Coimbra Administrative and Tax Court, brought by Coimbra Municipality and AC – Águas de Coimbra, E.M. against Águas do Centro Litoral, S.A., having several municipalities as opponents, in which the plaintiffs request that AdCL be ordered to complete, within one year; the works that it allegedly undertook to perform in a contract concluded with Coimbra Municipality on 25/05/2005 and also request that AdCL BR ordered to pay the amount of 1/1000 of the price of the works to be done for each day's delay in the completing said works. The plaintiffs also want AdCL to be ordered to compensate for the alleged losses resulting from breach of contract to the amount of EUR 2,696,947.37 and an additional amount to be paid at the time of the decision. The plaintiffs also challenge the company decision made at the AdCL General Meeting of 12/03/2014 requesting a declaration of nullity. The proposed value of the suit is EUR 15,696,947.37. Águas do Centro Litoral, S.A. submitted a challenge on 15/06/2015. The argument phase has ended and the case is awaiting a decision by the judge.	15 696 947,37 EUR		x
Águas do Norte, S.A.	Case 280/09.6BEMDL - request for compensation for extra work - Babo&Mata	5 218 000,00 EUR	x	
Águas do Norte, S.A.	Case 334/10.6BEVIS - request for compensation for extra work - Babo&Mata	4 383 551,95 EUR	x	
Águas do Norte, S.A.	Case 420/11.5 BEMDL - Revision of prices and extra work - Babo&Mata	2 822 766,88 EUR	x	
Águas do Norte, S.A.	Case 392/11.6 BEMDL - extra work - Babo&Mata	4 917 143,58 EUR	x	
Águas do Norte, S.A.	Case 105/13.8 BEMDL - damage to property - Babo&Mata	1 598 471,10 EUR	x	
Águas do Norte, S.A.	Administrative case 510/2013 ARH Norte - ARHN alleges an environmental violation (discharge of water directly into a watercourse causing an unpleasant odour) - Babo&Mata	EUR 200000 to EUR 2500000	x	
Águas do Norte, S.A.	Administrative case 545/2013 ARH Norte - ARHN alleges an environmental violation (discharge of water in to the River Douro) - Babo&Mata	EUR 200000 to EUR 2500000	x	
Águas do Norte, S.A.	Case 361/14.4BEPRT - INDAQUA wishes to cease the supply of water to the Matosinhos Refinery and be compensated for supposed loss of profits arising from the supply being made by the now closed Águas do Noroeste and not by INDAQUA. - Paulo Fernandes	8 200 000,00 EUR	x	
Águas do Norte, S.A.	Administrative Case 469/2013 (ETAR de Loureira – Vila Verde) - environmental offence - Paulo Fernandes	2 443 765,23 EUR	x	
Águas do Norte, S.A.	Administrative case 2238/2011 - CO/735/2013/ARH (ETAR de Gandra-Turiz – Vila Verde) - environmental offence - Paulo Fernandes	Fine between EUR 38,500 and EUR 70,000 in case of negligence and EUR 200,000 and EUR 2,500,000 in case of intent	x	
Águas do Norte, S.A.	Administrative case 2238/2011 - CO/733/2013/ARH (River Trofa) - environmental offence - Paulo Fernandes	Fine between EUR 38,500 and EUR 70,000 in case of negligence and EUR 200,000 and EUR 2,500,000 in case of intent	x	
Águas do Norte, S.A.	Administrative case 2238/2011 - CO/734/2013/ARH (Ponte da Barca) - environmental offence - Paulo Fernandes	Fine between EUR 38,500 and EUR 70,000 in case of negligence and EUR 200,000 and EUR 2,500,000 in case of intent	x	

