

*Annual Report
and Accounts*
2017





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Message from the Chair

2017 was a highly intense year for the AdP Group with the conclusion of the reorganisation process of the multi-municipal systems and the consolidation of the financial structure alongside improvements both to operating efficiency levels and to the results. This was also a year especially marked by extraordinary events, particularly the drought and forest fires, which impacted on the availability and quality of water resources and generating consequent repercussions for the operating activities of Group companies; challenges that we managed to successfully overcome.

We would take this opportunity here to highlight the work undertaken by the AdP Group towards the resolution of the significant difficulties and challenges posed by the period of drought, with our teams having given their very best, deploying all the competences and means of the AdP Group in the service of the country and ensuring that there were no cuts in the supply of water by the AdP Group.

We would correspondingly highlight the following facts.

- The conclusion of the reorganisation of the AdP Group operating companies with the launch of the new companies Águas do Douro e Paiva, SIMDOURO, in March, and Águas do Tejo Atlântico and SIMARSUL, in July.
- The signing in September of a new contract with the European Investment Bank (EIB), with a total value of EUR 220 million, without recourse to any Portuguese state guarantee, thereby guaranteeing the financing of the 25-year Investment Plan of AdP Group. In addition to this amount, there is also a credit line of up to EUR 200 million, which may be deployed by the EIB for the acquisition of debts owed by the municipal clients of AdP Group.
- Launching the implementation of PEPE – the Energy Efficiency and Production Plan, a structural initiative unveiled in May within a context in which AdP Group represents the third largest national consumer of electricity and with electricity energy consumption corresponding to 35.9% of the Group's external supplies and services.
- The development of the e-mobility adhesion process through the procurement of 127 electric vehicles for the renovation of the AdP Group fleet alongside the installation of internal recharging points in the prevailing infrastructures in order to optimise the respective performance and thereby conjugating greater economic rationality with an improved environmental performance.

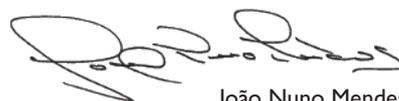
- The negotiation of agreements with EDIA – Empresa de Desenvolvimento e Infra-Estruturas do Alqueva, S.A., with the objective of boosting the resilience of water supplies to the Sines industrial complex, managed by Águas de Santo André, and expanding the interconnections between the systems managed by Águas Públicas do Alentejo and the Alqueva dam operating and development entity.
- The undertaking of technical studies, with the collaboration of LNEC – the National Laboratory of Civil Engineering with a view to the possible integration of the AdP Group into the management of the reservoirs from which our companies currently abstract their water and potentially raising the number of dams under Group management from 18 to 29 (which corresponds to an increase in the total managed storage capacity from 178 hm³ to 516 hm³).
- The medium term planning works for the downstream networks for specific territories, carried out by our teams in response to the requests received.
- The first AdP Group training program, entitled the WAVE Program, which seeks to integrate into our teams young and well-prepared recent graduates from Portuguese universities in specific fields – engineering, finance, procurement, laboratory, law and IT systems – who have been effectively integrated since the beginning of 2018.
- The launching of the Water Operations Centre initiative that brings together all the operational managers from AdP Group with the objective of fostering the development of not only their respective competences but also the information technology systems and implementing a purpose designed operating model and achieving higher efficiency standards whether in terms of water supply or the sanitation of the resulting wastewaters.
- Finally, the progress in our sales process for the disposal of the 55% AdP Group stake in AQUASIS, a company with activities falling beyond the Group's core business and that culminated in the signing of a sales contract on 16 March 2018, with its implementation awaiting the necessary authorisations in accordance with the legal framework in effect.

As regards the 2017 financial year economic and business performance, we would emphasise the following aspects.

- Total annual investment rose to around EUR 95 million, with significant contributions made by Águas do Norte, EPAL, Águas do Algarve, AdRA - Águas da Região de Aveiro and AgdA - Águas Públicas do Alentejo. These ongoing investments are structural to the wastewater sanitation sector in the regions of the Algarve and the Alentejo, maintaining the quality and the resilience of the water supply in the Greater Lisbon and Alentejo regions in addition to strengthening the downstream networks under operation and the interconnections between the upstream and downstream networks in the Norte region.
- The significant percentage of investment in rehabilitation and replacement, which accounted for around 41% of infrastructural investment and that duly reflects the importance of maintaining in good working conditions a large number of installations geographically highly dispersed around Portugal.
- The optimisation of treasury and financial management that brought about a reduction in gross debt of EUR 308 and an over 10% reduction in financial costs.
- The decrease in net financial debt by every AdP Group company providing water supply and sanitation services that, in consolidated terms, amounted to a reduction of EUR 135 million to EUR 1 909 million.

- The centralised procurement, which totalled EUR 86 million and providing direct and indirect savings to the group of EUR 11 million.
- The consolidation of Group operations that has driven a very favourable trend in deviation in the recovery of costs that, in 2017, attained the sum of EUR 13 million, which represents a fall of EUR 24 million on 2016.
- The net financial year result came in at EUR 89 million, which reflects a year-on-year improvement of EUR 18 million. Stripping out the deviation in the recovery of costs, the net 2017 result reached EUR 79 million,
- The Group EBITDA (adjusted) came in with an appreciation of around EUR 10 million, driven by the growth in turnover (EUR 17 million) and in the reduction of external supplies and services (EUR -3 million), partially offset by the rise in human resource costs (EUR + 5 million), other net operational expenditure (EUR 4 million) and the costs of goods sold and materials consumed (EUR + 1 million).
- We take due pride in the work carried out over the course of 2017, which enabled the deployment of AdP Group knowhow in the service of the populations served by our companies and that, following a policy of environmental sustainability and corporate social responsibility, enabled support to be provided to supplying areas of the country worst afflicted by the drought, enabling them to ensure there were no interruptions to supply as well as bringing about the recovery of supply and sanitation systems in the wake of forest fires.

Finally, I would thank every Group team for their dedication and competence that enabled them to develop their work throughout 2017 and ensure the high levels of quality of service and economic and environmental sustainability demanded of us. In 2018, we may expect new challenges, especially as regards the downstream systems, that we know we shall overcome through your dedication.



João Nuno Mendes
Chair of the Board of Directors



An aerial photograph of a large reservoir, likely a dam, with a concrete structure on the left side. The water is a deep blue-green color. The background shows a hilly landscape with green trees and some buildings. A large white splash graphic is positioned at the top of the image, partially obscuring the sky and the top of the reservoir. The text "The Group" is written in a teal, serif font across the white splash.

The Group

The Group

Summary of indicators (consolidated)

Economic and financial indicators

(EUR million)

	2015	2016	2017
Turnover ⁽¹⁾	579.8	609.9	626.8
Cost recovery deviations (CRD)	90.1	36.2	12.5
Turnover with CRD	669.9	646.1	639.3
Operating profit/loss ⁽²⁾ (OPL)	208.7	166.5	172.4
EBITDA ⁽³⁾	285.3	306.3	316.5
Financial income	34.1	(45.9)	(31.2)
Net profit/loss for financial year	166.0	70.8	88.6

(1) Does not include construction revenue (IFRIC 12), and CRD.

(2) Earnings before interest and tax.

(3) OPL + Amortisations + Provisions + Impairment losses and reversals – CRD – Investment grants - Revenue/ construction costs (IFRIC 12).

(EUR million)

	2015	2016	2017
Operating assets (net) ⁽¹⁾	4 803.1	4 690.5	4 611.1
Investment (increment)	193.6	69.0	94.6
Trade receivables ⁽²⁾	383.0	338.9	338.0
Total assets	6 407.0	6 382.8	6 150.6
Financial debt ⁽³⁾ – Medium and long term	2 065.8	2 052.4	1 938.8
Financial debt ⁽³⁾ – Short term	349.1	282.9	88.8
Financial debt ⁽³⁾ total	2 414.9	2 335.3	2 027.6
Financial debt – Net ⁽⁴⁾	2 144.3	2 044.3	1 909.4
Investment grants	1 621.3	1 636.1	1 600.7
Equity ⁽⁵⁾	1 428.3	1 445.0	1 517.2
Non-controlling interest	298.7	292.0	301.3

(1) Intangible assets+ Tangible assets+ Investment properties.

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total - Availability (Cash + Banks + financial inv.).

(5) Includes non-controlling interest.

(EUR million)

	2015	2016	2017
Financial structure ⁽¹⁾	1.7	1.6	1.3
Solvency ⁽²⁾	0.6	0.6	0.7
Financial autonomy ⁽³⁾	0.5	0.5	0.5
Growth in turnover ⁽⁴⁾	(3.4%)	5.2%	2.8%
EBITDA margin ⁽⁵⁾	49.2%	50.2%	50.5%
ROCE before tax ^{(6) (7) (8)}	3.3%	3.8%	4.7%

(1) Bank debt / Equity.

(2) (Equity + grants) / Liabilities.

(3) (Equity + grants) / Assets.

(4) Net of CRD.

(5) EBITDA / Net CRD turnover.

(6) EBIT ⁽⁷⁾ / Capital employed ⁽⁸⁾

(7) OPL - CRD.

(8) Total net assets – short term liabilities – Investment grants - CRD (superavit-deficit) – Deferred tax assets.

Business data

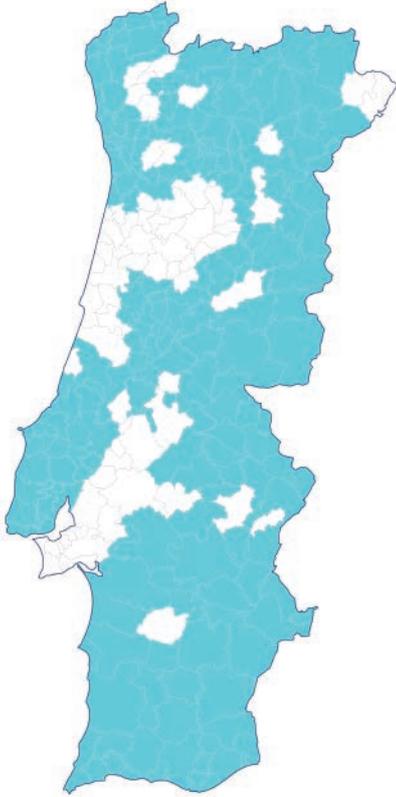
	Unit.	2015	2016	2017
Volume of water produced	M m ³	573.5	580.9	599.4
Volume of water distributed ⁽¹⁾	M m ³	75.3	74.9	77.9
Volume of water billed	M m ³	577.2	583.3	610.2
Volume of wastewater treated	M m ³	456.3	533.6	461.0
Volume of wastewater billed	M m ³	463.1	476.1	469.2
Number of employees ⁽²⁾	N.º	3 253	3 257	3 173

(1) Includes water distributed by EPAL, AdRA and AdNorte.

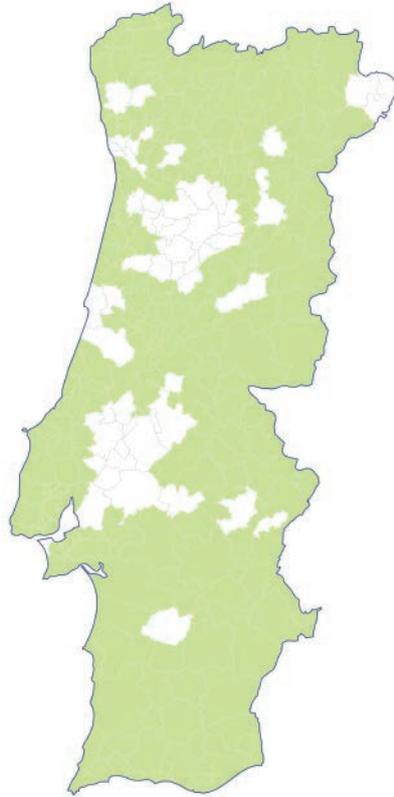
(2) Current employees + employees with suspended contract.

Municipalities served

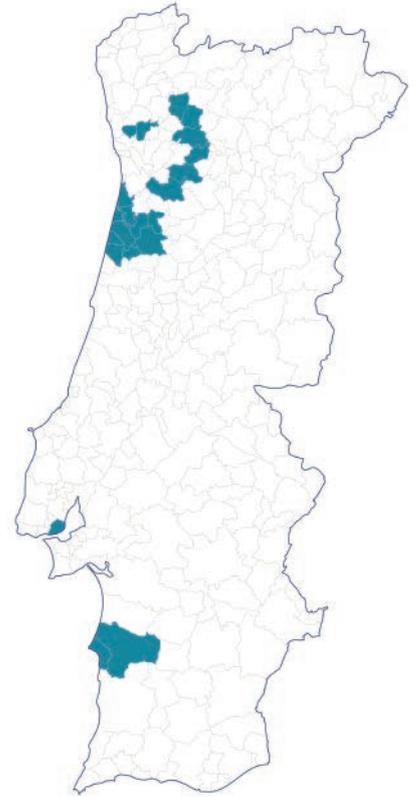
Upstream/water supply



Upstream wastewater treatment



Downstream water supply and wastewater treatment



Who we are

AdP - Águas de Portugal, SGPS, S.A. (AdP as a group or AdP SGPS as a separate holding company) is a publicly-owned limited liability company, a holding company that, through its subsidiaries, manages the urban water cycle, operating a number of water supply and wastewater treatment systems, upstream and downstream, in mainland Portugal, under concessions, partnerships or delegated management.

AdP was set up in 1993 to respond effectively to the major challenges facing the environmental sector.

Mission

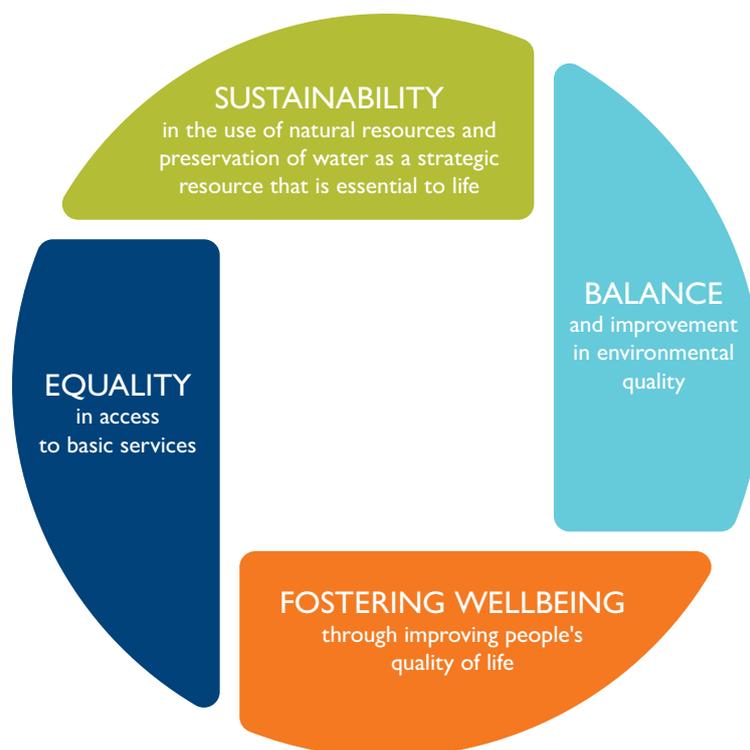
To design, build, operate and manage water supply and wastewater treatment systems, within a framework of economic, financial, technical, social and environmental sustainability, developing a strong and highly competent Portuguese business group.

Vision

To be a key business group in the environmental sector; in order to promote universality, continuity and quality of service, the sustainability of the sector and the protection of environmental values.

Values

- Sustainability in the use of natural resources
- Water preservation as a strategic resource essential to life
- Balance and improvement of environmental quality
- Equal access to basic services
- Wellbeing by improving quality of life



History

1868

Founding of CAL - Companhia de Águas de Lisboa, concession holder for the water supply to the city of Lisbon until 1974, then succeeded by EPAL - Empresa Pública das Águas de Lisboa. In 1991, EPAL became a public limited company with fully state owned capital, and was renamed EPAL - Empresa Portuguesa das Águas Livres, which joined the AdP Group in 1993.

1993

Founding of Águas de Portugal as part of IPE - Investimentos e Participações do Estado, with the responsibility for developing the multi-municipal water supply and wastewater treatment systems.

1995

Establishment of concession companies for the first multi-municipal water supply systems (Cávado, Douro and Paiva, Barlavento Algarvio and Sotavento Algarvio). Creation of the Estoril Coast multi-municipal wastewater treatment system and the founding of SANEST.

1997

Launch of Aquapor, a company formed to participate in the municipal systems market and support the Group's intervention in international markets, prioritising Portuguese-speaking countries such as Angola, Brazil, Cape Verde and Mozambique.

Completion of AdP's first European Investment Bank (EIB) financing operation.

2000

Integration of the company Empresa Geral do Fomento (EGF) into the AdP Group as a sub-holding company for the waste sector. Launching the first integrated multi-municipal water and wastewater treatment system and its concession holders. Beginning a cooperation project in East Timor. Publication of the first Strategic Water Supply and Wastewater Treatment Plan (2000-2006).

2001 – 2002

AdP Internacional set up to manage the Group's businesses outside Portugal. EGF completed the process of decommissioning, closing and environmentally recovering about 300 dumps. Opening of new multi-municipal systems and their management companies. Acquisition of a 55% stake in AQUASIS, a company designing and producing information systems for the water sector.

2005

Publication of the Water Law, transposing the Water Framework Directive into Portuguese law. Portugal also experienced an unprecedented drought this year. AdP collaborated in the development and implementation of a wide reaching awareness campaign on the rational usage of water and minimizing the effects of the drought.

2007

Restructuring of the AdP Group to ensure a greater focus on the management of multi-municipal water supply and wastewater treatment systems. Beginning of the Aquapor disposal process alongside other companies with complementary activities in international markets. Publication of the New Strategic Water Supply and Wastewater Treatment Plan (2007-2013).

2009

Establishment of a new model for integrated urban water cycle management, based on the partnership agreements signed between the state and local authorities, and with the first partnerships launched in the Aveiro and Alentejo regions, which assigned management and operational control to the AdP Group.

2012

Implementation of a set of territorial, organisational, regulatory and financing reforms for the water sector to generally guarantee continuity, universality, quality and sustainability in the delivery of these essential public services.

2014 - 2015

Issuing of new statutes by the water and waste sector regulator (ERSAR), enactment of the law on itemized water and waste service bills and publication of the strategic plan for the water sector (PENSAAR 2020) and the Operational Programme for Sustainability and Efficiency in the Use of Resources (POSEUR).

Legislation on the territorial reorganisation of the water supply and wastewater treatment systems in the AdP Group resulted in a process of aggregation into larger systems. The sale of 95% of the EGF share capital took place.

2016

The launch of four additional companies by spinning off Águas do Norte and Águas de Lisboa and Vale do Tejo received approval at the General Shareholders Meeting, based on criteria of efficiency, equality and solidarity between systems.

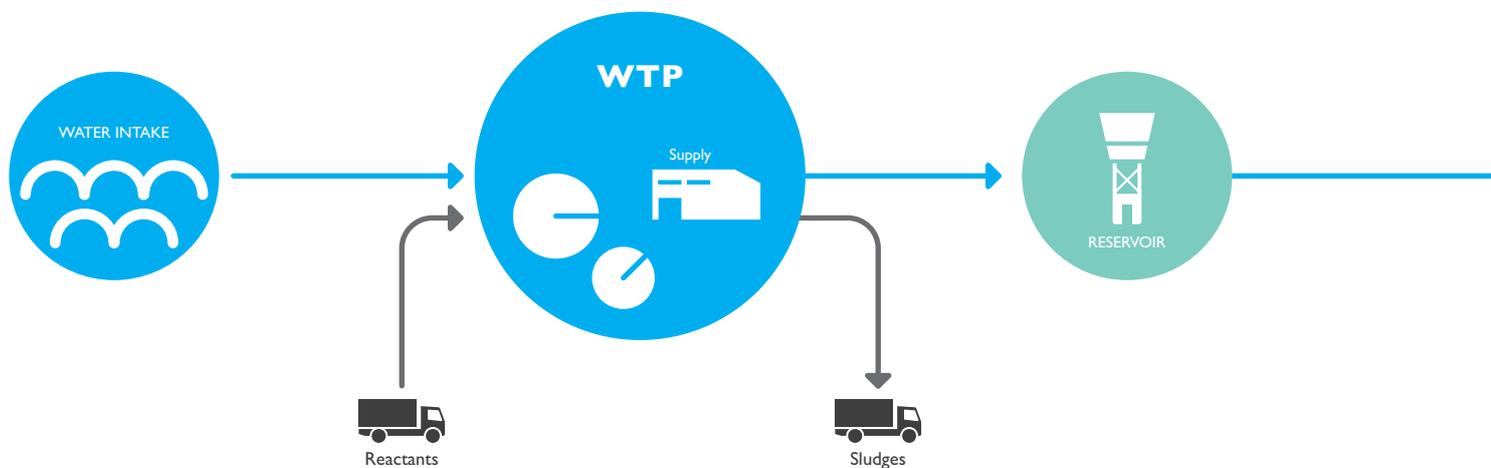
2017

Launch of Águas do Douro e Paiva, SIMDOURO, Águas do Tejo Atlântico and SIMARSUL company operations. Sale of the remaining share (5%) of EGF share capital.

Water management

The AdP Group's main business activity is the integrated management of all stages in the urban water cycle, from abstraction, treatment and distribution of water for public consumption, collection, transportation, treatment and rejection of urban wastewaters, including recycling and reuse.

The AdP Group and its subsidiaries have a wide presence on the Portuguese mainland, from north to south, serving approximately 80% of the Portuguese population, directly (in downstream systems), with a total of over 580,000 customers, or indirectly (in upstream systems) through municipal or private concession companies, to more than 230 municipalities.



1

Abstraction

Collection of surface or underground water. May include pumping.

Treatment

Correction of physical, chemical and bacteriological characteristics of water to make it fit for human consumption.

Delivery

2

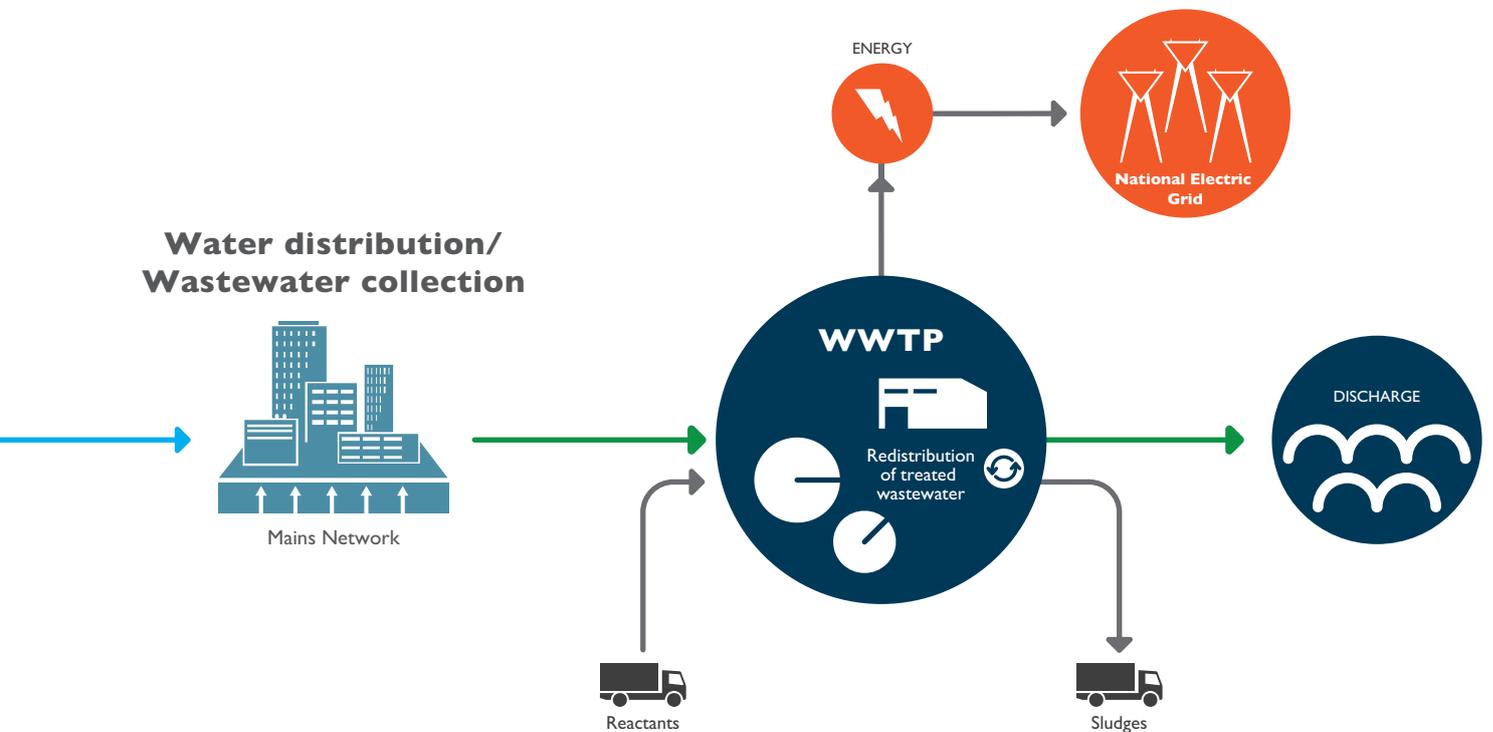
Storage

Storage of water to ensure continuity of supply.

When stemming from partnerships between the state and municipalities, these subsidiaries may take the form of concession companies for state-owned systems (multi-municipal systems) or municipal system management companies in a public partnership in which AdP holds a majority stake on behalf of the state.

The AdP Group also operates **(i)** in the field of renewable energy with the objective of maximizing the energy potential of its assets and local resources and **(ii)** in international markets by providing services in association with local partners or Portuguese companies in the sector.

Water distribution/ Wastewater collection



3

Distribution

Water distribution to consumers in quantity and pressure to satisfy their needs. This may include water elevation.

Collection

Collection of the wastewaters resulting. This may include wastewater elevation.

Transportation

Transportation of wastewater from the collection point to the wastewater treatment station.

This may include wastewater elevation.

4

Treatment and Discharge

Correction of physical, chemical and biological wastewater characteristics considering the final discharge location.

This may include bacteriological correction prior to final discharge of treated wastewater:

Waste Water Reuse

5

Energy Recovery from Treatment

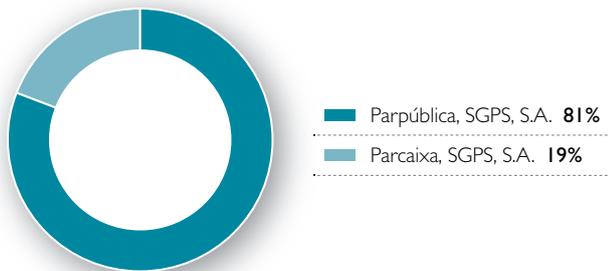
(WWTP - Wastewater Treatment Plant)

Group organisation

Ownership structure

The ownership structure of AdP – Águas de Portugal, SGPS, S.A., is the following:

Ownership structure



Shareholders are Parpública, SGPS, S.A., and Parcaixa, SGPS, S.A.

Corporate structure chart

As at 31 December 2017, the Group incorporated 20 subsidiaries, twelve of which managed water supply and wastewater treatment services.



MZ: Mozambique / TL: East Timor

AdP SGPS functional structure

AdP SGPS is structured into departments to implement sectoral and financial guidelines and assist in overall Group management. This correspondingly focuses on the Group's social, environmental, technical, economic and financial sustainability, its relationship with stakeholders; the optimisation of capital and human resources and excellence in performance.



Governing bodies, supervisory bodies and external auditor

Officers of the General Meeting (current term of office: 2015–2017):

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 (current term of office: 2016–2018):

Chair João Nuno Marques de Carvalho Mendes
Vice-Chair Carla da Conceição Afonso Correia
Director Cláudio Miguel André de Sousa Jesus
Director José Manuel Leitão Sardinha
Director Juan Miguel Martín Iglesias
Non-executive director Miguel Jorge de Campos Cruz, by appointment of the shareholder Parpública, SGPS, S.A., and Parcaixa, SGPS, S.A., (elected on 18 April 2017 to replace José Manuel Mendes Barros, who resigned)

Executive Committee (current term of office: 2016–2018):

Chair João Nuno Marques de Carvalho Mendes
Vice-Chair Carla da Conceição Afonso Correia
Director Cláudio Miguel André de Sousa Jesus
Director José Manuel Leitão Sardinha
Director Juan Miguel Martín Iglesias

Supervisory Board (current term of office: 2015–2017):

Chair Carla Maria Lamego Ribeiro
Director Mário José Alveirinho Carrega
Director Ana Luísa Videira Gomes
Substitute Director Graça Maria V. N. Montalvão Fernandes

Chartered Accountant:

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

Company Secretary:

Appointed Cristina Rebelo Pereira
Substitute Ricardo Cortes Ribeiro

External Auditor:

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

Holding portfolio as at 31 December 2017

Management Companies

Company	Holding ⁽¹⁾	Head Office	Activity
Águas de Santo André, S.A.	100.00%	V.N. Santo André	Water and wastewater treatment upstream and downstream
EPAL, S.A.	100.00%	Lisbon	Water upstream and downstream
Águas do Norte, S.A.	68.73%	Vila Real	Water and wastewater treatment upstream and downstream
Águas do Vale do Tejo, S.A.	68.35%	Guarda	Water and wastewater upstream
Águas do Centro Litoral, S.A.	60.33%	Coimbra	Water and wastewater upstream
SIMDOURO, S.A.	58.52%	Vila Nova de Gaia	Wastewater upstream
Águas do Algarve, S.A.	54.44%	Faro	Water and wastewater upstream
AdRA – Águas da Região de Aveiro, S.A.	51.00%	Aveiro	Water and wastewater downstream
AgdA – Águas Públicas do Alentejo, S.A.	51.00%	Beja	Water and wastewater upstream
Águas do Douro e Paiva, S.A.	51.00%	Oporto	Water upstream
SIMARSUL, S.A.	51.00%	Quinta do Conde	Wastewater upstream
Águas do Tejo Atlântico, S.A.	50.68%	Lisbon	Wastewater upstream

(1) Percentage of subscribed capital

Other Subsidiaries

Company	Holding ⁽¹⁾	Head Office	Business Activity
AdP - Águas de Portugal Internacional - Serviços Ambientais, S.A.	100.00%	Lisbon	International sale of information and management systems and provision of technical services in the water sector and international sub-holdings
AdP - Águas de Portugal Serviços Ambientais, S.A.	100.00%	Lisbon	Provision of shared services to the AdP Group
AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.	100.00%	Lisbon	RDevelopment of environmental management activities
AdP Timor-Leste, Lda.	100.00%	Dili, East Timor	Provision of technical services in the water sector
Águas do Brasil, S.A.	100.00%	Cabo Frio, Brazil	Subholding for Brazil
Aquatec, Lda.*	100.00%	Maputo, Mozambique	Provision of technical services in the water sector
AQUASIS, S.A.*	55.00%	Lisbon	Development and sale of information and management systems in the water sector. About to be demerged
Miese, S.A.*	40.00%	Lisbon	Operation of a forest biomass thermoelectric power station
Trevo Oeste, S.A.	43.24%	Alcobaça	Treatment and recovery of livestock breeding wastes

* Indirect holding of AdP SGPS through AdP Internacional (in the case of Aquatec and AdP Timor Leste), and AdP Serviços (in the case of Aquasis) and AdP Energias (in the case of Miese).

(1) Percentage of subscribed capital.

Subsidiaries

AdP Internacional, subsidiary in Angola (with its head office in Luanda, Angola)

AdP Internacional, subsidiary in Cape Verde (with its head office in Cidade da Praia, Cape Verde)

AdP Internacional, subsidiary in Guinea Bissau (with its head office in Bissau, Guinea Bissau)

Leading Events

- Publication of Decree-Law no. 16/2017, of 22 February, which proceeded with the launch, through demerger, of the Multi-municipal Water Supply System for the South of Greater Oporto and the Multi-municipal Sanitation System of Greater Oporto, and the founding of their respective managing entities, Águas do Douro e Paiva, S.A., and SIMDOURO – Saneamento do Grande Porto, S.A., with the remaining Multi-municipal Water Supply and Sanitation Systems for the North of Portugal remaining with the former concessionary and management entity, Águas do Norte, S.A., and undertaking the first general assemblies of the aforementioned companies that the Portuguese state attributed with the management and operation concessions for the Multi-municipal Water Supply System of the South of Greater Oporto and Multi-municipal Sanitation System of Greater Oporto, respectively.
- Publication of Decree-Law no. 34/2017, of 24 March, which proceeds with the establishing, by demerger, of the Multi-municipal Sanitation System for the Setúbal Peninsula and the Multi-municipal Wastewater Sanitation System of Greater Lisbon and Oeste region alongside the respective management entities, SIMARSUL – Saneamento da Península de Setúbal, S.A., and Águas do Tejo Atlântico, S.A., while retaining the other Multi-municipal Water Supply and Sanitation System for the Tagus Valley under the responsibility of the concession and management entity that was renamed Águas do Vale do Tejo, S.A.
- The AdP Group was designated the coordinator of the inter-ministerial working group responsible for drafting the review of ENEAPAI – the National Strategy for Livestock and Agro-industrial Effluents, in accordance with Dispatch no. 2054/2017 published in the Official Gazette on 10 March. Following the over nine years since the approval of the aforementioned Strategy, this initiative holds the objective of providing an overview of implementation and subsequently undertaking a review of the strategy dedicated to the appropriate management of the effluents produced by livestock production and agro-industrial operations.
- May saw the public presentation of PEPE – the Energy Efficiency and Production Plan by the AdP Group with the objective of fostering eco-efficiency and the sustainability of the water supply and wastewater sanitation operations, through maximising the energy returns of the assets and endogenous resources of Group companies, correspondingly reducing consumption, increasing in-house production and improving the conditions for the acquisition of energy and advancing with electricity powered mobility. Furthermore, under the auspices of PEPE, work began on the training of specialist internal energy auditors, within the scope of the management of the urban water cycle, by the EPAL Academy and with the involvement of external entities, especially ADENE – the Agency of Energy and the Faculty of Economics and the Faculty of Sciences and Technology at the Nova University of Lisbon.
- In July and August, the sale process took place for the shares held in Empresa Geral do Fomento, S.A., representing the 5% of equity capital reserved for workers of Empresa Geral do Fomento, S.A. and the other companies held, within the framework of the reprivatisation of Empresa Geral do Fomento, S.A., which had previously been part of AdP – Águas de Portugal, SGPS, S.A., as approved by Decree-Law no. 45/2014, 20 of March, and under the term stipulated by annex II of the Council of Ministers Resolution no. 87/2017, of 19 June.
- The European Investment Bank (EIB) approved the concession of a loan for the amount of EUR 420 million to the AdP Group in order to finance water and sanitation infrastructures. This operation received the guarantee of the European Fund for Strategic Investments, a central facet of the Investment Plan for Europe, otherwise known as the Juncker Plan. The contract releasing the first tranche of EUR 220 million was signed on 12 September 2017.

- This loan shall bring about improvements to the quality, efficiency and sustainability of the water supply and wastewater sanitation services in Portugal through supporting the construction and renovation of the respective infrastructures across mainland Portugal. This investment will also foster economic growth through creating over 7,400 posts of employment during the implementation phase in addition to nurturing social and territorial cohesion, especially as these investments in the majority take place in the convergence regions of Portugal. This project also returns important and long lasting environmental benefits through raising the natural quality of surface and subterranean hydric resources and encourages the more rational utilisation of these resources.
- During the forthcoming years, this financing by the EIB will contribute to the implementation of a major investment program with over 1 000 interventions across the water supply networks that will directly benefit Portuguese citizens to the extent that they raise the quality and coverage of the service in Portugal. The investments will also boost the volume of wastewaters treated in accordance with the best quality standards, bringing about the construction of new collection and treatment stations. The improvements to the water supply services are expected to benefit over eight million citizens with over six million experiencing the improvements to wastewater treatment services.
- The remaining financing of EUR 200 million may be provided through an alternative structure without any recourse to the AdP Group. This tranche, with its final conditions still subject to definition, may constitute an innovative instrument for the financing of municipalities that was hitherto unavailable.
- Courtesy of support from the Juncker Plan, the EIB may provide the AdP Group with the financing necessary under advantageous conditions both as regards the duration of the loan and the respective interest rates in effect. In supporting this financing by the EIB, the Investment Plan for Europe may also contribute to ensuring Portugal complies with European legislation, of key importance to the water sector, given that the EIB financing shall help in accelerating the ongoing reform of the water sector under the auspices of the Strategic Plan for the Water Supply and Wastewater Sanitation 2020 (PENSAAR 2020).
- The EIB holds a longstanding relationship with the AdP Group, which stretches back to the 1990s, and has performed an extraordinary role in financing the water sector in Portugal over the course of the last two decades.
- This 25-year financing represents the first group financing based only on the credit risk of AdP and correspondingly not in receipt of any state or commercial bank guarantees and furthermore securing funding requirements for the next five years.
- In the third quarter of 2017, the tender was launched for the procurement of 127 100% electric light vehicles (76 cars and 51 vans), destined for the Group's operational fleet and for the installation of 134 recharging points from the north to the south of Portugal.
- As regards the investments implemented by Group companies, we would here highlight the following:
 - construction, by Águas do Norte, of new connection infrastructures between the water production and treatment system and the municipal household distribution systems, including reserves wherever necessary, which resulted from an expansion in the area served by the company, especially in the council of Viana do Castelo but also in Arcos de Valdevez, Monção and Vila do Conde;
 - conclusion of the Vale da Pedra wastewater treatment line, the responsibility of EPAL, thus rendering possible an improvement to the quality of the wastewater treated in this installation with its approximate 55 years of operation and that serves the city of Lisbon and nearby councils as a complement to the Castelo de Bode system, and alongside a notable increase in the energy efficiency coupled with better operational security;

- inauguration of the new EPAL Central Command Centre in January, located in the Parque das Nações area of Lisbon. This new facility contains the operational centre that centralises the reception and control of information as well as the surveillance of all of the infrastructures allocated to the transport and distribution of water as well as the intervention centre within the scope of the domestic distribution of water in the city of Lisbon;
- inauguration in January of the new Entroncamento wastewater treatment plant, with the capacity to process the wastewaters produced by the around 25,000 inhabitant-equivalents of the municipality;
- launch, in August, of the construction of the Canha subsystem, the final complete sanitation subsystem for construction by SIMARSUL in the municipality of Montijo;
- construction of the new wastewater treatment stations of Beja, Grândola and Montemor-o-Novo by AgdA - Águas Públicas do Alentejo, which are to replace those existing and thereby guaranteeing compliance with the Urban Wastewaters Directive;
- beginning of the first construction of the new Magra water supply system by AgdA - Águas Públicas do Alentejo, destined to serve the city of Beja and the communities in the western zone of this council, which will result in a substantial alteration to the configuration of the overall system and enable the resolution of complex supply problems and endow the required robustness and security;
- construction, by Águas do Algarve, of the Companheira wastewater treatment plant in Portimão for around 130 000 inhabitants, due to replace the current wastewater treatment plant (WTP) with the same name, now already obsolete and unable to guarantee compliance with the current treated effluent quality requirements;
- construction of the new Faro-Olhão WTP, also by Águas do Algarve, with the capacity to treat the effluent of around 113 000 inhabitants, designed to replace two currently operational installations – the Faro Nascente WTP and the Olhão Poente WTP, obsolete and with their refurbishment unfeasible –, which shall result in guaranteeing the compliance with the demands as regards the discharge parameters in the receptor environment, in this case in Ria Formosa (the conclusion of construction took place in April 2018).
- Within the framework of implementing the Águas do Alentejo Public Partnership System Investment Plan by 2020, tenders were launched and adjudicated, in the second quarter, for diverse construction projects for the infrastructures making up the water supply systems. As regards sanitation, this highlights the adjudication of the design-construction tender for the S. Teotónio WTP lifting system in the council of Odemira, due for completion in 2019.
- In the international field, highlights include the February signing of a cooperation protocol between AdP Internacional and Sanepar – Companhia de Saneamento do Paraná, with the purpose of exchanging experiences and information and documentation and, in November, the signing of a bilateral technical cooperation protocol with the Danish public company Aarhus Water, seeking to establishing a framework for technical cooperation with the core objective of improving the performance, the efficiency and the sustainability of water and sanitation services as well as cooperating on international projects within the scope of mutual valuation.
- In 2017, the first AdP Group training program was launched under the title of WAVE. This program seeks to attract and prepare trainees in accordance with the functional needs of the various Group companies, thus

providing opportunities for training and personal and professional development for young graduates in a real working context while simultaneously strengthening the attractiveness of the Group and the water sector in Portugal. The WAVE Program was launched in conjunction with various academic institutions across Portugal in the fields of Engineering, Management, Economics and the Social Sciences.