Company	Description of proceedings	Valuation	Favourable to the company	Favourable to third parties
Águas do Norte, S.A.	Administrative case 12923/2009 - CO/890/2013/ARH (Works- River Homem) - environmental offence - Paulo Fernandes	Fine between EUR 38,500 and EUR 70,000 in case of negligence and EUR 200,000 and EUR 2,500,000 in case of intent	x	
Águas do Norte, S.A.	Administrative case CO/000954/14 (ETAR de Agra) - environmental offence - Paulo Fernandes	Fine between EUR 38,500 and EUR 70,000 in case of negligence and EUR 200,000 and EUR 2,500,000 in case of intent	x	
Águas de Lisboa e Vale do Tejo, S.A.	Leiria Administrative and Tax Court - Unit 1	1 838 439,20 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Leiria Administrative and Tax Court - Unit 1	2 377 802,70 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Leiria Administrative and Tax Court - Unit 1	1 714 090,41 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Lisbon Circuit Administrative Court - Unit 3	3 894 401,00 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Leiria Administrative and Tax Court	3 736 617,00 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Leiria Administrative and Tax Court - Unit 1	1 535 950,31 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Sintra Administrative and Tax Court - Unit 3 The defendant was acquitted for alleged acceptability of the use of the injunction process used. Sanest lodged an appeal with the TCA Sul, where it was accepted and is awaiting trial. Appeal will be rejected or successful and the case will go ahead, or not, or a new common administrative suit will be brought, as the case may be.	Capital - EUR 1,845,277.04 Late payment interest claimed up to the bringing of the injunction: EUR 758,267.62 Total - EUR 2,603,545.68 + interest not yet due	x	
Águas de Lisboa e Vale do Tejo, S.A.	Beja Administrative and Tax Court.	7 030 769,97 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Lisbon Circuit Administrative Court On a contestation from Sanest, seeking to defend itself by exception and challenge and alleging that it had nothing to pay until the tax and customs authority confirmed that it could still rectify/be reimbursed of VAT in its favour, as per the request that it sent to that effect to said authority and presenting an application for a subsidiary counterclaim, so that if the court did not agree, the credit claimed from the plaintiff should be compensated for its debt to the defendant, referred to by injunction case 389714/08.3YIPRT, currently 11/9/09.2BELSB, said counterclaim that the plaintiff contested by exception and challenge By decision of 22.10.2014, the Lisbon CAC declared itself materially incompetent, as Sanest had upheld in its contestation and decided that the case should be sent to the Lisbon Tax Court. The plaintiff appealed against this decision and SANEST submitted counter arguments. We are awaiting the decision on the appeal against the decision that declared the Lisbon CAC incompetent and the Lisbon Tax Court competent, to see which court will try the case.	Capital: EUR 1,564,420.13 Late payment interest due until the suit was brought: EUR 375,803.72 Total: EUR 1,940,223.85 + interest due	x	
Águas de Lisboa e Vale do Tejo, S.A.	Beja Administrative and Tax Court The Beja ATC takes an extremely long time. This case is from 2013 and no progress can be expected at short or medium term. Meanwhile, the municipality has paid some of the invoices mentioned in the case under the Local Economy Support Programme (PAEL).	7 498 698,00 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Évora District Court - Civil and Criminal Instance - J1 Ended by decision of the TRE, fully in favour of the plaintiff The value of the case had been paid almost in full under the PAEL.	5 599 742,96 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Beja Administrative and Tax Court.	2 549 496,72 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Arbitration proceedings.	48 945 026,00 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Contractual responsibility.	2 041 466,28 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Contractual responsibility.	2 455 255,81 EUR	x	

Company	Description of proceedings	Valuation	Favourable to the company	Favourable to third parties
Águas de Lisboa e Vale do Tejo, S.A.	Contractual responsibility.	1 508 254,60 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Awaiting scheduling of preliminary hearing and trial.	2 370 692,89 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Amount of EUR 2 867 610,16 (capital) + EUR 262 872,21 (late payment interest) requested Awaiting contestation.	3 130 482,37 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Amount of EUR 2 400 396,14 (capital) + EUR 216 989,20 (late payment interest) requested Awaiting contestation.	2 617 385,34 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Amount of EUR 4 886 689,55 (capital) + EUR 444 170,80 (late payment interest) requested Awaiting contestation.	5 330 860,35 EUR	x	
Águas de Lisboa e Vale do Tejo, S.A.	Amount of EUR 1 411 120,88 (capital) + EUR 128 920,86 (late payment interest) requested Awaiting contestation.	1 540 041,74 EUR	x	

## 50.5 Guarantees

Liabilities for bank guarantees provided by the business units of the companies included in the consolidation perimeter are as follows:

BU	Courts	Financial institutions	Concession Grantors	Other	31.12.2015	31.12.2014
Water - Production	7 411 089	-	984 841	11 964 869	20 360 799	21 463 561
EPAL	5 175 900	169 532 511	-	321 284	175 029 695	171 223 242
Water - Distribution	-	-	-	446 366	446 366	406 866
International	-	970 416	-	-	970 416	3 306 562
Corporate services	-	-	-	1 382 933 272	1 382 933 272	1 715 922 623
<b>Total</b>	<b>12 586 989</b>	<b>170 502 927</b>	<b>984 841</b>	<b>1 395 665 791</b>	<b>1 579 740 548</b>	<b>1 912 322 854</b>

The holding company of the AdP Group (AdP SGPS), under the loans contracted from the EIB, is guarantor of good compliance with the contracted obligations.

## 51. Auditor's and Statutory Auditor's fees

The fees of the Auditor and Statutory Auditor of the AdP Group as at 31 December 2015 were the following:

	Statutory Auditor	Audits	Other Services	Total
PricewaterhouseCoopers, SROC	12 000	15 001	27 762	54 763
Ernst & Young, SROC	55 899	199 044	46 965	301 908
Alves da Cunha, A. Dias & Associados, SROC	21 663	-	-	24 530
Esteves, Pinho & Associados, SROC	41 580	-	-	41 580
	<b>131 142</b>	<b>214 045</b>	<b>74 727</b>	<b>419 914</b>

## 52. Subsequent events

The Board of Directors is not aware of any subsequent events that might affect the presentation of financial statements.

The Board of Directors



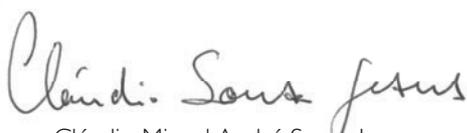
Afonso José Marçal Grilo Lobato de Faria  
(Chairman)



Manuel Maria Pereira Fernandes Thomaz  
(Executive Vice-chairman)



Gonçalo Ayala Martins Barata  
(Executive Director)



Cláudio Miguel André Sousa Jesus  
(Executive Director)

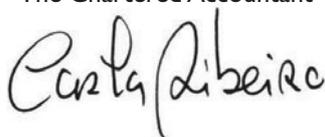


José Manuel Leitão Sardinha  
(Executive Director)



José Manuel Barros  
(Non-executive Director)

The Chartered Accountant



Carla Isabel Costa Pinto Ribeiro

# Supervisory Board's report and opinion

## **SUPERVISORY BOARD'S REPORT AND OPINION ON THE CONSOLIDATED ACCOUNTING DOCUMENTS**

### **REPORT**

- 1 - In compliance with the applicable legal and statutory provisions, the Supervisory Board hereby issues this report and opinion on the annual report and accounts and other consolidated accounting documents of AdP - Águas de Portugal, S.G.P.S., S.A., submitted by the Board of Directors for 2015.
- 2 - The Supervisory Board monitored the management and business performance of AdP - Águas de Portugal, S.G.P.S., S.A., namely via contacts with its directors and by reading the minutes of the meetings of the Board of Directors and Executive Committee. It held regular meetings which were normally attended by the Financial Director and the Statutory Auditor. The Supervisory Board was given all the clarifications requested and the documentation that it deemed necessary to perform its supervisory duties.
- 3 - The Supervisory Board also verified compliance with the applicable legal and statutory provisions and exercised its powers in accordance with the provisions of Article 420 of the Portuguese Companies' Code. No materially relevant non-compliances were detected.
- 4 - Under the powers vested in it by paragraphs 1 and 3 of Article 33 of Decree Law 133/2013 of 3 October, the Supervisory Board verified the company's compliance with the obligations set out therein and issued quarterly reports, which were sent to the competent authorities.
- 5 - The annual report and accounting documents for 2015 provide information on compliance with the sustainability goals, even though a complete analysis of the group in the economic, social, environment, innovation and equality fields is described in the Sustainability Report for 2015, which shows material compliance with those goals.