- Within the context of the extreme drought that afflicted the country in 2017, the AdP Group provided competences, teams and technical means and thereby contributing towards ensuring that there were no shortages of water and highlighting within this framework the operations implemented by AgdA - Águas Públicas do Alentejo and by Águas do Norte, in the regions of the Alentejo and Viseu, and in addition to EPAL and Águas do Vale do Tejo in the Beira Interior region.
- November saw the launch of a drought awareness campaign stressing the importance of the rational usage of water in an action by the AdP Group but which also involved the APA – the Portuguese Environment Agency and ERSAR – the Water and Wastewater Service Regulator.
- In December, Águas de Portugal formalised its adhesion to the Corporate Forum for Equality, strengthening its commitment to the promotion of gender equality and improving sustainability, organisational justice and the satisfaction of all of its employees.

Awards and recognition

- In 2017, the AdP Group companies managing water supply systems were distinguished with seals of quality under the auspices of the Awards and Seals of Quality for Water and Waste Services – ERSAR 2017, an initiative from the regulatory entity in partnership with the *Água & Ambiente* journal.
- AgdA – Águas Públicas do Alentejo ranked third place in the «small and medium sized companies» category of the Excellent Companies of the Alentejo Awards of 2017, attributed by Casa de Espanha, in Lisbon.
- The Alcântara WTP, an infrastructure managed by Águas do Tejo Atlântico, received the Valmor Municipal Architecture Award for the year of 2013. The architectural design, by the architects Frederico Valsassina, Aires Mateus and João Ferreira Nunes, involved the expansion of the installations, which was completed in 2011, highlighted by its «green roof» spanning around two hectares. The largest «green roof» in Europe, this was able to reduce the landscape impact of a large scale, concrete urban WTP located in the midst of the city.
- The National Meeting of ENEG – Water and Sanitation Management Entities 2017 distinguished EPAL with the Pipe of Gold for its Lisbon Soul Bottle in the category of «best innovation action», with an honourable mention for the work EPAL Strategy for Adapting to Climate Changes, in the «best climate changes adaptation strategy» category.
- EPAL also received recognition from the Portuguese Association of Business Ethics at its third edition (2017) with the Recognition of Corporate Social Responsibility Practices Award for its projects Juntos Somos + Energia (We Are Together + Energy) in the «Communication» category, and the Pátio da Água (Water Patio) in the «Community» category.
- SIMARSUL received the Prince Sultan Bin Abdulaziz International Prize for Water Scholarship, in the field of Environmental Technology awarded at the EMEC 18 – European Meeting on Environmental Chemistry conference, where there was the presentation of the work «Removal of PPCPs from effluents based on an electrochemical process – possibility of further use in agriculture».





The business

Business data

94%

Upstream water supply coverage rate

93%

Upstream water treatment coverage rate

610 Mm³

of water billed

469 Mm³

of wastewater billed

727 875 MWh/year

Energy consumed (includes self-supply)

224 490 MWh/year

Energy produced (photovoltaic, mini-hydro, biogas)

127 Electric vehicles

(9%) of the AdP Group fleet

Main infrastructures

1 155

Abstractions

157

Water Treatment Plants

992

Wastewater Treatment Plants

17 026 km

Water Mains and Distribution Networks

9 613 km

Drains networks

686

Pumping Stations – Water Supply

2 033

Pumping Stations – Wastewater Treatment

1 734

Reservoirs

20

Submarine outfalls

The business

Strategic lines

AdP – Águas de Portugal, SGPS, S.A. is a holding company that concentrates its stake holdings into the capital of companies through which it designs, builds, operates and manages water supply and wastewater sanitation systems.

AdP – Águas de Portugal, SGPS, S.A. is a competent and effective Portuguese business group responding to the major challenges facing the environmental sector and furthermore operating within the framework of economic, financial, technical and social sustainability.

Founded as a business instrument of the state for the implementation of public policies and to attain national objectives in the environmental sector, this seeks to foster **(a)** universality, continuity and quality of service; **(b)** sector sustainability; and **(c)** the protection of environmental values.

The fundamental values of the AdP Group consist of the sustainability of natural resources and the preservation of water as a strategic resource essential to life, the balance and the improvement of environmental quality, equity in the access to basic services and the improvement of the quality of life of citizens.

The objectives of the AdP Group are determined by the public policies for the state corporate sector and, in particular, for the sector of activity of AdP Group companies.

The strategic guidelines are defined in accordance with the terms of article 24 of Decree-Law no. 133/2013, of 3 October, which establishes the Juridical Regime for the Public Business Sector, and through the specific orientations stipulated by ministerial dispatches and the deliberations of shareholders that together result in the strategic plans of companies.

Therefore, in accordance with the Juridical Regime for the Public Business Sector, the Ministry of Finance, through the General Directorate of Treasury and Finance, is responsible for the definition of the orientations for drafting the activity plans and budgets for each financial year as well as controlling the evolution of the levels and terms of debt under the terms of article 29 of the aforementioned Regime.

Furthermore resulting from this Regime, the Ministry of the Environment, as the sector ministry, holds responsibility for the following:

- a) defining and communicating the sectorial policy for implementation;
- b) issuing the specific orientations for the sector, applicable to each company;
- c) defining the objectives to be attained by public companies in carrying out their operational activities;
- d) defining the public service to be provided by companies and promoting the diligence necessary for their respective contractualisation.

Duties and responsibilities of the Board

The carrying out of the functions of the Board of Directors of AdP – Águas de Portugal, SGPS, S.A., takes into account that stipulated by the legislation in effect, specifically the Public Manager Statute approved by Decree-Law no. 71/2007, of 27 March, which, as regards the undertaking of executive functions, hands down the following obligations:

- a) comply with the objectives defined by general assemblies or, whenever existing, by management contracts;
- b) ensure the implementation of the orientations defined within the terms of the law, the management contract; and the application of the company strategy;
- c) accompany, verify and control the evolution of activities and businesses of the company across all their components;
- d) evaluate and manage the risks inherent to company activities;
- e) ensure the sufficiency, veracity and reliability of the information involving the company as well as its respective confidentiality;
- f) maintain professional secrecy over the facts and documents containing knowledge that results from the holding of functions and neither to release nor to utilise for whatever the purpose, whether for personal or third party gain, directly or through intermediate means, the knowledge stemming from those facts and documents;
- g) ensure the equitable treatment of shareholders.

The members of the Board of Directors furthermore draft the proposals for actions that may be appropriate to the development of the sector and of the AdP Group.

The public managers that sit on the Board of Directors of AdP – Águas de Portugal, SGPS, S.A. are subject to the ethical norms accepted for the sector of activity and compliance with the best practices of corporate governance and business management, specifically in terms of transparency, the prevention of corruption, standards of ethics and behaviours, corporate social responsibility, human resource policies, fostering equality, prevailing conflicts of interest and respect both for the competition and for market actors.

General strategic orientations

The Board of Directors ensures that AdP – Águas de Portugal, SGPS, S.A., and its holding companies, without infringing on their own management autonomy:

- Comply with their missions and undertake their activities in conjunction with the strategic policies for the sector defined by the government within a framework of business rationality, the constant optimisation of efficiency, quality and the security of the services rendered;
- Be socially responsible, striving in their actions to attain the social and environmental objectives and foster competition in the marketplace, the protection of consumers, investment in professional and personal development, nurture equality, protect the environment and respect ethical principles;
- Develop environmental awareness campaigns that promote efficient utilisation and the protection of hydric resources;
- Promote the appropriate balance between the quantitative and qualitative levels of public service provided taking into account that satisfaction of users and economic, financial and environmental viability and sustainability;
- Adopt methodologies that enable continued improvements to the quality of services provided and the satisfaction of clients;
- Design and implement human resource policies oriented towards valuing the individual, strengthening their motivation and stimulating an increase in the productivity and satisfaction of members of staff within a framework of balance and rigorous control over the associated costs, compatible with the respective dimension;
- Implement action plans able to bring about gender equality of treatment and opportunities, eliminating discrimination and enabling the reconciliation of personal, family and professional life (enhancing equality);
- Implement innovative science and technology policies that promote and stimulate research into new ideas, new products, new processes and new approaches to the market to the benefit of complying with the mission and satisfying collective needs and oriented towards economic, financial, social and environmental sustainability;
- Adopt information and internal control systems, appropriate to the scale and complexity, that cover all the relevant risks susceptible to ongoing audit by the competent entities for such purposes.

Specific strategic orientations

The Board of Directors ensures that AdP – Águas de Portugal, SGPS, S.A. and its holding companies, following the important investment efforts in infrastructures and the set of more recent organisational changes, implements an agenda of measures oriented towards the consolidation and improvement of operating efficiency, in particular:

1. Deepening collaboration with the municipalities, especially through:
 - 1.1. Promoting the integrated municipal system partnerships, prioritising the better and integral management of the water cycle;
 - 1.2. Identifying the collaborative alternatives that enable the deployment of public business competences in the service of municipal partners;
 - 1.3. Adopting measures favourable to the participation of municipal partners in the main decisions as regards investments, expanding or reducing the scope of activities, reviewing tariffs and planning instruments.
2. Fostering regional development in keeping with the political option for the water sector while rendering this compatible with raising the efficiency standards and its own business purpose, specifically:
 - 2.1. In implementing the highlights of the multi-municipal systems.
 - 2.2. In the outsourcing policies for goods and services that also foster the development of regional economic activities.
 - 2.3. In establishing regional centres of competences, networked, in interactive environments, decentralised and collaborative, aligned with the prevailing territorial realities.
 - 2.4. In the reorganisation of the corporate areas, including the redistribution of resources in accordance with the effective needs of AdP Group companies, setting up committees and/or specialist competence and innovation banks with regional entities, with the consequent re-evaluation of installations.
3. Promoting high efficiency standards based on reinforcing the business nature and the incentives for its members of staff, aligning them with the challenges of the sector, in particular:
 - 3.1. Systematising and optimising operational routines, contributing to better knowledge of the different allocations of resources, through the drafting or reviewing of operational plans on a comparative and consistent basis;
 - 3.2. Optimising the accounting and management systems and the performance indicators for activities and comparable entities, reflecting also the ongoing inputs resulting from operational plans;
 - 3.3. Undertaking participation in exercises for evaluating and comparing performance;
 - 3.4. Drafting and implementing the energy management plan with certification according to the norm NP EN ISO 50001.
4. Promoting the effective and shared management of change, aware of the precedents and the challenges of change in the present, especially of a structural and cultural nature.
5. Enabling the management of infrastructures under the auspices of the norm ISO 55001, conciliating a drive for optimisation with the challenges of preservation and responding to climate changes and security, specifically through:
 - 5.1. Defining infrastructure management policies.
 - 5.2. Organising the integration of the functions of design, construction and maintenance at operating companies.
 - 5.3. Consolidating knowledge about infrastructures.
 - 5.4. Consolidating the information and evaluation systems.
 - 5.5. Integrating risk management practices and the responses to climate changes.
 - 5.6. Consistently and coherently integrating the economic and financial planning exercises.
6. Promoting the effective involvement of the AdP Group in the implementation of multi-sectoral environmental protection policies, especially the measures necessary to the resolution of problems stemming from livestock and agro-industrial effluents.
7. Capitalising on the competences and the capacities available across the AdP Group for the implementation of national projects and for internationalisation, in this case, prioritising operations with low levels of financial commitment.

Framework

*Macroeconomic background*¹

Global

Global economic growth in 2017 came in at around 3.7% (vs. 3.2% in the previous year and remaining below pre-financial crisis levels of growth), as a result of the expansion verified in the United States, Europe and Asia. The growth registered in the fourth quarter of 2017 was greater than that forecast, especially in Germany, Japan, Korea and the United States of America. The emerging markets also contributed towards this growth, especially Brazil, China and South Africa.

World trade expanded strongly over the closing months of 2017, backed by a recovery in investment, especially in the advanced economies and coupled with a rise industrial production in Asia. Industrial activities remained stable in keeping with high levels of consumer confidence, which indicate sustained levels of final demand.

The sentiment prevailing in financial markets remains strong in the advanced economies, reflecting the gains in the stock market and a new downturn in volatility. In the emerging markets, interest rates dropped, contributing to a modest decrease in the hitherto restrictive financing conditions in keeping with the capital inflows returning to levels unprecedented since 2015.

The inflation rate picked up across the OECD to rise from 1.10% in 2016 to 2.25% in 2017, reflecting the surge in energy prices and foodstuffs.

Eurozone

The growth in Gross Domestic Product (GDP) in the Eurozone stood at 2.4% in 2017 (vs. 1.8%, in 2016), driven by strong contributions from internal demand and, in particular, fixed investment expenditure. The labour market conditions continued to improve towards the end of 2017 and at a pace faster than had previously been expected with the unemployment rate dropping to 9% in the third quarter of 2017, the lowest rate since late 2008.

The inflation rate in the Eurozone still shows no signs of revival. The consumer price index, excluding energy and foodstuffs varied between 0.9% and 1.4% year on year. However, the forecasts point to a gradual rise in inflation over forthcoming years driven by the monetary policy implemented by the European Central Bank, designed for continued economic growth, with the corresponding absorption of the economic slack and rises in salaries.

Interest rates

Monetary policy in the Eurozone remained expansionist and the European Central Bank reduced the reference rate to -0.4% in March 2016 and extended the asset purchase program to a monthly amount of EUR 60 billion. A reduction of this program is expected for 2018 but should remain at EUR 30 billion per month.

The long term interest rates, measured by the return on ten-year public debt bonds, rose year-on-year in 2017 as a result of the economic growth experienced in 2017.

Portuguese ten-year treasury bond yields fell back in the secondary market between the end of 2016 and 2017, dropping from 3.76% to 1.93%, with this downturn particularly occurring over the second half of 2017. The differential in Portuguese bond rates versus German rates now stands at around 150 basis points.

Portugal

According to forecasts from INE – the National Institute of Statistics and the Bank of Portugal, GDP should have risen by 2.5% in 2017, to a global result close to that of 2005 at constant prices. This performance, which represents slight acceleration against the economic performance in 2016 (1.5%), was supported by the growth in private consumption, which grew at 2.2% (essentially due to

¹ Sources: IMF World Economic Outlook; European Commission Economic Outlook; Economic Bulletin of the Bank of Portugal; Macroeconomic Forecasts of the European Central Bank; Eurostat and the INE – the Portuguese Statistical Institute.

demand for non-durable goods), and 8.3% in investment (essentially in transportation equipment, other machines, equipment and storage systems), in contrast with growth of only 0.2% in private consumption.

The labour market has recovered gradually with the unemployment rate falling from 11.2% in 2016 to 8.9% in 2017, below the Eurozone unemployment rate (9.1%).

Portugal's inflation rate accelerated slightly. In 2017, the annual average variation in the consumer price index (CPI) was 1.6% (vs. 0.6% in 2016). Excluding energy and unprocessed foodstuffs from the CPI, the annual average variation was 1.2% (0.7% in 2016). The annual average variation in the Portuguese harmonised consumer price index (HCPI) was 1.6% in 2017 (vs. 0.6% in 2016).

Demographics in Portugal continue to be characterised by a falling resident population, particularly in the inland regions. This decline of around 50,000 people a year and which has continued since 2010, results both from declines in the birth rate and a negative migration balance. An ageing population is another factor that characterises Portugal's demographics.

In terms of public accounts, the national state deficit came in at EUR 2.6 billion in 2017 (vs EUR 3.8 billion in 2016). As anticipated for the 2017 balance, this corresponds to 1.4% of GDP as result of the increase in tax revenues and social security receipts resulting from market dynamics and from the control in the increase of public investment and current expenditure.

Irrespective of the significant reduction in the state current account deficit in 2017, there was a further rise in public debt (EUR 243 billion in 2017 against EUR 236 billion in 2016), with estimates pointing to state debt having represented approximately 126% of GDP in 2017 (vs. 130% of GDP in 2016), having thus fallen by over 4 p.p. Consequently, the interest paid out fell away by almost EUR 300 million between 2016 and 2017. The trend in state debt displayed a distinctive behaviour over the course of 2017 with sharp rises in the first months before falling back in the latter half of the year. In August, the debt total broke the level of EUR 250 billion, having put on EUR 9.4 billion since the beginning of the year. In the four following months, there was a drop of EUR 7.8 billion, which, despite not slowing the nominal growth in the level of debt, was in itself sufficient to bring down the GDP debt ratio.

Outlook for 2018-2020

According to the Bank of Portugal forecasts, the Portuguese economy is to experience continued expansion over forthcoming years. Following an increase of 2.5% in 2017, economic activities are to continue to register a growth profile over the timeframe of the forecasts even while at a progressively slower pace (2.3%, 1.9% and 1.7%, respectively in 2018, 2019 and 2020). At the end of this forecast period, GDP is to register around 4% higher than the percentage registered prior to the international financial crisis. The forecast growth rates are greater than the average of estimates for the growth potential of the Portuguese economy and thus should reflect a positive peak in production over the next years. Portuguese GDP growth thus borders on the Eurozone average throughout the forecast timeframe. As regards GDP per capita, real convergence on the Eurozone should continue over forthcoming years but at a very low pace, partially reflecting the decrease in population in Portugal. This evolution is thus unable to compensate for the accumulated real divergence through to 2013.

These forecasts rest on a scenario featuring an acceleration in private consumption and a slowdown in the gross formation of fixed capital within a context of rising available incomes, progressive improvements in working conditions and favourable terms for financing.

Throughout this period, the Bank of Portugal forecasts a stabilisation in the inflation rate to 1.5% between 2018 and 2020.

As regards interest rates, the European Central Bank expects negative reference rates to continue until 2019 and with the weighted average of nominal rates of return on 10-year government bonds rising to 1.1% in 2018; 1.4% in 2019 and 1.7% in 2020. The Bank of Portugal expects the implicit interest rate on Portuguese debt to remain stable at 3%.

The sector in global terms ²

Water is an essential good for economic and social development and emerges at the very core of human development – healthcare, food production, energy production, protection of the environment and creating employment.

The availability and the management of water are determinant to the standard of living of cities and the ways in which different societies, from the most developed to the poorest, deal with the impacts of natural disasters, especially those resulting from climate change, flooding and drought.

According to the World Bank, water security continues to represent one of the key global risks with impacts on development and correspondingly a fundamental facet to attaining the Sustainable Development Goals (SDGs).

At the United Nations (UN) summit, held in New York in 2015, an action agenda was approved for the period through to 2030, made up of 17 SDGs with the objective of establishing a global model for ending with poverty, bringing about the prosperity and wellbeing of all while protecting the environment and combatting climate change.

Under the auspices of SDG 6, the goals to be attained are: **(i)** universal and equitable access to drinking water; improving its quality; **(ii)** the reduction in the level of untreated wastewaters; and **(iii)** raising efficiency in the usage of water across all sectors, encouraging the recycling and reutilisation of water and combatting scarcity at the global level.

The global problems around sustainable development in the 21st century – human development, habitable cities, climate changes, food chain security and energy security – are not resolvable other than through the improved management of hydric resources and the guaranteeing of access to quality water supply and sanitation services.

In November 2017, the UN General Assembly relaunched the dialogue on the global management of water at COP23 (Cities and Local Governments for Climate Action) in Bonn.