- 6.- The disclosure obligations set out in Article 44 of Decree-Law 133/2013 of 3 October have been fulfilled for the part concerning the annual rendering of accounts analysed here.
- 7 - The Supervisory Board is familiar with the report issued by the external auditors on its consolidated account, and has no objections to its content.
- 8 - The Supervisory Board examined the statutory audit report of the consolidated accounts issued as required by law by the statutory auditor, which includes three highlights, which are considered to have been reproduced herein. The Supervisory Board is in agreement with them and is familiar with the annual report of the statutory auditor on its supervision.
- 9 - The process of geographical reorganisation of the water supply and wastewater treatment operations, which involved winding up 15 companies and setting up three new management companies was completed on 30 June 2015: Águas do Norte, Águas do Centro Litoral and Águas de Lisboa e Vale do Tejo, for whom EPAL operates the system. The geographical reorganisation led to the conclusion of three new concession contracts that allow the company to recognise the cost recovery deviations, which is the reason why the tariff deviations previously reported in the consolidated accounts were transferred in the individual accounts of each one of these companies.
- 10 - The completion of the EGF sale process occurred in July 2015, which allowed AdP to reduce its bank debt and move to a more sound financial structure.
- 11 - The Supervisory Board believes that now the restructuring of the water and waste sector in Portugal is completed, which started in 2012, the internal processes must be optimised in order to reduce the identified risks and to gauge the possible restructuring of the companies comprising the AdP Group, which consistently perform negatively in economic and financial terms, while simultaneously promoting greater speed in the conclusion of the ongoing winding up processes.
- 12 - The Supervisory Board also highlights the reduction of the debt situation of municipal customers for 2015. This process has evolved positively since 2012, totalling 384.4 million euros gross. This is equivalent to a 9.3% decrease compared to the previous year. The Supervisory Board maintains its concern for the debts of municipal customers due to the unfavourable evolution of doubtful debtors in 2015. Therefore the Board of Directors shall continue to actively manage the reduction of outstanding debt. The Supervisory Board also

highlights the growth of the tariff deficit (in the region of 17.3%), which amounted to 621.4 million euros in the year under review.

13 - As a result of the work done, the Supervisory Board considers that the Board of Directors' report and the consolidated financial statements (which include the consolidated statement of financial position as at 31 December 2015, the consolidated income statements by nature and of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement of the year ended on that date and the Notes to the consolidated financial statements), provide adequate understanding of the assets of the business group headed by AdP - Águas de Portugal, S.G.P.S., S.A. as at 31 December 2015 and the way in which the results were formed and the development of the business activity.

14 - The Supervisory Board draws attention to all the collaboration that it obtained from the Board of Directors, through the financial director, the statutory auditor and departments of AdP - Águas de Portugal, S.G.P.S., S.A.

#### **OPINION**

As a result of the above, the Supervisory Board is in agreement with the annual report and consolidated accounts for 2015 of AdP - Águas de Portugal, S.G.P.S., S.A., and is in favour of their being approved by the General Meeting.

Lisbon, 24 May 2016

#### **THE SUPERVISORY BOARD**

Carla Maria Lamego Ribeiro  
(Chair)

Mário José Alveirinho Carrega  
(Member)

Ana Luísa Videira Gomes  
(Member)



**ALVES DA CUNHA, A. DIAS & ASSOCIADOS**  
SOCIEDADE DE REVISORES OFICIAIS DE CONTAS, Lda.

## LEGAL CERTIFICATION OF ACCOUNTS (CONSOLIDATED)

### Introduction

1. We have examined the consolidated financial statements of AdP - Águas de Portugal, SGPS, SA, which include the consolidated statement of financial position as at 31 December 2015 (showing a total of 6,407,000,000 euros and total equity of 1,428,256,000 euros, including non-controlling interests of 298,657,000 euros and net profit attributable to shareholders of 165,968,000 euros), the consolidated income statement for the period, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated cash flow statement for the financial year ending on that date and the Notes to the consolidated financial statements.

### Responsibilities

2. The Board of Directors is responsible for preparing consolidated financial statements that truly and appropriately reflect the financial situation of the companies included in the consolidation, the consolidated profit/loss and consolidated comprehensive income of its operations, the changes in consolidated equity and consolidated cash flows, and the adoption of appropriate accounting criteria and policies and maintaining suitable internal control systems.
3. Our responsibility is to express a professional, independent opinion based on our examination of these financial statements.