Taking into account the Paris Agreement objectives, the World Bank, with its strategy involving the creation of investment and financing flows, launched the Global Water Security & Sanitation Partnership (GWSP) in 2017 thereby assisting countries to attain the goal of universal hydric security based on the following key guidelines: **(i)** guaranteeing that the development of hydric services takes place within a context of the sustainable management of resources; **(ii)** guaranteeing access to the poorest members of the population; **(iii)** managing state-of-the-art technological knowledge for innovation; **(iv)** guaranteeing sustainable financing for the water sector; **(v)** establishing global alliances for the water sector.

The benefits of strategic investment in hydric security and the supply of water to populations are high and a significant added value across societies. However, the availability and the cost of financing shall have to be ensured. In order to attain universal and equitable access to drinking water and appropriate sanitation by 2030, the World Bank estimates that investments in assets shall have to triple and reach 1.7 trillion dollars.

Furthermore, hydric security still represents a challenge for many countries facing complex problems in this field, transversal to all economic sectors. Demographic and economic growth wield unprecedented pressures on hydric resources and, according to estimates, through to the end of 2030, whenever maintaining current practices, the world shall face a 40% deficit between the demand for water and the quantity of water available.

According to World Bank data, 70% of the water currently abstracted is applied to agriculture. In 2050, in order to feed the forecast 9 billion people, agricultural production will need to rise by 60% and with a 15% increase in water abstraction. Over half of the world population lives in urban zones. Their subterranean water resources are getting consumed faster than they are able to regenerate and resulting in estimates that, in 2025, around 1.8 billion people shall be living in countries or regions with absolute water scarcity.

² Source: <http://www.worldbank.org/en/topic/water/overview>; <http://www.worldbank.org/en/programs/global-water-security-sanitation-partnership>; http://oecddobserver.org/news/fullstory.php/aid/5982/Water_and_climate:_From_risk_management_to_investment_opportunity_.html

Despite the important advances in recent decades in access to water supply and sanitation services, over 2.4 billion people still do not have any access to quality sanitation services and at least 663 million lack access to drinking water.

*Water and sanitation in Portugal*³

The water supply and wastewater sanitation sector, recognised for its major contribution towards economic, social and environmental development, has undergone a positive evolution over recent years in Portugal, highlighting the excellence in monitoring the quality of water in accordance with the most recent testing data from ERSAR. With the objective of fostering, in conjunction with local populations, access to quality public water supply and sanitation services, tailored to the prevailing needs and at socially acceptable costs, within the community and national legal framework, as well as that stipulated by the European innovation policy for this sector, the Strategic Plan for Water Supply and Wastewater Sanitation for mainland Portugal for the period 2014–2020 remains under implementation under the designation of: PENSAAR 2020 – A New Strategy for the Water Supply and Wastewater Sanitation Sector.

The sector strategy for the 2020 timeframe is focused on the efficient management of resources and centred on themes such as the restructuring of the sector and the financial resource requirements, orienting the public policy towards the provision of quality services at sustainable prices in keeping with a package of financial instruments aligned with «green» growth within an appropriate regulatory framework.

As regards «Guaranteeing the human right of access to water services», the information reported by ERSAR in the aforementioned report conveys how economic access to the service is guaranteed at accessible tariffs.

The European Commission report on implementing EU environmental legislation⁷ published in early February 2017 confirms that Portugal still faces considerable problems in managing the fields of water resources and wastewater, air quality and nature conservation. Nonetheless, the report also pinpoints some examples of excellent performance in Portugal, such as the improvements to the quality of drinking water supply systems achieved over the last decade.

An environmental fund was also established¹¹ to replace the Portuguese Carbon Fund, the Environmental Intervention Fund, the Water Resource Protection Fund and the Fund for the Conservation of Nature and Biodiversity. This came into effect on 1 January 2017, when the Ministry of the Environment announced a contribution of EUR 154 million towards environmental investment in 2017. Five million euros was allocated to the AdP Group to meet goals of tariff uniformity and guarantee compliance with international goals for sustainable development and climate change.

The Council of Ministers Resolution no. 80/2017, of 7 June, set up the Permanent Commission for the Prevention, Monitoring and Accompanying of the Effects of Drought.

This also highlights the publication in the Official Gazette of the Dispatch no. 2054/2017 founding the inter-ministerial working group responsible for reviewing the ENEAPAI (the National Strategy for Livestock and Agro-industrial Effluents), and attributing its respective coordination to the AdP Group. Following the over nine years since the approval of ENEAPAI, the objective of this initiative is to provide an overview of the respective implementation and consequently updating the strategy dedicated to the appropriate management of livestock breeding and agro-industrial effluents.

The AdP Group

As a result of PENSAAR 2020 and the Twenty-first Constitutional Government Program, studies began reassessing the aggregation of multi-municipal water supply and sanitation systems that took place in 2015. Talks were held with the different stakeholders and resulted, with the approval of a large majority of shareholders, in the incorporation of four new companies resulting from splitting up Águas do Norte and Águas de Lisboa e Vale do Tejo. Decree-Law (i) 72/2016 of 4 November made the first amendment to Decree-Law 92/2013 of 11 July, thereby forming multi-municipal systems for the abstraction, treatment and distribution of drinking water and the collection, treatment and discharge of effluents by splitting up the previously aggregated multi-municipal systems. Decree-Law (ii)

³ Source: http://ecercaeuropa.eu/environment/eir/pdf/report_pt_pt.pdf; Resolution of the Council of Ministers no. 52/2016, of 20 September, re-published as the Resolution of the Council of Ministers no. 22-B/2016, of 18 November; Resolution of the Council of Ministers no. 51/2016, of 20 September, re-published as the Resolution of the Council of Ministers no. 22-A/2016, of 18 November; Decree-Law no. 76/2016, of 9 November; Decree-Law no. 42-A/2016, of 12 August.

16/2017 of 1 February set up a multi-municipal water supply system for the southern part of the Oporto Metropolitan Area, and Águas do Douro e Paiva, S.A. as a concession holder and management company in addition to the multi-municipal sanitation system of Greater Porto and SIMDOURO – Saneamento do Grande Porto, S.A. as a concession holder and management company. Decree-Law (iii) 34/2017 of 24 March established the multi-municipal sanitation system of Grande Lisboa e Oeste and Águas do Tejo Atlântico, S.A. as a concession holder and management company as well as multi-municipal system for the Setúbal Peninsula, SIMARSUL – Sistema Integrado Multimunicipal de Águas Residuais da Península de Setúbal.

This solution is designed to guarantee an equitable balance between all the partners and users involved, abiding by the principles of price control, solidarity, equality, and incentives to efficiency and stability.

The AdP Group is also collaborating on reorganising downstream services in line with the goals of leveraging economies of scale and efficiencies, in keeping with government plans for this sector; by providing relevant technical information based on studies and the Group's experience in the management of downstream networks (Lisbon, Aveiro and the Northwest region).

In recent years, the AdP Group has been moving from a cycle of investments in new infrastructures to a series of investments in replacement and maintenance with a view to system sustainability.

Regarding water facility management, a working group was formed to manage dams and develop a sustainable model for integrating their management (currently run by the Portuguese Environment Agency) into the work of the different subsidiaries.

The AdP Group is also working on reducing its carbon emissions by increasing energy efficiency and generating power from local or natural resources (biogas, solar and wind energy).

In matters of asset management, our approach is based on intelligent information with priority attributed to inventorying and registering infrastructures.

In terms of innovation and the development of methods, technologies and products, several international cooperation projects are currently under way and playing a role in attracting European funds for further boosting this area.

This also highlights the granting of a group loan of EUR 420 million by the EIB, under the auspices of the Juncker Plan and without any Portuguese state guarantee, destined for the financing of 50% of AdP Group medium term investment program. The first tranche of this loan – with a EUR 220 million value – was contractually agreed in September 2017, with the remaining amount – EUR 200 million – potentially provided through an alternative financing structure, without any recourse to AdP Group, for the settlement of the debts owed by municipalities to the AdP Group, which was thus far not made available.

Within the scope of the measures stipulated by the Prevention, Monitoring and Contingencies for Drought Situations Plan, a drought awareness campaign was launched advocating the importance of the rational use of water in an AdP Group action that involved the APA and ERSAR.

During 2017, there was the adjudication of the tender for 100% electric vehicles for the operating fleets of AdP Group companies. The introducing of low emission vehicles represents one measure under PEPE 2020, the energy efficiency plan publicly unveiled in May 2017, which foresees the acquisition of 127 light vehicles (76 passenger cars and 51 vans) and the installation of 134 recharging points across the entire country.

Furthermore, under the auspices of PEPE, the training began of internal energy specialist auditors within the scope of managing the urban water cycle, through recourse to the EPAL Academy as well as the involvement of external entities, specifically ADENE (Agency for Energy), the Faculty of Economics and the Faculty of Science and Technology of the Nova University of Lisbon.

Regulatory framework

The AdP Group's main business activity, the public supply of water and wastewater treatment upstream and downstream, is performed exclusively by its subsidiaries (management companies) and it is subject to regulation by ERSAR, the regulator, pursuant to its articles of association, which were approved by Law 10/2014 of 6 March.

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

Upstream and downstream activities are performed by **(i)** multi-municipal systems (MMSs) under concession or in partnerships between the state municipalities and management companies and **(ii)** Empresa Portuguesa das Águas Livres, S.A. (EPAL) and Águas de Santo André, S.A. (AdSA), respectively, in a delegated management and concession scheme between the state and the management company.

Management companies are also subject to environmental regulation by the Portuguese Environment Agency APA.

Economic regulation

The managing entities are subject to economic regulation by ERSAR, under the terms of the statutes of this entity, and the stipulations of their founding legal diplomas and statutory requirements, which establish the concession, partnership or delegated management contracts that describe the minimum public service obligations, the investment plan and shareholder remuneration.

The scope for ERSAR intervention in the economic affairs of the managing entities is restricted in accordance with whether dealing with upstream or downstream activities and according to the respective regime in effect.

For the state owned systems, which include the MMSs, EPAL and AdSA, ERSAR has the power to fix tariffs and supervise other economic and financial aspects of the management companies, including issuing opinions, proposals and recommendations

For the state-owned systems constituting partnerships between the state and local authorities, ERSAR has the power to regulate, evaluate and audit the setting and charging of prices. The tariffs proposed are submitted to ERSAR for an opinion by state and municipality partnership committees, under the terms of the respective contracts.

Under the terms of the ERSAR statutes, two specific consultation bodies were founded (the Consultation Council and the Tariff Council), on which the AdP Group is duly represented. The AdP Group also sits on the working group that renders support to the Tariff Council.

In 2017, there were no developments in the proposal for the RTA – the Water Service Tariff Regulation, which is subject to an opinion from the Tariff Council and the public consultation of interested parties. Irrespective, in November 2017, at the 12th Expo Water Conference, ERSAR did present the key guidelines for the future RTA.

Multimunicipal systems

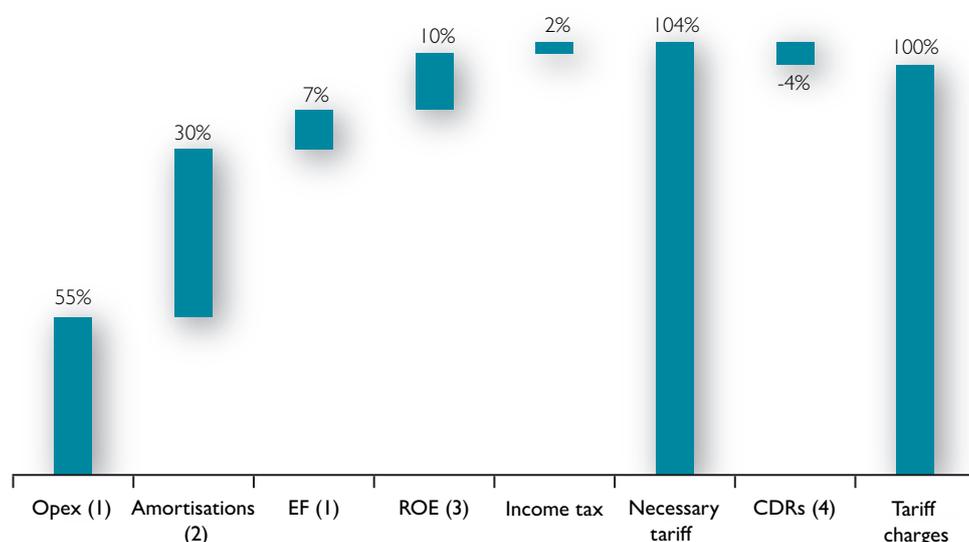
(AdNorte, AdDP, SIMDOURO, AdCL, AdVT, AdTA, SIMARSUL and AdAlgarve)

Águas do Norte, S.A., (AdNorte), Águas do Douro e Paiva, S.A., (AdDP), SIMDOURO, S.A., (SIMDOURO), Águas do Centro Litoral, S.A., (AdCL), Águas do Vale do Tejo, S.A., (AdVT), Águas do Tejo Atlântico, S.A., (AdTA), SIMARSUL, S.A., (SIMARSUL) and Águas do Algarve, S.A., (AdAlgarve) are multi-municipal systems that supply water and provide wastewater treatment services upstream, under concession agreements with the state.

The tariffs and tariff earnings, whenever applicable upstream, in effect at these multi-municipal system are established by ERSAR, under the terms of its statutes, calculated in accordance with the efficient charges stipulated by the concession contracts, accepted by ERSAR for the purpose and divided in accordance with the estimated volumes.

The upstream prices charged by these MMSs are approved by ERSAR, pursuant to its statutes and are calculated on the basis of the efficient charges set out in the concession agreements, which are accepted by ERSAR for the purpose, divided by the estimated quantities.

Simplified diagram for defining the MMSs charged tariffs (Tariffs)



Notes:

- 1 - Subject to a productive efficiency scenario issued by the regulator
- 2 - Contractual capex
- 3 - TB + 3 pp
- 4 - To be recovered in tariffs in subsequent periods

With the exception of AdAlgarve, tariffs and tariff incomes, where applicable, are set down in the decree laws and respective concession contracts, at constant prices, coming into force in the tariff periods defined in the respective concession contracts. ERSAR is to approve increases in tariffs and tariff incomes based only on the inflation rate for the first tariff period which has a duration of five to ten years for the management companies formed in 2017 through merger – AdDP, SIMDOURO, AdTA e SIMARSUL – and for the second tariff period, also known as «tariff convergence period», for AdNorte, AdCL and AdVT until these concession contracts are reviewed.

In the case of these management companies, in September and October 2017 ERSAR approved a tariff and tariff income update, when applicable, to be applied in 2019.

In the case of AdAlgarve, in January 2016, ERSAR approved the tariffs to be charged in 2017. Until the end of 2017 ERSAR had not yet approved the tariffs to be charged in 2018.

The publication of Decree-Law no. 16/2017, of 1 February, and no. 34/2017, of 24 March, established the CTA – the added tariff component at constant prices additional to the tariff and tariff earnings, whenever applicable, charged by AdDP and AdTA, respectively, for upstream services and that holds repercussions for the invoices received by users of these companies. This CTA (the added tariff component) is handed over by AdDP to the system managed by AdNorte, and by AdTA to that managed by AdVT.

Under the concession agreement, the expenses recoverable by tariffs are operating costs, including the amortisation of investment net of any grants, financial expenses net of financial income, income tax and dividends except in the case of AdAlgarve where cost recovery deviations are accounted for as assets and recovered through tariffs as tariff charge.

The concession agreements determine that the return on equity to be recovered by tariffs results from the remuneration of share capital, legal reserves, retained earnings or dividends owed, at a rate equivalent to that of 10-year Treasury Bonds plus a margin of 3%. With the exception of AdAlgarve, the remuneration of retained earnings does not include the 3% margin on 10-year Treasury Bonds

Decree-Laws 192/2015, 93/2015 and 94/2015, all of 29 May, which founded AdNorte, AdCL and AdLVT (aggregated MMSs) and Decree-Laws nos. 16/2017, of 1 February, and 34/2017 of 24 March (multi-municipal systems created from the demerger and renaming of AdLVT to AdVT) established the methods for calculating, recording and recovering cost recovery deviations (CRDs) generated over the different tariff periods. This method was also enshrined in the concession agreements, which also stipulate the explicit approval of the CRD amount by ERSAR in accordance with a predefined scenario of productive efficiency.

The CRDs, by their nature, may be in deficit whenever verifying a shortage of results as regards the outcome of the application of rules stipulated for tariff calculation under the terms of the concession contracts and may correspondingly generate surpluses whenever there is an excess of results as regards that stemming from the application of the rules stipulated for the calculation of tariffs under the terms of the concession contracts.

For multi-municipal systems set up by merger and by demerger, the CRDs registered through the signing of the concession contract and under management through to 2025 in the case of AdNorte, AdCL and AdVT, and 2026, in the case of AdDP, SIMDOURO, AdTA and SIMARSUL, are subject to ERSAR approval under the terms of the concession contracts following presentation of the proposal by the management entities and due for recovery by means of the tariff through to 2040 or 2041, respectively.

In the case of the multi-municipal system managed by AdAlgarve, given that there are no concession contract stipulations enabling the registering of CRDs, these are only accounted for in the consolidated accounts of AdP, SGPS.

2017 was the first year in which ERSAR analysed and approved the cost recovery deviations for the aggregated MMSs. Based upon the gross CRDs, as determined by ERSAR, in March 2017, a total of EUR 5.67 million were classified as unaccepted by that regulatory authority.

On 31.12.2017, around EUR 610.5 million in cost recovery deviations arising from multi-municipal system activities were recorded in the AdP Group accounts.

State-local authority partnerships (AdRA, AgdA and AdNorte – downstream)

AdRA - Águas da Região de Aveiro, S.A. (AdRA), AgdA - Águas Públicas do Alentejo, S.A. (AgdA), and AdNorte also provide upstream and downstream water supply and wastewater treatment services under management agreements reached in the context of partnerships between the state and local authorities.

These partnerships are governed by Decree-Laws 90/2009 of 9 April and 194/2009 of 20 August, the provisions of the partnership and management agreements and any other applicable legislation and regulations.

The management companies are regulated by ERSAR under the auspices of their Articles of Association and subject to the supervision of the Partnership Committee, a body set up under the partnership agreements. This consists of state and the local authority representatives with a remit to exercise powers of management, inspection and supervision of the municipal systems managed within this framework.

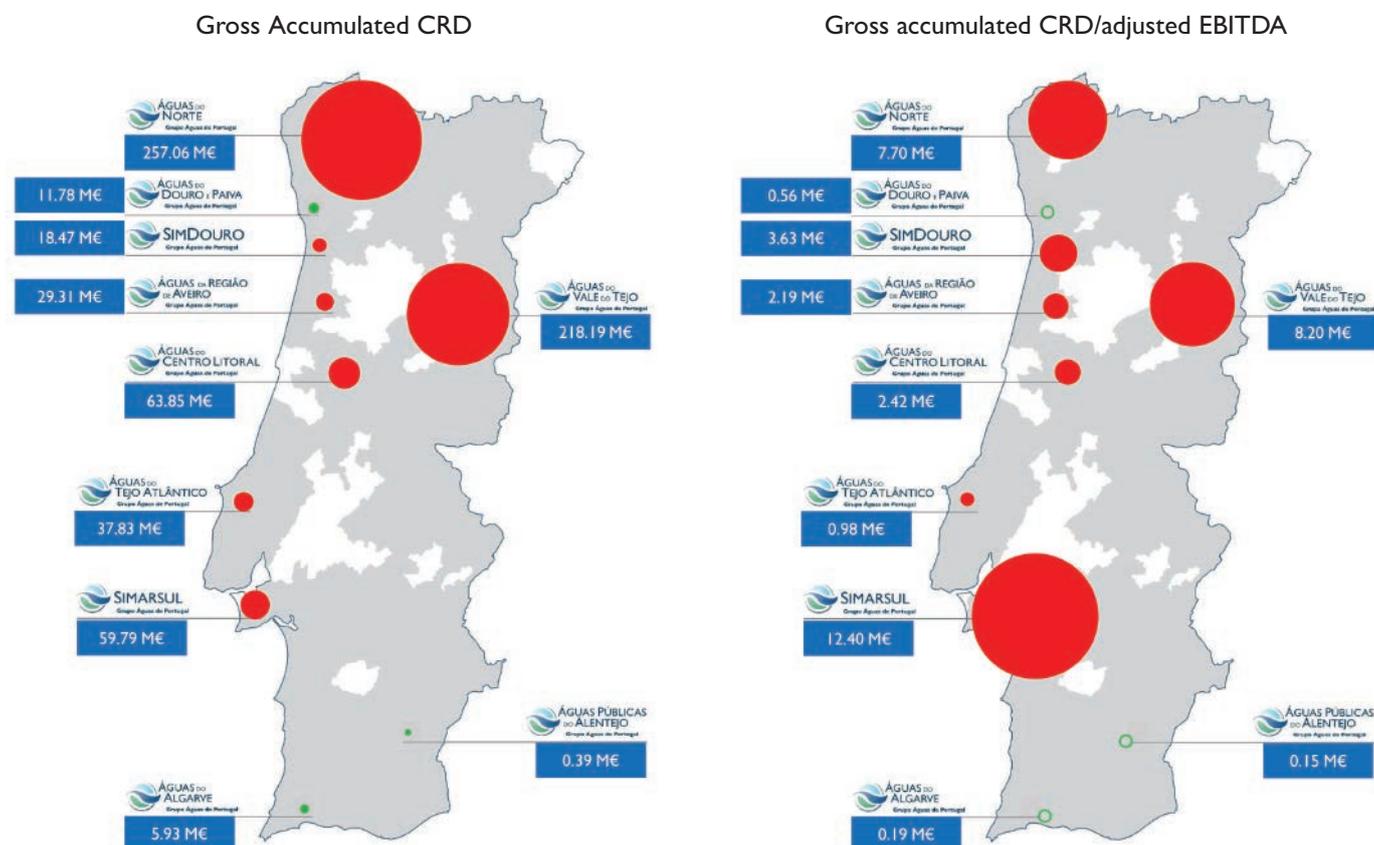
Under the terms of the management contracts, the tariffs, which consist of a fixed component and a variable component, are set at constant prices for five-year periods. The updating of the tariffs takes place annually in accordance with the terms of the respective contracts. ERSAR is attributed responsibility for the issuing of a non-binding opinion and with the Partnership Commission holding responsibility for the approval of these tariffs.

These management companies are regulated by accepted costs (cost-plus) that cover operating costs, including the amortisation of investment net of grants, financial expenses net of financial income, income tax and the appropriate remuneration of equity.

The concession agreements determine that the return on equity for recovery through tariffs results from the remuneration of share capital, legal reserves, retained earnings or dividends owed, at a rate equivalent to that of 10-year Treasury Bonds plus a margin of 3%.

These management companies are entitled to record and recover, through tariffs, those cost recovery deviations calculated on the basis of the difference between the net profit generated and the contractual remuneration of equity.

On 31.12.2017, around EUR 55.9 million in cost recovery deviations arising from municipal system activities operated by state-local authority partnerships were recorded in the AdP Group accounts.



Other state-owned systems

AdSA

The operating model of the management entity Águas de Santo André, S.A. (AdSA) is based on a state management concession and covers the upstream and downstream public water supply and wastewater and industrial effluent treatment systems in the Sines industrial area and the parish council of Santo André in Santiago do Cacem Municipality.

AdSA is not a multi-municipal system even while regulated in the same way as these systems. The tariffs charged by this management company are approved by ERSAR according to the terms of the regulatory statutes as described above.

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

The concession agreement determines that tariff recovered shareholder remuneration is estimated in accordance with the share capital at a rate equivalent to that of 10-year Treasury Bonds plus a minimum margin of 3%. As this represents minimum remuneration, no cost recovery deviations are accounted for at this management company EPAL.

The EPAL operating model incorporates state delegated management and covers the upstream public water supply to 23 municipalities and downstream services to the Lisbon Municipal Council area.

EPAL

The EPAL operating model incorporates state delegated management and covers the upstream public water supply to 23 municipalities and downstream services to the Lisbon Municipal Council area.

EPAL is governed by Decree-Law 230/91 of 21 June, with amendments enacted by Decree-Law 94/2015 of 29 May and by Decree-Law no. 34/2017 of 24 March.

These laws stipulate how both water prices and prices for the extra EPAL provided services cover operating expenses as well as ensuring appropriate levels of self-financing, risk coverage and return on capital invested.

EPAL was ascribed the management of the Multimunicipal Water and Wastewater System, as concessioner to AdVT.

Without prejudice to the goal of tariff standardisation handed down by Decree-Law 94/2015 of 29 May, ERSAR is responsible for approving EPAL tariffs as stipulated by Law 58/2005 (Water Law) of 29 December, as amended by Decree-Laws 245/2009 of 22 September, 60/2012 of 14 March and 130/2012 of 22 June as well as any other legislation and regulations and agreements in the meanwhile concluded for governing the specificities and risks of the EPAL run system.

Under the terms of the diploma that stipulates the activities undertaken by EPAL, the appropriate remuneration for the capital invested is ensured by a rate corresponding to the benchmark reference average weighted cost of capital for the value of the fixed tangible assets and the intangible assets directly related to the public service provided, net of amortizations and investment grants. This rate should: **(i)** reflect the specific added risks, associated with the management of the delegated management system; **(ii)** take as its reference the financing cost for equivalent projects under market conditions; and **(iii)** take into account the capacity for the company to raise financing in the capital markets.

Decree-Law 94/2015 of 29 May, amended by Decree-Law no. 34/2017 of 24 March sets out a tariff uniformity framework for the systems managed by AdVT 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 scheme arises from an added tariff component (ATC) to be submitted by EPAL for the AdVT managed system.

Decree-Law 94/2015 of 29 May stipulates the EPAL prices in effect between 2016 and 2020 at constant prices plus the ATC, which adds to the EPAL charged upstream tariffs and thus impacting on the company's downstream customers.

Regulation of quality of service

ERSAR annually assesses the quality of service in the public water supply and wastewater treatment service provided by AdP Group management companies. The results of this evaluation system are included in RASARP – the Annual Report on Water and Waste Services in Portugal, which is available to the public. Volume I of RASARP was published in December 2017 containing the results of the service quality evaluation system for management companies as at 31 December 2016.

Regulation of drinking water

Public water supply system management companies are obliged, under the supervision of the respective authorities, to monitor drinking water quality in accordance with the legal and regulatory parameters.

Within the framework of the ERSAR statutes, the regulator acts as the competent authority for drinking water quality, both supervising and assessing the performance of the water supply management companies while also fostering improvements in water quality and universal access.

Pursuant to Decree-Law 306/2007 of 27 August, as amended by Decree-Law 92/2010 of 26 July and Decree-Law 23/2016 of 3 June, water supply management companies must annually submit a Water Quality Control Program (PCQA) for approval by ERSAR, which is responsible for undertaking inspections to verify appropriate implementation.

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

Annually, the results of quality control and water quality at the point of delivery and the taps of consumers are published by the management entities and also included in RASARP (the Annual Report on Water and Waste Services in Portugal).

In December 2017, RASARP volume 2 was published and promoted with the results for the quality of water for human consumption with the date of reference of 31 December 2016.

Other regulatory matters

In 2017, the AdP Group maintained its active participation in drafting suggestions within the scope of the public consultation processes that ERSAR staged.

- Public consultation no. 03/2016 on the Regulation of Regulatory Proceedings.
- Public consultation no. 04/2016 on the Regulation of Commercial Relationships.
- Public consultation no. 02/2017 on the recommendation for the «Inspection, cleaning and hygiene standards of reservoirs destined for the storage of water for human consumption».

In late 2017, public consultation no. 06/2017 began on the definition of the levels of non-invoiced water for the purposes of their impact on the hydric resource rate for 2018. The period of public consultation, in which the AdP Group participated, ended in 2018 (15-01-2018).

The ERSAR proposal for the definition of the values for non-invoiced water for the purposes of their impact on the hydric resource rate for users in 2018 have a set limit of 5% for the water volume invoiced upstream and 20% for that invoiced downstream, with the management entity eventually incurring amounts in excess of the volumes in order to incentivize the reduction of losses and undue inflows.

During 2017, work also began on reviewing the core diplomas for the state ownership of systems (Decree-Law no. 195/2009 of 20 August) and municipal ownership of systems (Decree-Law no. 194/2009 of 20 August), which remains ongoing.

The energy sector in Europe

The production and consumption of electricity

The quantity of electricity generated through renewable energy sources in Europe overtook that of coal for the first time ever in 2017 according to a recent report from Sandbag, which took into consideration the statistics of European energy companies. Collectively, solar, wind and biomass produced 679 terawatts per hour of energy while coal produced energy accounted for 669 TW.

These amounts, while in close proximity, become even more significant when taking into account how just five years ago coal was still responsible for five times more energy than that produced from renewable sources.

Furthermore, Portugal, the Netherlands, and Italy recently announced that they would be eliminating coal based energy production. Nevertheless, this still remains a key source of energy in Europe. Spain has boosted the amount of energy it sources from coal and there are two countries – the Czech Republic and Poland – that do not even plan on abandoning this energy source.

In 2017, the countries that made greatest recourse to renewable energy sources were Germany and the United Kingdom, which together contributed 56% of the growth in renewable energy production between 2014 and 2017. The United Kingdom brought about a 22% reduction in the production of coal based energy and raised its wind power capacity by 45% between 2016 and last year.

The following table illustrates the consumption of electricity in Portugal in 2017 (versus 2016).

Production vs. Consumption	2016	2017	Δ 2017 / 2016	
	(GWh)	(GWh)	(GWh)	(%)
Total Net Production	34 369	33 812	(557)	(1.6%)
Hydric – Ordinary Regime	15 297	6 725	(8 572)	(56.0%)
Thermal – Ordinary Regime	19 072	27 086	8 014	42.0%
Production Special Regime	21 509	20 733	(776)	(3.6%)
Hydraulic	1 332	614	(718)	(53.9%)
Thermal	7 203	7 293	90	1.2%
Wind	12 188	11 974	(214)	(1.8%)
Photovoltaic	786	852	66	8.4%
Wave	0	0	0	–
PRE Renewable	16 974	16 251	(723)	(4.3%)
External Balance (Import – Export)	(5 085)	(2 684)	2 401	(47.2%)
Import (Commercial)	1 973	3 072	1 099	55.7%
Export (Commercial)	7 055	5 756	(1 299)	(18.4%)
Total Production	50 793	51 861	1 068	2.1%
Total Consumption¹	49 274	49 638	364	1.4%
Consumption liberalised market	44 748	46 036	1 288	2.9%
Consumption regulated market	4 526	3 602	(924)	(20.4%)

1 - Variation in consumption is 0.7% which, corrected from the average temperature and number of working days is 1.4%

The year of 2017 was strongly influenced by the severe drought that afflicted the Iberian Peninsula in addition to halts at some nuclear power plants in France.

As may be verified, the percentage of electricity produced from renewable sources was 52.9% of production, in 2017; vs. 72.5% in 2016. This reduction took place primarily due to the sharp drop in hydro-electric production under the ordinary regime.

For such motives, over the course of 2017, the electricity prices in the energy market were strongly dependent on this effect that is still ongoing. It may however be expected that 2018 shall witness an adjustment in prices following the volume of rainfall registered over the course of the first quarter of 2018.

The production and consumption of oil

In 2017, world demand for oil rose by 1.64% (equivalent to 1.57 million barrels per day) to a total of 96.99 million barrels per day according to the Organisation of Petroleum Exporting Countries (OPEC).

For this year, OPEC maintains its estimate of stable growth, specifically a rise of 1.57% (1.53 million barrels per day) to 98.51 million barrels per day. The organisation also forecasts a significant rise in production from non-member states, such as the United States, Russia and Canada, which currently produce a total of 58.94 million barrels per day, up 1.14 million barrels per day on 2017.

As regards oil, the International Energy Agency (IEA) reviewed slightly upwardly its forecast for global oil demand in 2018, having warned of the consequences of the fall in the costs of production in the United States.

In a recent report on oil, the IEA emphasised that the market fundamentals are less favourable to the maintenance of strong trends in the price of a barrel, which in recent months has attained 70 dollars, essentially due to the evolution in consumption in the United States and, particularly, to shale oil extraction.

Hence, it is estimated that the demand for oil will rise to an average of 99.2 million barrels per day in 2018, which represents growth of 100,000 barrels per day in excess of the forecast made in January in keeping with the more favourable economic outlook issued by the International Monetary Fund (IMF).

Should these estimates come to pass, the rise in world consumption would be an additional 1.4 million barrels per day in comparison with 2017, when there was a surge of 1.6 million barrels per day relative to 2016.

Furthermore, the rise in output by producers that do not belong to OPEC, particularly the United States, may compensate for the rise in forecast demand.

The IEA referred to how, through to November, and in just three months, the United States boosted its production by 846,000 barrels per day, a «colossal» number that shall lead the country to «shortly» overtake Saudi Arabia and «towards the end of this year» may also become «number one in the world», ahead of Russia.

Additionally, the IEA estimates that the annual rise in the crude output in the United States may be equivalent to 1.4 million barrels per day, with this evolution sustained by the reduction in the costs of production to companies operating in the United States and driven by the rise in the price of oil in the markets.

However, the equilibrium in the oil market may shift over the course of 2018 due to the deterioration of the situation in Venezuela, which in December and January produced only 1.61 million barrels daily, well below the level stipulated by the OPEC agreement.

As regards the oil price, that has risen since the pact agreed to reduce production between OPEC and ten other countries that do not belong to OPEC, led by Russia, with OPEC analysts highlighting how the average price in December was the highest since June 2015.

The OPEC reference prices for a barrel stood at 62.06 dollars in December, up 29% on the year before and against an annual 2017 average price of 52.42 dollars.

This rise in the price of oil may generate negative impacts for the Portuguese economy.

In the state budget report for 2018, the Portuguese government assumed an average price for a barrel of oil at 54 dollars and forecast a 2018 rise of 20% (thus, to around 65 dollars), hitting growth in Gross Domestic Product (GDP) by 0.1 percentage points (around EUR 180 million).

Subsequently, in January, the price of a barrel of Brent, for delivery in March, closed above the 70 dollar threshold for the first time since December 2014. The Lusa news agency contacted analysts to understand the impact that this significant increase might have for the Portuguese economy. «From our point of view, these rises are not yet of concern. We need to think what happened in recent years when we had oil above 100 dollars. Obviously, at the time, there were some impacts but at this moment the world economy is substantially larger than at that time, which means that this is an acceptable level», said Rui Bernardes Serra, the chief economist of Montepio Bank.

This analyst, along with others contacted by Lusa, considers that the price of a barrel of oil is unlikely to break through the 70 dollar mark this year and point to the scope for a slight reduction over the course of 2018. Nevertheless, he also affirms that should there be a «leap» to 100 dollars «there would already be an impact» on Portuguese households.

He furthermore highlights that part of the rise in the oil price stems from growth in the world economy and how this fact «is to weigh positively on the weighting of the Portuguese economy, easily able to offset this negative impact of oil on Portuguese GDP through means of private consumption».

Additionally, António da Ascensão Costa, professor at ISEG – the Higher Institute of Economics and Management affirms that an increase in the price of oil «ends up conveying to the entire economy and, generally, a somewhat negative impact», should the rise prove in the region of 20%.

«I believe that the economy has the capacity to process a rise of 20% this year. And we are still at lower prices than those prevailing in 2014», affirmed the economist, highlighting that should there be «stronger rises than this, then we are already heading towards what gets called an oil shock».

According to these two economists, the rise in the price of oil will become of concern should prices reach 100 dollars per barrel.

The National Energy Strategy 2020

The government defined the major strategic guidelines for the energy sector, establishing ENE 2020 – the National Strategy for Energy, (approved by the Council of Ministers Resolution no. 29/2010, of 15 April 2010, which replaced the former Council of Ministers Resolution no. 169/2005, of 24 October).

The ENE 2020 energy policy options stem from its role as a factor of economic growth, promoting competition in energy markets, creating value and qualified employment in sectors with high levels of incorporated technology. This strives to maintain Portugal in the leading group for alternative energy technologies, driving the production and export of solutions with high added value, which also enable a reduction both in the external energy dependence and the greenhouse gas emissions produced.

The national energy policy incorporates two key pillars – economic rationality and sustainability – correspondingly prioritising energy efficiency measures, the utilisation of energy from endogenous renewable sources alongside the need to cut costs.

In general terms, the objectives of this policy are:

- significantly reduce greenhouse gas emissions in a sustainable fashion;
- strengthen the diversification of primary energy sources, contributing to boosting the security of the national supply;
- boosting energy efficiency in the economy, especially in the state sector, contributing to reductions in public costs and the efficient usage of resources;
- contribute towards boosting the competitiveness of the economy, through the reduction in consumption and the costs associated with the functioning of companies and the management of the domestic economy, freeing resources to boost the dynamic of internal demand and new investment;
- take measures that strive to nurture the circular economy and the decarbonisation of the different economic sectors.

Within the framework of a policy investing in a rational and sustainable energy model without compromising either the competitiveness of companies or the quality of life of citizens, programs and plans have undergone development so as to compete towards the specific objectives and correspondingly enabling measures across all levels:

- The National Energy Efficiency Action Plan (PNAEE)
- The National Renewable Energy Action Plan (PNAER)
- The Program for the Energy Efficiency of the Public Administration (ECO.AP)

The renewable energies sector in Portugal

Energy is a core factor for the economic development of a country. For its continued utilisation, there is thus the need to guarantee energy sustainability, therefore, to ensure the rational management of the resources available; the utilisation of resources that satisfies the needs of current generations without compromising the energy needs of future generations.

The consumption of energy has risen at a pace faster than the world population growth rate, estimating that, within a quarter of a century, non-renewable energy reserves, such as oil and natural gas, will verge on exhaustion. There is ever greater awareness that the consumption of fossil fuels provokes serious environmental harm. For Portugal, which displays a heavy level of external energy dependence, adopting an economic-environment energy strategy has become an essential priority so that the country is able to take advantage of its own natural resources, and appropriate the newly looming energy revolution. The existence of geographic advantages and natural resources, alongside the attraction of innovative technological knowledge may emerge as a strategic investment in sustainable national development with leverage effects for economic activities in a broader sense.

The need to reduce energy consumption on a global scale runs parallel with the need for each country to develop energy policies able to meet the targets in effect.

Based upon the commitments taken on by EU member states, under the auspices of the Kyoto Protocol, subsequently ratified under the Paris Agreement, states are to act in order to adopt energy models able to return the best performances prevailing in the sector, and Portugal is no exception.

Energy in the AdP Group

In keeping with PNAE – the National Action Plan for Energy Efficiency and with national goals, the AdP Group adopted and promoted measures to dynamically drive the reduction in energy consumption through efficiency in utilisation.

The consumption of electricity is inseparable from the activities of Group companies, constituting a substantial proportion of the costs of entities managing multi-municipal systems, with a very significant weighting in the external supplies and services item and with direct repercussions for the tariffs in effect for water and sanitation services. Furthermore considering that the costs of energy have tended to rise over time, it has become essential to define an integrated and harmonised strategy for the management of energy by Group companies so as to optimise their respective utilisation and attempt to counter the aforementioned rise in costs.

Indeed, based upon invoice data, the AdP Group electricity consumption rose by 3.1% between 2016 and 2017 to total 727.9 GWh in the latter year. Of this total, 714.2 GWh were supplied by the public service grid, which corresponds to a year-on-year rise of 3.3%, and with 13.6 GWh stemming from self-production based upon endogenous and renewable sources (- 8.5% on 2016).

Nationwide, and regarding the year of 2017, the AdP Group represents the third largest consumer of electricity in the country (right behind the pulp and paper manufacturer SEMAPA and the steel company Siderurgia Nacional), representing 1.4% of total electricity consumption and the largest as regards via a national grid connection.

In the state segment, the AdP Group is the largest national public consumer whether in terms of grid connection points or electricity consumption.

The AdP Group had, on 31 December 2017, 5,866 connection points to the national grid (nine high tension, 999 medium tension, 365 special low tension connections, and 4,493 normal low tension connections), which represents growth of 0.9% on 2016 (thus 52 new connections). The greatest growth was in normal low tension connections (44 new connections, that is, a rise of 1%).