### Scope

4. Our examination was performed in accordance with the technical rules and auditing guidelines of the Portuguese Association of Statutory Auditors, which require that it be planned and performed in such a way as to obtain an acceptable degree of certainty that the consolidated financial statements are free of any materially relevant distortions. For the purpose, our examination included:



- Checking that the financial statements of the companies included in the consolidation had been appropriately examined and, in any significant cases in which they had not, using sampling to check the supporting documents for the amounts and disclosures in the financial statements and evaluating the estimates, based on judgements and criteria established by the Board of Directors and used in their preparation;
  - Checking the consolidation operations and the application of the equity method;
  - Appraising the adequacy of the accounting policies used, their uniform application and their disclosure, taking the circumstances into account;
  - Checking the applicability of the going concern principle; and
  - Assessing whether the presentation of the consolidated financial statements is appropriate in overall terms.
5. Our examination also included checking that the financial information in the annual report was consistent with the consolidated financial statements.
6. We believe that the examination performed provides an acceptable basis for our opinion.

### **Opinion**

7. In our opinion, the aforementioned consolidated financial statements give a true and appropriate picture, in all materially relevant aspects, of the consolidated financial position of AdP - Águas de Portugal, SGPS, SA as at 31 December 2015, the consolidated profit or loss and consolidated comprehensive income of its operations, changes in consolidated equity and consolidated cash flows during the period ended on that date, in accordance with international accounting standards and accounting practices as adopted in the European Union.



### Highlight

8. Without affecting the opinion expressed in paragraph 7, we draw attention to the following situations:

- a) As disclosed in Point 5.1 of the Notes to the consolidated financial statements, the process of territorial reorganisation of the water supply and wastewater treatment operations was completed through the creation of three new multi-municipal systems to replace the fifteen such systems that had previously existed. According to the legislation establishing the three companies that will hold the concessions and manage the operations of the new multi-municipal systems, these three companies inherit all the rights and obligations of the wound up concession holding companies. It should be noted that in addition to the transferred assets and liabilities of the wound up companies, the cost recovery deviations that were previously only recognised in the consolidated financial statements were registered on the balance sheets of the new concession holding companies, pursuant to the legislation that created them and on the date at which their predecessors were wound up (*vide* details of Point 15 of the Notes to the consolidated financial statements).
- b) As stated in Points 3.2 and 18.3 of the Notes to the consolidated financial statements, the gross debt of the municipalities, in the capacity of customers, amounted to EUR 384,345,000 at 31 December 2015. The Board of Directors of AdP – Águas de Portugal, SGPS, S.A. believes that through the agreements already reached and to be concluded the municipalities will comply with their obligations and that there are presently no indicators that may lead to the recognition of additional impairment losses. It should be noted, as detailed in Note 18.3 referred above, and originating from a principle of agreement between AdP – Águas de Portugal, SGPS, S.A. and the former Águas do Zêzere e Côa, S.A. and the other municipalities that formed part of the wound up system of which this water company was party to, that an impairment of EUR 19.6 million was recognised in the financial year, corresponding to the maximum value that the loss may generate. Since the implementation of the agreement requires ministerial approval, there presently exists uncertainty regarding the definitive value of the impairment and how it will be settled.



- c) As demonstrated in Points 5.1 and 46 of the Notes to the consolidated financial statements, the completion of the operation to sell the 95% stake in the share capital of EGF – Empresa Geral do Fomento, SA, for the amount of EUR 154 million, generated a capital gain of EUR 75.4 million, which accounts for about 45.4% of the net profit for the financial year.

**Report on other legal requirements**

9. It is also our opinion that the information set out in the annual report is in accordance with the consolidated financial statements for the year.

Lisbon, 23 May 2016

ALVES DA CUNHA, A. DIAS & ASSOCIADOS  
*Sociedade de Revisores Oficiais de Contas, Lda.*  
represented by José Luis Areal Alves da Cunha



Building a better  
working world

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## Statutory Auditor's Report on the Consolidated Accounts

### Introduction

1. We have examined the attached consolidated financial statements of AdP - Águas de Portugal, S.G.P.S., S.A., which include the consolidated Statement of financial position as at 31 December 2015 (showing a total of 6,406,999,868 euros and total equity of 1,428,255,637 euros, including a net profit allocated to the owners of the company's share capital, as the group's parent company, of 165,968,422 euros), the Consolidated Income statement by nature, the Consolidated Statement of comprehensive income, the Consolidated Statement of changes in equity and Consolidated Cash flow statement for the financial year ending on that date and the Notes to the financial statements.