Despite the overall growth in consumption, the electricity invoice, including all the respective charges, totalled EUR 68.6 million in 2017 (+ 0.5% on 2016), which reflects a year-on-year rise of around EUR 330,000 as a result of the reduction in the average energy cost price (around – 2.5%).

This reduction stemmed primarily from a reduction in the unit cost of energy on the market, with the average price falling from EUR 51.03 per MWh to EUR 47.16 per MWh, arising from a more efficient public procurement process.

Given the direct correlation between consumption and activities, the data ascertained point to a flow volume of drinking water and flows of treated wastewaters of 1.108 billion m³ – 4.1% on 2016). However, the relationship between the activities is differentiated given that there was a rise of 4.8% in the drinking water volume and a drop of 13.5% in sanitation flows.

As regards the specific consumption, the preliminary data points to an increase of 7.4% as regards 2016 (0.6568 kWh/m³, in 2017, vs. 0.6113 kWh/m³, in 2016).

The improvement in the overall performance of companies in terms of energy efficiency, from a corporate perspective, represents one of the great challenges of the Group whether from a perspective of reducing operating costs or having an influence on efforts to counter climate change.

The optimisation of energy consumption, in the form of electricity and fuels, involves investing in renewable energies able to bring about a subsequent reduction in greenhouse gas emissions; maximising the leveraging of installation assets and of endogenous resources.

The leveraging of assets and endogenous resources enables the production of alternative energies, contributing towards the decentralisation of electricity and fuel production, through recourse to non-fossil sources.

Within this context, AdP Energias, in addition to fostering the dynamic implementation of energy efficiency and energy production projects under a special regime by AdP Group companies, already ongoing from previous years, has launched a set of initiatives in accordance with the following lines of action:

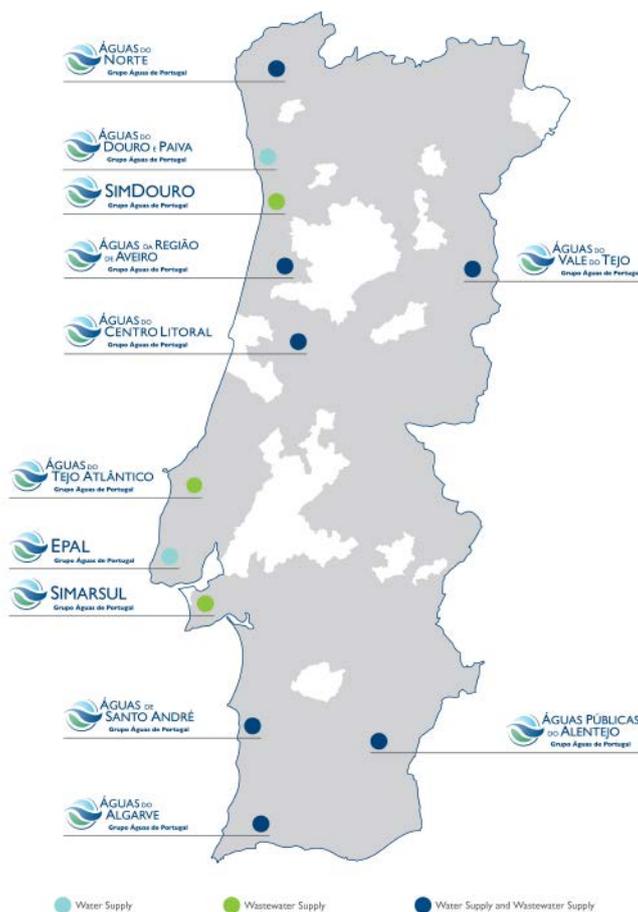
- dynamically implementing, coordinating and monitoring the energy efficiency plans of AdP Group and its companies;
- undertaking studies evaluating the potential for solar power production at the AdP Group infrastructures;
- support improvements to energy production processes, with recourse to endogenous sources, especially biogas and micro-hydro;
- participating in defining the evolution of the centralised procurement model for negotiating the acquisition of energy;
- defining a strategy for advancing with AdP Group electricity powered mobility;
- develop training programs, especially the training of specialist energy auditors within the scope of the urban water cycle.

The lines of action set out above are inseparable, mutually complementary, so as to configure a framework for the integration of energy efficiency, backed by the best management practices, the best utilisation of the energy consuming assets, benchmarking, measuring, documenting and reporting the improvements in energy intensity and the respective impact forecast for the costs incurred with the supply of energy, whether at the individual company level or at the Group level. This correspondingly conveys the pro-active posture of the AdP Group in its approach to this paradigm, within a framework of economic and environmental sustainability.

Water supply and wastewater treatment

Management companies

At the end of 2017, the geographical distribution of AdP Group management companies was as follows:



Indicators

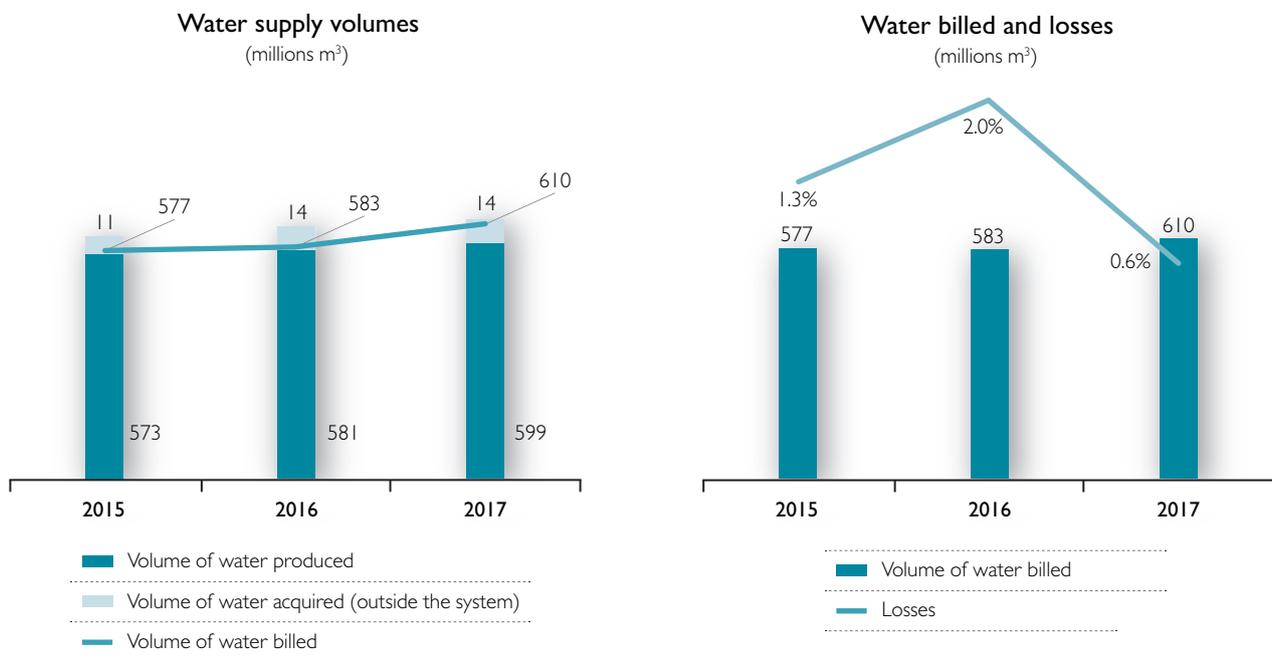
Population and municipalities

At the end of 2017, the AdP Group comprised eight regional management companies (RGMs), which spanned 218 municipalities for water supply and 223 municipalities for wastewater treatment. For both upstream and downstream operations, the latter are performed by EPAL, AdRA and the Noroeste partnership (managed under contract by AdNorte).

The water supply systems reach a population of around 7.7 million (including EPAL and the remaining distribution activities). Around 7.6 million people receive wastewater treatment services. This correspondingly means that, at the end of 2017, a population of 6.7 million received water supply services while 6.2 million received wastewater treatment services.

Volumes

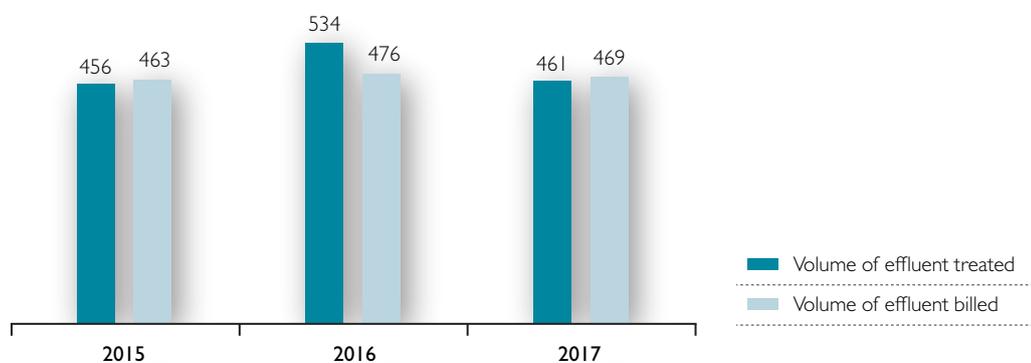
In 2017, there was a 4.6% increase in the volume of drinking water billed and an increase of 18.4 million m³ in the volume of production. The water balance below displays the developments taking place in overall terms:



The figures provided, which include the distribution segment, allow us to estimate average abstraction of around 244 litres per day per inhabitant for the drinking water supply in the municipalities served, which has risen on 2015 when this figure stood at 216 litres per day per inhabitant.

There was a slight (1.5%) decrease in the amount of wastewater billed in 2017 and a decrease of 13.6% in the volume treated. Overall, developments in the three-year period were as follows:

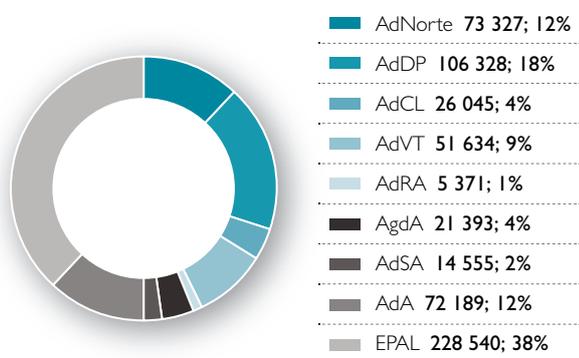
Wastewater treatment volumes
(million m³)



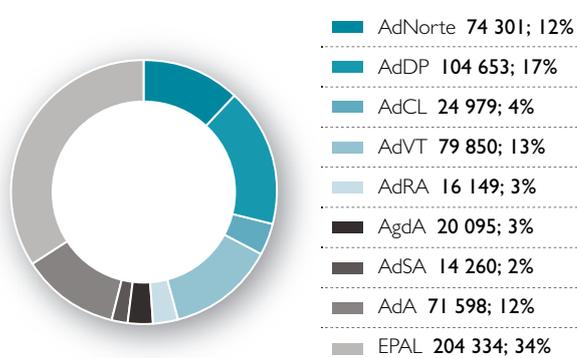
Average wastewater flows in the municipalities served stood at around 204 litres per day per inhabitant, which represented a decrease due to the reduction in the total treated volume.

The relationship between the effluent treated and the effluent invoiced is impacted on by the invoicing calculating displaced flows, thus, invoices take into account a shifting average of up to six half-years in order to avoid major fluctuations in the treasuries of municipal clients.

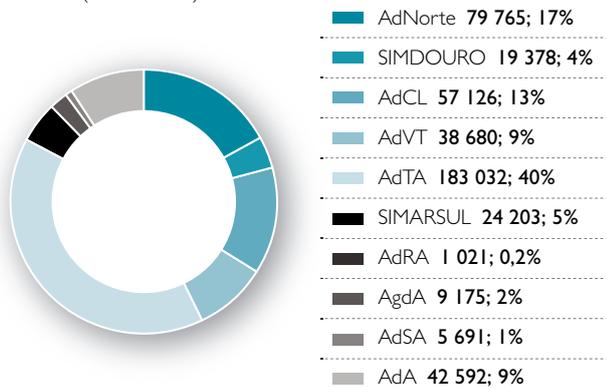
Water produced
(thousand m³)



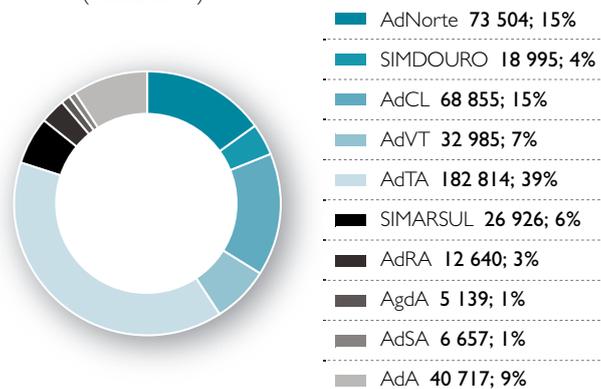
Water billed
(thousand m³)



Effluent treated
(thousand m³)



Effluent billed
(thousand m³)



Infrastructures

In 2017, the systems managed and operated by the AdP Group expanded as follows:

	2015	2016	2017
No. of water abstraction sources	1 135	1 152	1 155
Water mains pipes and distribution networks (Km)	16 387	17 018	17 026
Length of drains network (Km)	9 465	9 525	9 613
No. of water treatment stations	155	158	157
No. of wastewater treatment plants	968	990	992
No. of lifting stations	610	650	686
No. of wastewater lifting stations	1 910	1 994	2 033
No. of reservoirs	1 679	1 726	1 734
AA and AR mains trunk branches	437 796	447 302	447 224
No. of submarine outfalls	20	20	20
Number of employees ⁽¹⁾	3 253	3 257	3 173

(1) Current employees + employees with suspended contracts

Tariffs

Tariff trends between 2015 and 2017 are displayed in the graphs below:

Average revenue upstream supply



Average revenue upstream sanitation



Average revenue downstream supply



Average revenue downstream sanitation



The Group organisational restructuring that began in 2016 and takes effect on 1 January 2017 will maintain tariff standardisation between systems by (i) applying regional solidarity mechanisms (ATC) and the environmental fund (financed by a water resource charge component), (ii) leveraging the operational synergies identified in the aggregated MMSs and (iii) rationalising investments

Investments

The AdP Group advanced with investment totalling EUR 95 million in 2017. Contributing towards this amount were projects implemented by Águas do Norte, EPAL, Águas do Algarve, AdRA - Águas da Região de Aveiro and AgdA - Águas Públicas do Alentejo.

Without considering the amounts invested by the holding and instrumental companies nor sums stemming from the integration of municipal infrastructures, concentrated in Águas do Norte, for the amounts of EUR 0.3 million and EUR 2.4 million respectively, 2017 registered a total of EUR 92 million attributed to the construction and rehabilitation / replacement of water supply and wastewater sanitation infrastructures.

This highlights how 59% of the total 2017 investment volume reflected new construction projects with the remaining 41% attributed to rehabilitation and replacement, in turn, displaying the increasing importance of this latter component, which reflects the growing degree of maturity of the companies managing the water supply and sanitation systems of which EPAL naturally constitutes the leading example.

	2015	2016	2017
New	78%	56%	59%
Rehabilitation /Replacement	22%	44%	41%

While the investment verified in 2017 remains comparatively low in accordance with the volumes registered in various years over the first decade of this century, when advancing with the infrastructural endowment of a significant proportion of the country, this does nevertheless emphasise the implementation of new large scale works by Águas do Algarve, specifically the Companheira and Faro-Olhão wastewater treatment plants; as well as that in Beja and the two construction projects for the new Magra water supply system under construction by AgdA - Águas Públicas do Alentejo. Águas do Norte and AdRA - Águas da Região de Aveiro also made important contributions towards the volume of investments in new works given that they have a significant number of construction projects ongoing. Within the scope of rehabilitation / replacement, a particular mention needs making of the EPAL investment in remodelling the Vale da Pedra wastewater treatment plant.

There is also relevance in breaking down the investment into the water supply and sanitation service segments.

Business area	2015	2016	2017
Water supply	33%	47%	48%
Wastewater treatment	67%	53%	52%

While from a historical point of view, investment in water supply has attracted the bulk of investment, corresponding to the priority placed on serving the local population, the overall situation first entered into a state of balance before inverting and has now attained a relative balance in a natural process of evolution leading to sanitation accounting for 52% of total investment in 2017.

EU funds

By the end of 2017, approval had been received for 66 applications within the scope of the urban water cycle of PO SEUR (Operational Program for Resource Sustainability and Efficiency) 2014–20 / PORTUGAL 2020, forecasting total investment of around EUR 159.3 million and with community co-funding accounting for around EUR 124.2 million.

The non-repayable subsidies, approved within the framework of community funding, continue to prioritise investment in multi-municipal systems and more recent partnerships with the need for non-repayable funding stemming from the objective of ensuring tariff cohesion between the different systems.

Applications approved under POSEUR 2014-2020 as at 31/12/2017

Company	Applications approved	Total investment* (1)	Grants expected* (2)	Implicit co-funding rate (3)=(2)/(1)
AdNorte	27	29,9	19,8	66%
AdCL	1	0,8	0,7	85%
AdRA	14	19,4	13,5	70%
AdTA	1	0,5	0,4	85%
AdVT	4	5,1	3,4	67%
SIMARSUL	1	1,2	0,7	64%
AdSA	1	1,9	1,6	85%
AgdA	12	61,2	52,0	85%
AdAlgarve	5	39,3	31,9	81%
	66	159,3	124,2	78%

* EUR million

During 2017, the investments implemented under the auspices of these 66 applications totalled around EUR 29.5 million. In the same period, the community funding received amounted to EUR 23.9 million (in addition to the sum of EUR 9.7 million in subsidies awarded from the balance of an application to the QREN Operational Programme 2007–2014 (Operational Programme for Territory Valuation, POVT). Of the 66 candidate projects, four were closed (physically), during 2017.

We would also highlight how, at the end of 2017, the POSEUR services had under analysis a further nine applications from AdP Group companies, with a total value of EUR 31.7 million of planned investment with the expectation of community funding amounting to EUR 18.01 million.

Multimunicipal systems (individual accounts)

Águas do Norte, S.A. (AdNorte) – upstream activities

AdNorte is the management entity for the Upstream Multi-municipal System of the Norte Region, correspondingly responsible for the upstream water supply and wastewater treatment activities. In 2017, following Decree-Law no. 16/2017, of 1 February, there was a demerger process that resulted in the establishing of the new Multi-municipal Water Supply System for South Greater Oporto and the new Sanitation System for South Greater Oporto, which led to alterations in terms of the territorial scope of the system. The AdNorte concession contract was signed in 2015 and with its 30-year duration running through to the end of 2045.

(EUR million)

	2015	2016	2017	2017 proforma aggregate*
Turnover (1)	122.9	139.4	91.7	139.8
Cost recovery deviations(CRD)	20.2	13.1	10.4	1.1
Operating profit/loss (2) (RO)	39.3	33.0	24.0	29.9
EBITDA (3)	47.2	59.3	35.9	62.1
Financial income	(19.4)	(18.5)	(13.0)	(15.5)
Net profit/loss for financial year	13.2	12.7	8.0	10.9

(1) Does not include construction revenue (IFRIC 12) nor CRD.

(2) Earnings before interest and tax.

(3) RO + Amortisations + Provisions + Impairment losses and reversals– CRD – Investment grants - Revenue/ Construction Expenditure (IFRIC12).

(*) AdNorte + AdDP + SIMDOURO. Excludes transactions between these companies.

(EUR million)

	2015	2016	2017	2017 proforma aggregate*
Operating assets (net) (1)	1 502.0	1 458.2	1 114.8	1 423.9
Investment (increment)	72.4	7.0	16.2	18.3
Trade receivables (2)	98.9	85.9	86.3	90.1
Total assets	1 937.7	1 887.3	1 498.4	1 874.5
Financial debt (3) – Medium and long term	564.5	570.6	535.0	652.2
Financial debt (3) – Short term	175.6	149.2	19.8	27.5
Financial debt (3) total	740.2	719.9	554.8	679.7
Financial debt – Net (4)	735.2	719.5	553.8	658.8
Investment grants	695.8	669.1	532.5	647.3
Equity	277.3	274.1	238.4	301.3
Accumulated CRD	213.3	230.6	230.8	237.9

(1) Intangible assets+ Tangible assets + Investment properties.

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

(*) AdNorte + AdDP + SIMDOURO. Excludes transactions between companies.

Águas do Douro e Paiva, S.A. (AdDP)

AdDP is the managing company for the Multi-municipal Water Supply System of South Greater Oporto and results from the demerger of the Multi-municipal Water Supply and Sanitation System of the Norte of Portugal region that took place following the publication of Decree-Law no. 16/2017 of 1 February, hence the reason there are only results for the 2017 financial year. The AdDP concession contract was signed in February 2017 and with its 20-year duration running through to the end of 2036.

(EUR million)

	2017
Turnover (1)	38.8
Cost recovery deviations (CRD)	(10.5)
Operating profit/loss (2) (RO)	2.8
EBITDA (3)	21.2
Financial income	(1.1)
Net profit/loss for financial year	1.4

(1) Does not include construction revenue (IFRIC 12) nor CRD.

(2) Earnings before interest and tax.

(3) RO + Amortisations + Provisions + Impairment losses and reversals – CRD – Investment grants - Revenue/Construction Costs (IFRIC 12).

(EUR million)

	2017
Operating assets (net) (1)	175.3
Investment (increment)	1.3
Trade receivables (2)	3.1
Total assets	217.5
Financial debt (3) – Medium and long term	68.1
Financial debt (3) – Short term	3.2
Financial debt (3) total	71.3
Financial debt – net (4)	53.0
Investment grants	59.2
Equity	33.5
Accumulated CRD (liabilities)	(11.5)

(1) Intangible assets+ Tangible assets+ Investment properties.

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

SIMDOURO – Saneamento do Grande Porto, S.A. (SIMDOURO)

SIMDOURO is the management company for the Multi-municipal Sanitation System of Greater Oporto and results from the demerger of the Multi-municipal Water Supply and Sanitation System of the Norte of Portugal region following the publication of Decree-Law no. 16/2017, of 1 February, hence with figures only available for the 2017 financial year. The SIMDOURO concession contract was signed in February 2017 and with its 50-year duration extending until the end of 2066.

(EUR million)

	2017
Turnover (1)	12.6
Cost recovery deviations (CRD)	1.2
Operating profit/loss (2) (RO)	3.1
EBITDA (3)	5.1
Financial income	(1.4)
Net profit/loss for financial year	1.4

(1) Does not include construction revenue (IFRIC 12) nor CRD.

(2) Earnings before interest and tax.

(3) RO + Amortisations + Provisions + Impairment Losses and Reversals – CRD – Investment Grants - Revenue/Construction Expenses (IFRIC 12).

(EUR million)

	2017
Operating assets (net) (1)	133.8
Investment (increment)	0.8
Trade receivables (2)	1.2
Total assets	159.3
Financial debt (3) – Medium and long term	49.1
Financial debt (3) – Short term	4.5
Financial debt (3) total	53.6
Financial debt – Net (4)	52.0
Investment grants	55.6
Equity	29.3
Accumulated CRD	18.6

(1) Intangible assets+ Tangible assets+ Investment properties.

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

Águas do Centro Litoral, S.A. (AdCL)

AdCL is the management company for the central region's multi-municipal system, responsible for both upstream water supply and wastewater treatment. The company results from the June 2015 aggregation of Águas do Mondego, SIMLIS and SIMRIA. The AdCL concession agreement was concluded in 2015 and remains in effect for three decades, hence to the end of 2045.

(EUR million)

	2015	2016	2017
Turnover (1)	46.0	44.9	45.7
Cost recovery deviations (CRD)	1.9	2.6	(0.2)
Operating profit/loss (2) (RO)	14.6	12.2	11.2
EBITDA (3)	26.3	25.0	26.4
Financial income	(8.2)	(6.7)	(5.7)
Net profit/loss for financial year	3.8	4.0	3.9

(1) Does not include construction revenue (IFRIC 12) nor CRD.

(2) Earnings before interest and tax.

(3) RO + Amortisations + Provisions + Impairment losses and reversals – CRD – Investment Grants - Revenue/Construction Expenses (IFRIC 12).

(EUR million)

	2015	2016	2017
Operating assets (net) (1)	461.5	447.5	433.9
Investment (increment)	9.8	2.0	2.7
Trade receivables(2)	42.9	36.0	37.1
Total assets	586.4	569.2	554.9
Financial debt (3) – Medium and long term	232.2	230.7	213.4
Financial debt (3) – Short term	45.1	13.7	14.0
Financial debt (3) Total	277.3	244.4	227.5
Financial debt – Net (4)	266.7	233.7	220.4
Investment grants	167.0	175.3	170.1
Equity	86.8	90.8	94.7
Accumulated CRD	61.9	64.5	64.2

(1) Intangible assets+ Tangible assets+ Investment properties..

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

Águas do Vale do Tejo, S.A. (AdVT)

AdVT, the management entity for the upstream multi-municipal water supply and sanitation system for the Tagus Valley, results from the demerger of the multi-municipal water supply and sanitation system for Lisbon and the Tagus Valley, which correspondingly resulted in the establishment of two multi-municipal wastewater sanitation systems: the Grande Lisboa e Oeste system and the Península de Setúbal system. Following the publication of Decree-Law no. 34/2017, of 24 March, which brought about the aforementioned demerger, the company was renamed and with its territorial scope subject to substantial change. The concession contract was signed in 2015 for a 30-year period running until the end of 2045.

The economic-financial results for 2017 correspond only to the post-demerger AdVT; with the previous years reporting the AdLVT results.

(EUR million)

	2015	2016	2017	2017 proforma aggregate*
Turnover (1)	157.7	167.9	74.5	167.5
Cost recovery deviations (CRD)	47.2	14.1	11.1	13.1
Operating profit/loss (2) (RO)	50.6	42.6	12.6	35.9
EBITDA (3)	68.2	75.3	26.6	69.9
Financial income	(17.5)	(19.7)	(5.2)	(17.7)
Net profit/loss for financial year	15.1	15.8	6.9	16.4

(1) Does not include construction revenue (IFRIC 12) nor CRD.

(2) Earnings before interest and tax

(3) RO + Amortisations + Provisions + Impairment Losses and Reversals – CRD – Investment Grants - Revenue/Construction Expenditure (IFRIC 12).

(*) AdVT + AdTA + SIMARSUL.

(EUR million)

	2015	2016	2017	2017 proforma aggregate*
Operating assets (net) (1)	158.9	1 311.9	648.2	1 271.5
Investment (increment)	37.0	12.1	4.9	8.7
Trade receivables (2)	204.2	163.6	125.1	157.9
Total assets	1 998.4	1 938.8	1 068.2	1 976.6
Financial debt (3) – Medium and long term	743.7	715.7	395.1	709.2
Financial debt (3) – Short term	65.9	31.8	49.0	60.3
Financial debt (3) Total	809.6	747.5	444.1	769.5
Financial debt – Net (4)	751.2	715.8	435.2	675.9
Investment grants	484.4	489.2	273.6	474.3
Equity	342.2	357.4	193.8	370.5
Accumulated CRD	292.6	306.6	218.9	319.7

(1) Intangible assets+ Tangible assets+ Investment Properties.

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

(*) AdVT + AdTA + SIMARSUL.

Águas do Tejo Atlântico, S.A. (AdTA)

AdTA is the management company of the Multi-municipal Wastewater Sanitation System for the Grande Lisboa e Oeste region resulting from the demerger of the Multi-municipal Water Supply and Sanitation System for the Lisboa e Vale do Tejo region following the publication of Decree-Law no. 34/2017, of 24 March and hence presenting here the results only for the 2017 financial year. The concession contract was signed with a 30-year duration extending until the end of 2046.

(EUR million)

	2017
Turnover (1)	79.1
Cost recovery deviations (CRD)	(2.5)
Operating profit/loss (2) (RO)	17.6
EBITDA (3)	38.5
Financial income	(8.6)
Net profit/loss for financial year	6.9

(1) Does not include construction revenue (IFRIC 12) nor CRD.

(2) Earnings before interest and tax.

(3) RO + Amortisations + Provisions + Impairment losses and reversals – CRD – Investment grants - Revenue/construction expenses (IFRIC 12).

(EUR million)

	2017
Operating assets (net) (1)	464.2
Investment (increment)	3.2
Trade receivables (2)	26.6
Total assets	667.0
Financial debt (3) – Medium and long term	231.1
Financial debt (3) – Short term	8.2
Financial debt (3) Total	239.3
Financial debt – Net (4)	160.1
Investment grants	139.5
Equity	114.0
Accumulated CRD	41.0

(1) Intangible assets+ Tangible assets+ Investment properties.

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

SIMARSUL – Saneamento da Península de Setúbal, S.A. (SIMARSUL)

SIMARSUL is the management company for the Multi-municipal Wastewater Sanitation System for the Setúbal Peninsula resulting from the demerger of the Multi-municipal Water Supply and Sanitation System for Lisbon and the Tagus Valley system following the publication of Decree-Law no. 34/2017, of 24 March, hence the presentation of figures only for the 2017 financial year. The concession contract was signed with a 30-year duration extending until the end of 2046.

(EUR million)

	2017
Turnover (1)	13.8
Cost recovery deviations (CRD)	4.5
Operating profit/loss (2) (RO)	5.7
EBITDA (3)	4.8
Financial income	(3.9)
Net profit/loss for financial year	2.6

(1) Does not include construction revenue (IFRIC 12) nor CRD.

(2) Earnings before interest and tax.

(3) RO + Amortisations + Provisions + Impairment losses and reversals – CRD – Investment grants - Revenue/construction expenses (IFRIC 12).

(EUR million)

	2017
Operating assets (net) (1)	159.2
Investment (increment)	0.6
Trade receivables (2)	9.3
Total assets	246.9
Financial debt (3) – Medium and long term	82.9
Financial debt (3) – Short term	3.2
Financial debt (3) total	86.1
Financial debt – Net (4)	80.7
Investment grants	61.2
Equity	62.7
Accumulated CRD	59.8

(1) Intangible assets+ Tangible assets+ Investment properties.

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total – Availabilities.

Águas do Algarve, S.A. (AdA)

AdA is the management company for the Multi-municipal Upstream System for the Barlavento and Sotavento regions of the Algarve, responsible for upstream water supply and wastewater treatment activities. The AdA concession contracts were signed in 2005, for water supply, and in 2001, for water sanitation with terms of 20 (2025) and 30 (2031) years respectively.

(EUR million)

	2015	2016	2017
Turnover (1)	56.0	56.9	59.4
Cost recovery deviations (CRD) (*)	0.0	0.0	0.0
Operating profit/loss (2) (RO)	15.6	16.5	16.1
EBITDA (3)	28.8	30.0	31.3
Financial income	(6.5)	(6.7)	(6.3)
Net profit/loss for financial year	6.9	6.8	7.3

(1) Does not include construction revenue (IFRIC 12) nor CRD.

(2) Earnings before interest and tax.

(3) RO + Amortisations + Provisions + Impairment losses and reversals – CRD – Investment grants - Revenue/construction expenses (IFRIC 12).

(*) The company does not file CRD individually.

(EUR million)

	2015	2016	2017
Operating assets (net) (1)	424.8	418.5	413.8
Investment (increment)	9.9	8.9	14.4
Trade receivables (2)	39.6	37.3	37.6
Total assets	513.3	534.4	524.0
Financial debt (3) – Medium and long term	222.8	210.0	195.6
Financial debt (3) – Short term	11.7	21.3	29.3
Financial debt (3) total	234.5	231.3	224.8
Financial debt – Net (4)	222.6	218.4	211.1
Investment grants	145.5	178.0	172.4
Equity	43.2	38.7	39.6
Accumulated CRD (*)	0.0	0.0	0.0

(1) Intangible assets+ Tangible assets+ Investment properties.

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

(*) The company does not file the CRD individually.

State-local authority partnerships (AdRA, AgdA and AdNorte northwest system) (Individual accounts)

AdRA – Águas da Região de Aveiro, S.A. (AdRA)

AdRA - Águas da Região de Aveiro, S.A. manages and operates a public partnership for water supply and wastewater treatment services in the Aveiro metropolitan region. The AdRA concession agreement was concluded in 2009 and remains in effect for five decades, until the end of 2059.

(EUR million)

	2015	2016	2017
Turnover (1)	45.8	47.7	50.4
Cost recovery deviations (CRD) (*)	(2.6)	(2.2)	(4.4)
Operating profit/loss (2) (RO)	0.7	0.8	0.9
EBITDA (3)	10.6	11.4	13.4
Financial income	0.6	0.5	0.4
Net profit/loss for financial year	0.9	1.1	1.1

(1) Does not include construction revenue (IFRIC 12) nor CRD.

(2) Earnings before interest and tax.

(3) RO + Amortisations + Provisions + Impairment losses and reversals – CRD – Investment grants - Revenue/construction expenses (IFRIC 12).

(*) From the perspective of 'individual accounts'.

(EUR million)

	2015	2016	2017
Operating assets (net) (1)	144.6	149.4	160.2
Investment (increment)	9.3	7.9	13.8
Trade receivables(2)	4.5	3.9	4.8
Total assets	242.3	255.4	265.7
Financial debt (3) – Medium and long term	28.9	36.1	57.4
Financial debt (3) – Short term	37.3	36.2	2.9
Financial debt (3) Total	66.2	72.3	60.4
Financial debt – Net (4)	65.2	63.1	60.1
Investment grants	23.4	24.9	33.5
Equity	16.2	19.0	19.1
Accumulated CRD	2.4	0.2	(4.3)

(1) Intangible assets+ Tangible assets+ Investment properties.

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

AgdA – Águas Públicas do Alentejo, S.A. (AgdA)

AgdA manages and operates a public partnership for upstream water supply and wastewater treatment services in the lower Alentejo region. The AgdA concession agreement was concluded in 2009 and lasts for five decades, until the end of 2059.

(EUR million)

	2015	2016	2017
Turnover (1)	11.3	13.3	14.2
Cost recovery deviations (CRD)	(0.9)	(0.1)	(0.3)
Operating profit/loss (2) (RO)	(0.6)	0.9	0.9
EBITDA (3)	2.4	2.4	2.6
Financial income	0.8	(0.6)	(0.7)
Net profit/loss for financial year	0.1	0.2	0.2

(1) Does not include construction revenue (IFRIC 12) nor CRD.

(2) Earnings before interest and tax.

(3) RO + Amortisations + Provisions + Impairment losses and reversals – CRD – Investment grants - Revenue/construction expenses (IFRIC 12).

(EUR million)

	2015	2016	2017
Operating assets (net) (1)	76.6	82.9	90.2
Investment (increment)	0.0	4.8	8.8
Trade receivables (2)	13.6	13.2	12.0
Total assets	98.5	105.1	114.3
Financial debt (3) – Medium and long term	37.0	41.8	49.5
Financial debt(3) – Short term	9.7	10.1	1.4
Financial debt(3) total	0.0	51.9	50.9
Financial debt– Net (4)	(1.1)	51.2	50.1
Investment grants	36.4	36.9	42.7
Equity	3.2	3.2	5.1
Accumulated CRD (Liabilities)	(0.9)	(0.1)	(0.4)

(1) Intangible assets+ Tangible assets+ Investment properties.

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

Águas do Norte, S.A. (AdNorte) – downstream activity

AdNorte manages and operates a public partnership for the downstream water supply and wastewater treatment services in the northwest of the country. The management agreement was concluded in 2013 and remains in effect until the end of the AdNorte upstream concession.

(EUR million)

	2015	2016	2017
Turnover (1)	5.2	9.6	10.9
Cost recovery deviations (CRD)	10.1	16.2	6.9
Operating profit/loss (2) (RO)	2.7	5.0	1.2
EBITDA (3)	(5.6)	(7.5)	(2.5)
Financial income	(0.1)	(0.6)	(0.5)
Net profit/loss for financial year	0.2	0.3	0.5

(1) Does not include construction revenue (IFRIC 12) nor CRD.

(2) Earnings before interest and tax.

(3) RO + Amortisations + Provisions + Impairment losses and reversals – CRD – Investment grants - Revenue/construction expenses (IFRIC 12).

(EUR million)

	2015	2016	2017
Operating assets (net) (1)	21.6	25.8	35.6
Investment (increment)	16.7	4.8	9.0
Trade receivables (2)	1.8	2.7	2.9
Total assets	35.7	57.4	72.9
Financial debt (3) – Medium and long term	0.0	0.0	23.1
Financial debt (3) – Short term	9.7	17.8	11.1
Financial debt (3) Total	9.7	17.8	34.2
Financial debt – Net (4)	9.5	17.8	34.2
Investment grants	3.3	6.1	6.6
Equity	4.4	7.3	9.1
Accumulated CRD	10.2	26.4	27.0

(1) Intangible assets+ Tangible assets+ Investment properties.

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

Other state-owned companies (individual accounts)

EPAL – Empresa Portuguesa das Águas Livres, S.A. (EPAL)

The successor to the century-old CAL - Companhia das Águas de Lisboa (1868/1974), the previous concession holder for supplying water to the city of Lisbon, EPAL is thus responsible for distributing water to households in Lisbon and approximately 356,000 customers. Upstream, EPAL supplies water to 35 municipalities on the north side of the River Tagus. Since 2015, the company has been the delegated manager of the multi-municipal system supplying water and sanitation to the Lisboa e Vale do Tejo region. This system was established on 29 May by Decree-Law 94/2015.

(EUR million)

	2015	2016	2017
Turnover	143.9	151.0	159.3
Operating profit/loss (1) (RO)	68.0	70.4	73.8
EBITDA (2)	92.5	94.5	99.1
Financial income	(1.9)	(1.7)	(1.7)
Net profit/loss for financial year	47.1	49.7	50.1

(1) Earnings before interest and tax.

(2) RO + Amortisations + Provisions + Impairment losses and reversals – Investment grants.

(EUR million)

	2015	2016	2017
Operating assets (net) (1)	732.4	725.7	715.1
Investment (increment)	10.3	19.4	16.3
Trade receivables (2)	28.8	26.0	25.3
Total assets	857.1	862.3	862.1
Financial debt (3) – Medium and long term	151.5	133.4	117.6
Financial debt (3) – Short term	18.0	18.1	15.8
Financial debt (3) Total	169.5	151.5	133.4
Financial debt – Net (4)	109.8	72.0	47.7
Investment grants	31.4	30.1	28.8
Equity	579.1	602.1	612.9

(1) Intangible assets+ Tangible assets+ Investment properties.

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total - Availabilities – Financial Applications.

Águas de Santo André, S.A. (AdSA)

AdSA manages and operates the Santo André system, supplying water of sufficient quality and quantity to the local population and collecting and treating wastewater in the same area. This company is simultaneously responsible for meeting the drinking water, industrial water, wastewater and industrial waste needs of the industries located in the Sines Industrial and Logistics Area (ZILS). The AdSA concession contract was signed in 2001 for the water supply, wastewater and solid waste treatment areas and its 30-year duration lasts until 2031.

(EUR million)

	2015	2016	2017
Turnover (1)	14.4	13.5	10.1
Operating profit/loss (2) (RO)	6.9	(5.4)	3.4
EBITDA (3)	8.8	7.9	4.9
Financial income	0.2	0.2	0.3
Net profit/loss for financial year	5.1	(3.6)	0.4

(1) Does not include construction revenue (IFRIC 12).

(2) Earnings before interest and tax.

(3) RO + Amortisations + Provisions + Impairment losses and reversals– Investment grants - Revenue/construction expenses (IFRIC 12).

(EUR million)

	2015	2016	2017
Operating assets (net) (1)	54.8	52.1	50.0
Investment (increment)	2.8	1.8	1.2
Trade receivables (2)	11.3	24.9	26.0
Total assets	80.8	75.4	68.3
Financial debt (3) – Medium and long term	0.0	0.0	0.0
Financial debt (3) – Short term	0.0	0.0	0.0
Financial debt (3) Total	0.0	0.0	0.0
Financial debt – Net (4)	0.0	0.0	0.0
Investment grants	33.1	32.5	30.5
Equity	23.9	20.3	15.7
Accumulated CRD	0.0	0.0	0.0

(1) Intangible assets+ Tangible Assets + Investment properties.

(2) Referring only to amounts billed for water supply and wastewater sanitation.