### Responsibilities

2. The Board of Directors is responsible for preparing consolidated financial statements that truly and appropriately reflect the financial situation of the companies included in the consolidation, the consolidated profit or loss and comprehensive income of their operations, consolidated changes in their equity and consolidated cash flows. It is also responsible for following appropriate accounting criteria and policies and maintaining suitable internal control systems.
3. Our responsibility is to express a professional, independent opinion based on our examination of those financial statements.

### Scope

4. Our examination was performed in accordance with the technical rules and auditing guidelines of The Portuguese Association of Statutory Auditors, which require that it be planned and performed in such a way as to obtain an acceptable degree of certainty that the consolidated financial statements are free of any materially relevant distortions. For the purpose, our examination included:
  - checking that the financial statements of the companies included in the consolidation had been appropriately examined and, in any significant cases in which they had not, using sampling to check the supporting documents for the amounts and disclosures in the financial statements and evaluating the estimates, based on judgements and criteria established by the Board of Directors and used in their preparation;

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- checking the consolidation operations;
  - appraising the adequacy of the accounting policies used, their uniform application and their disclosure, taking circumstances into account;
  - checking whether the principle of going concern was applied; and
  - assessing whether the presentation of the consolidated financial statements was appropriate in overall terms.
5. Our examination also included checking that the financial information in the consolidated annual report was consistent with the consolidated financial statements.
6. We believe that the examination performed provides an acceptable basis for our opinion.

#### **Opinion**

7. In our opinion, the aforementioned financial statements give a true, appropriate picture, in all materially relevant aspects, of the consolidated financial position of AdP- Águas de Portugal, S.G.P.S., SA as at 31 December 2015, the profit or loss and consolidated comprehensive income of its operations, changes in consolidated equity and consolidated cash flows during the period ended on that date, in accordance with international reporting standards as adopted in the European Union.

#### **Highlights**

8. Without affecting the opinion expressed on the consolidated financial statements, we highlight the following situations:
- 8.1 As referred to in section 5.1 of the Notes to the consolidated financial statements, three new multi-municipal systems were created, with effect from 1 July 2015, to replace the fifteen multi-municipal systems that had existed up to 30 June 2015. This was done in compliance with the provisions of Decree-Law No. 92/2015, Decree-Law No. 93/2015, and Decree-Law No. 94/2015, all of 29 May. The assets and liabilities of the wound up companies were transferred to the newly formed entities under the referred process, for the respective book values. The cost recovery deviations which were already recognised in the consolidated financial information at the date of termination of the concession companies were recognised in the balance sheets of the new companies, according to the provisions of the aforementioned Decree-Laws.



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**8.2** As disclosed in note 18.3 of the notes to the consolidated financial information, an impairment in the amount of 19.6 million euros was recognised in the year, as a result of the agreement between Águas de Portugal SGPS, S.A., Águas do Zêzere e Coa, S.A. (Company incorporated into Águas do Lisboa e Vale do Tejo, S.A.) and the municipalities that formed part of this former system. Given that the effective implementation of the agreement in principle depends on approval by the Minister of the Environment, the uncertainty existing in relation to the same may mean future changes on how to settle this balance in accounts, for which a provision of the full amount has been set up in the current year.

Lisboa, 23 May 2016

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

Rui Abel Serra Martins (Official Auditor no. 1119)

### STATEMENT

The documents entitled “Report of the Non-Executive Director on the performance of the Executive Directors” shown on page 108, “Supervisory Board’s Report and Opinion on the Individual Accounting Documents”, “Legal Certification of Accounts”, “Statutory Auditor’s Report on the Individual Accounts” shown on pages 149 to 156 and “Supervisory Board’s Report and Opinion on the Consolidated Accounting Documents”, “Legal Certification of Accounts” and “Statutory Auditor’s Report on the Consolidated Accounts” shown on pages 234 to 243 of this annual report were translated by Traducta, Tradução, Interpretação e Informática, Lda from the original documents included in Águas de Portugal “Relatório e Contas 2015”.

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