(3) Loans.

(4) Financial debt total - Availabilities – FRCS.

Outlook

Following the organisational stabilisation of the AdP Group, its main goal for 2018 remains to bring about greater production efficiency in the systems managed and seek to return savings susceptible to being passed onto customers through the prices in effect. The objective of this process is thus, by focusing on the robustness of operations and maintaining the level of services and systems to consolidate operations, to speed up the investment plan and undertake the investments still necessary towards the Group's economic, financial and environmental sustainability.

This is accompanied by an expansion in the regional tariff support mechanisms, a plan to prevent losses, a strategy to increase energy efficiency in terms of consumption and pricing as well as a plan for recovering the by-products of water supply and sanitation.

The Group also endeavours, on terms to be agreed with the municipalities, to consolidate and expand downstream activities and make a joint contribution to promoting the verticalisation of water services.

And considering the EIB financing contract, we expect a significant reduction of municipal debt in 2018.

Other activities

International

The AdP Group's international business is carried out by AdP - Águas de Portugal Internacional, Servicos Ambientais, S.A. (AdP Internacional), which was set up in 2001. The company has the mission to render services at the international level and to support cooperation initiatives for the development of the water service sector in an efficient, sustainable and innovative manner, getting the most from both the experience and the technological solutions of the AdP Group, contributing towards the international projection of the Portuguese water sector in line with the Millennium Development Goals (MDGs) 2030. AdP Internacional operates primarily in consortia and partnerships and thereby able to support the internationalisation of other Portuguese companies in this sector.

The year of 2017 represents an important stage in the trajectory of the economic and financial recovery of AdP Internacional. Alongside a reduction in structural costs, this verified a very important increase in commercial activities, as measured by the number of applications submitted to international tenders and the proposals presented in conjunction with a rise in operational activities reflected in significant growth in the company's EBITDA result.

As regards commercial activities, 2017 saw a significant number of submissions of pre-qualifications in new markets, specifically Tanzania, Uganda, Rwanda, Tunisia, the Ivory Coast, Zambia, and Malawi, among others.

Within the scope of operational activities, highlights feature the implementation of new projects in Portuguese language countries financed by the Environmental Fund; the launching of the second phase in the technical assistance contract for the National Water Directorate of East Timor; and the deepening of technical assistance rendered to water supply and sanitation operating companies in Uíge and Huambo, Angola, with financing from the World Bank.

Emphasis was also placed on the work designed to strengthen international strategic partnerships. The current international market context requires greater attention to establishing strategic partnerships in order to boost the competitiveness of proposals and strengthen the value provided. Within this scope, and as an example, AdP Internacional established a protocol of understanding with WAPCOS, the largest Indian public country present in over 30 African states and in various other Asian countries. The company also implemented partnerships with various Portuguese companies in North Africa and Sub Saharan Africa.

Indicators

(EUR thousands)

	2015	2016	2017
Turnover	3 235	2 011	3 549
Operating profit/loss	(1 276)	(3 451)	675
EBITDA ¹	(488)	(562)	737
Financial income	(302)	(618)	(414)
Net profit/loss for financial year	(1 428)	(3 933)	259

¹ Operating profit/loss + Amortisations + Provisions.

(EUR thousands)

	2015	2016	2017
Assets net	11 601	5 729	5 590
Equity	2 031	(3 846)	346
Liabilities net	9 570	9 575	5 243

Outlook

In 2018, AdP Internacional shall continue with efforts to consolidate its economic and financial results and is forecast to remain on the trajectory of sustained growth. In keeping with the strategy defined, any approach to new markets and new contracts shall adopt the principle of economic and financial sustainability for any projects that AdP Internacional becomes involved with through the optimisation of costs that enables an increase to operating margins.

The commercial activities shall continue aligned with the strategy defined for the mandate, striving to broaden the scope of company action to markets neighbouring the priority markets.

As regards its activities, there are prospects for growth in the markets currently operated in based upon the proposals submitted in 2017 or by means of new opportunities, especially including Angola, where there may be new projects in the provinces of Cabinda, Bengo, Kwanza Sul, Namibe, Lubango, Luanda Norte and Luanda Sul, with financial support from the African Development Bank, with the tenders due to be launched in early 2018.

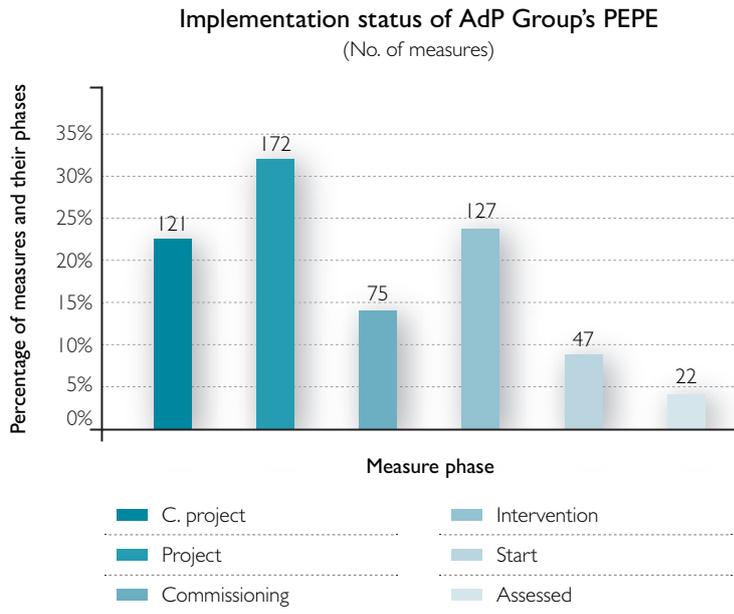
Energy and sludge (AdP Energias)

Energy efficiency (PEPE - The Energy Efficiency and Production Plan)

In May 2017, AdP Group's PEPE plan for the period of 2017-2020 was approved and presented to the public and is summarised below.

Item	No. of measures (No. and %)	No. of infrastructures (No. and %)	Efficiency + Production (KWh/year and %)	Savings (EUR/year and %)	Investment (EUR and %)
Surveys	88	51	–	–	324 944
Change in the load diagram	116	112	–	884 141	2 313 311
Energy efficiency	333	216	30 354 515	2 947 757	9 437 054
Production of energy					
- Biogas	19	18	6 315 881	611 552	3 438 756
- Micro-hydric	2	2	3 159 800	261 943	1 740 000
- Solar	17	50	16 802 600	1 934 473	10 896 000
Total	575	316	56 632 796	6 639 866	28 150 065

The picture below shows the implementation status of AdP Group's PEPE as at 31 December 2017.



Production of energy

Micro-hydro

At the Small Beiriz Hydroelectric Plant, a partnership between AdP Energias and Águas do Norte, S.A., work was completed on that necessary to full compliance with the General Noise Regulation with the infrastructure positioned to begin its testing phase before its operational launch in early 2018.

Solar power

Once again, solar power demonstrated a strong role in production, via micro and mini production, of electricity by AdP Energias, which now has 211 installations operational. In 2017, they produced and sold to the National Grid 1,558 GWh, which represents a year-on-year decrease of 8.5%.

Investment in solar power (Solar III)

On 4 September 2017, AdP, SGPS contracted the acquisition of services for the drafting of the Technical and Economic Study for the Installation of Solar Power Plants at AdP Group Infrastructures, and to this end defining the load diagrams for the last three years for each of the 50 infrastructures under evaluation and according to the development of the technical-economic simulation model.

Electric mobility

In 2017, AdP Energias implemented a joint bid by the AdP Group to the Environmental Fund for the financing of electric mobility actions. Within this field, we would highlight the introduction of 127 100% electric vehicles as well as the installation of 137 electric vehicle charging points, among other actions.

Management of sludges and other wastes

In this field, we continued with the work designed to result in an action plan for AdP Group wastewater treatment plant sludges based on the working group that brings together all AdP Group companies.

We would furthermore highlight the development, training and entrance into operation of the guide module for the electronic monitoring of wastes (e-GAR), which entered into productive processing on 1 January 2018, which ensured the legal compliance of all AdP Group companies.

AdP Energias, in partnership with EPAL, structured an intervention for the diversification and valuation of the final destination for these sludges, which involved the involvement of a brick manufacturer replacing traditional raw materials.

Treatment of livestock and agro-industrial effluents

In 2017, AdP Energias took up its position, on behalf of the AdP Group, as coordinator of the Inter-ministerial Working Group with the objective of reviewing ENEAPAI 2018–2025, having carried out the preliminary presentation of the Strategy on 30 November, in Batalha.

Other projects

Specialist Energy Auditors for the Urban Water Cycle

The advanced training program for Specialist Energy Auditors for the Urban Water Cycle, beginning in 2017, and that counts upon the support of AdP, SGPS, and with collaboration by the EPAL Águas Livres Academy, with the participation of leading partners – ADENE, Faculty of Economics and Faculty of Sciences and Technology of the Technical University of Lisbon –, in addition to other specialists on this theme (both internal and external), stemmed from the need for training in the diverse operations / phases in the urban water cycle.

Compliance with the legal requirements of Decree-Law no. 68-A/2015, of 30 April

Having identified the difficulties in compliance encountered by Group companies with the criteria established by Decree-Law no. 68-A/2015, of 30 April, AdP Energias coordinated work on harmonising and optimising resources, which resulted in the presentation of a proposal to DGEG – the group of Energy and Geology which has obtained agreement in principle.

Reutilisation of treated wastewaters for irrigation – Pilot project

As a result of the assistance provided to Adega Logowines, a pilot project took place with the objective of analysing the impacts of reutilising treated wastewaters and fostering such practices as a means of contributing towards demonstrating the potential for a new circular economy.

Evolution of the installed capacity vs. Production of electric energy

Source	Premises (N.º)	Nominal power (kW)	Actual power ⁽¹⁾ (kW)	2015 (GWh/year)	2016 (GWh/year)	2017 (GWh/year)	Δ 2017 / 2016 (GWh/year)	(%)
Biogas (2)	27	11 858	10 546	24,520	18,485	18.980	0.495	3%
Solar photovoltaic (3) (4)	332	2 699	2 553	3,196	3,410	3.507	0.097	3%
Micro-hydric	1	11	11	0,006	0.013	0.003	(0.011)	(80%)
Total	360	14 568	13 110	27,722	21.908	22.490	0.581	3%

(1) The actual power results from the limitations of sale to RESP, the national grid, and the reduction of production in photovoltaic power plants (1% per year).

(2) Of the 27 co-generation power plants nine, are connected to RESP and 19 are for self-supply.

(3) Of the 332 photovoltaic power plants, 328 are connected to RESP and four are for self-supply.

(4) The 332 photovoltaic power stations include the 19 microgeneration plants installed in EDF companies and connected to RESP.

Indicators

(EUR thousands)

	2015	2016	2017
Turnover	786	392	529
Operating profit/loss	093	(286)	(162)
EBITDA ¹	362	(25)	208
Financial income	(368)	(26)	(23)
Net profit/loss for financial year	(280)	(314)	(185)

¹ Operating profit/loss + Amortisations + Provisions.

(EUR thousands)

	2015	2016	2017
Assets net	4 112	3 790	3 394
Equity	2 658	2 344	2 159
Total liabilities	1 454	1 446	1 235

Shared Services (AdP Serviços)

During 2017, AdP Serviços, in addition to providing continuity to its ongoing activities, took on a task of particular relevance in accompanying and implementing the demerger processes of Group companies, having supported the creation and launch of the respective new companies: Águas de Douro e Paiva, SIMDOURO, Águas do Tejo Atlântico and SIMARSUL and continuing to study and develop verticalisation processes for the multi-municipal systems.

Progress also advanced with investments in relation to the sharing of knowledge among the operating companies, the end recipients of the work undertaken by AdP Serviços, seeking to involve these companies in the aforementioned developments as well as the procedural decision of common interests; and incorporating their respective contributions in addition to prioritising their needs. With this orientation towards sharing and collaboration, various working sessions were held at the installations of operating companies in the north, centre and south of Portugal and correspondingly broadly debating themes of relevance to the activities and needs of these companies and so as to guarantee the coherence and appropriateness of the solutions made available. We would register here that a large proportion of the turnover of AdP Serviços derives from the services rendered to the operating companies.

2017 was also notable for the development of information technology routines and transactions, fostering the standardisation of processes and procedures at the heart of the Group, disseminating and sharing the best practices leading to efficiency in processes. Examples of such concerns and focuses include the drafting of the Procurement Process Manual, the backing for the AdP Group Annual Procurement Plan, the development of the Management of Investment Agreements and Controls module, the controls routinely applied to the limits in effect for direct tenders under the terms of the Public Contracts Code, the automated accounting for gains and losses, among many others.

The Specific Strategic Orientations for the AdP Group 2016–2018 mandate stipulate that the holdings of AdP, SGPS are to, in keeping with the policy for the sector, implement an agenda of measures focused on the consolidation and re-centralising of the respective activities, specifically collaborating on the reorganisation of the corporate structures, redistributing resources in accordance with the effective needs of AdP Group companies, setting up committees and/ or banks of specialist skills and innovation competences with the operating companies and the subsequent re-evaluation of the installations.

Within this scope, in the second half of 2017, AdP Serviços embarked on the reorganisation of the structure underlying the IT Systems Department and the Centralised Procurement and General Support Department with the specific objective of aligning its structure and organisation with the provision of its services to companies more effectively and efficiently. Among the results of this restructuring is the launching of a specific section for more specialised relations with Group companies that is due to take place in 2018.

The hardware infrastructures of AdP Serviços, which serve to support Group companies, have been in operation for around a decade with their corresponding replacement beginning in 2016, a process that extended throughout 2017, the year when, based on previously defined criteria, the company acquired IT equipment, especially computers and servers.

As regards investments, highlights include the Água a 360° project, an initiative developed by AdP Serviços that, in 2017, ran in close coordination with the sector regulator that provided project co-financing through the Environment Fund for this application.

Among other initiatives, this Project included the Environmental Education Interpretation Centre, installed at the AdP Group headquarters and seeking to achieve objectives handed down by the National Environmental Education Strategy (ENEA 2020), specifically as regards the main guidelines and thematic axes – decarbonising society, making the economy circular and valuing and enhancing the territory – thereby providing responses to the social, economic and environmental needs detected in communities.

Following recommendations made by the Court of Audit, following the audit process of direct tenders made by the AdP Group, in the report no. 07/17 – 2nd section, AdP Serviços, in accordance with orientations from AdP, SGPS, proceeded with the respective implementation. This process highlights the integrated planning of the acquisition needs of the AdP Group, in keeping with its track record of needs, pre-empting the launching of any pre-contractual procedures with the time necessary to ensuring an effective level of competition.

In conjunction with AICR – the Directorate of Internal Audit and Risk Control, there was the preparation of a Procurement Manual, in accordance with the recommendations handed down by the Court of Audit and the guidelines of AdP, SGPS, which encourages the implementation of measures for greater control over the compliance with legislation on public procurement, with a particular focus on direct tenders as well as alterations in the procedures and the standardisation of internal norms, taking into consideration the level of specialisation required both in terms of processes of this nature and in terms of integrating information technology tools.

The activities carried out directly resulted in benefits to the Group, directly measurable, from the signing of centralised contracts, with a total value of EUR 86.4 million, which resulted from the aggregation of the procurement needs of companies, with the following highlighted by their respective relevance: the contracting of insurance; high tension medium tension and special low tension energy; communications; reagents, electric vehicles and laboratory materials. In all these cases, the economies of scale returned by the universe of Group companies ensured the return of very significant synergies and total savings estimated at EUR 10.9 million in the direct and indirect components.

Indicators

(EUR thousands)

	2015	2016	2017
Turnover	9 583	8 734	8 307
Operating profit/loss	3 032	1 763	762
EBITDA ¹	4 236	3 181	2 192
Financial income	(215)	(298)	245
Net profit/loss for financial year	2 157	1 089	775

¹ Operating profit/loss + Amortisations + Provisions.

(EUR thousands)

	2015	2016	2017
Net assets	28 738	27 009	27 107
Equity	9 513	10 602	11 377
Total liabilities	19 226	16 407	15 730

¹ Operating profit/loss + Amortisations + Provisions.

	Unid.	2016	2017
No. of entities, new procedures (D1)	No.	137	293
No of entities, ongoing procedures (D2)	No.	155	145
Administrative Efficiency Indicator (IEA)=D1+D2	No.	292	438
Operational Expenses	€	8 368	8 778
Indicator IG=(COGS/IEA)		29	20
IG		0,0	70%

The administrative efficiency indicator was adopted (and approved by the financial supervisor), in place of the COGS/Turnover ratio (operation costs / turnover), under the terms of no. 2 of article 124 of Decree-Law no. 25/2017, of 3 March, for the measurement of the optimisation of the operational cost structure, on the understanding that this provides a more appropriate picture of AdP Serviços actions in conjunction with Group companies. This indicator arises from a number of centralised contractual processes undertaken by the AdP Serviços Procurement Department, launched and under implementation each year, weighted by their respective complexity of preparation.

Other invested company business activities

AQUASIS, Sistemas de Informação, S.A.

Since its foundation in 1991, AQUASIS has deployed knowhow in the fields of hydraulic and sanitation engineering, competences in the field of information technology, especially in the development of IT systems. Thus, from its outset, AQUASIS has dedicated itself to the development of IT systems focused specifically on companies and management companies of basic sanitation systems, a pioneer in Portugal in implementing this type of information technology.

The main fields of AQUASIS specialisation are the following:

- operating infrastructures and maintenance,
- automation, communications and energy,
- geographic information systems.

In 2017, there was major growth in the number of AQUASIS clients, both in the national market and in the international market. In this context, there was also the expansion of the AQUASIS client portfolio to nine new managing entities in the national market and two new managing entities in the international market.

In the field of innovation, the 2017 advances include the development of an operating management solution, complementary to the AQUAField solution, which is to cover all operating activities, beyond interventions in the networks, especially: operating routines, reading and recording flows, reagents, incidents, energy, human resources, material means, among others. Designated AQUAWorks, this solution arrives on the market in the second quarter of 2018.

The 5th Forum for the Sharing of Experiences and Best Practices, organised by AQUASIS in May 2017, on the theme of Water 4.0 – Intelligent Cities, was once again a high point of the year, making a clear contribution through the solutions designed by AQUASIS (G/InterAqua, AQUAField and AQUAMAN) for the efficiency and quality of services provided by the managing entities. This Forum followed in the footsteps of every year since 2013 and overcame all others in terms of the number of participants, confirming the relevance of the event, with a privileged and open format for managing entities to convey their respective experiences as users of the information technologies for the asset management, such as those under development by AQUASIS over the last 25 years.

(EUR thousands)

	2015	2016	2017
Turnover ¹	2 179	2 046	2 007
Operating profit/loss	221	110	147
EBITDA	268	113	155
Financial income	(32)	(36)	(36)
Net profit/loss for financial year	145	56	85

(1) Includes the amounts corresponding to Other Operational Expenditure.

(EUR thousands)

	2015	2016	2017
Net assets	2 192	2 065	1 736
Equity	143	199	283
Total liabilities	2 049	1 866	1 453

	2015	2016	2017
EBITDA Margin (EBITDA / Turnover)	12.3%	5.5%	7.7%
Efficiency (COMC + COSC + GP) / Turnover – Nominal Value	87.3%	94.3%	92.1%
Solvency	7.0%	10.6%	19.5%
Financial Autonomy	6.5%	9.6%	16.3%

The growing demand for efficiency and the optimisation of operational activities by water and sanitation management entities and the recognition of the value of the work carried out by AQUASIS resulted in significant growth to company activities in the national market. Hence, we perceive next year with a renewed positiveness but also with a reinforced focus on the continued improvement of our solutions within the scope of corresponding to the needs of national and international management entities in increasingly demanding and complex contexts.

The sale contract for AQUASIS was signed on 16 March 2018 and awaits the necessary approval by the sector regulator, the financial regulator and the Competition Authority.

AQUATEC, Lda.

AQUATEC provides technical assistance for water supply, wastewater treatment and urban waste treatment systems. This represents the AdP Group's platform for attracting business in Mozambique, with a particular focus on business management and maintenance management systems (see International Business Activities chapter).

AdP Timor-Leste, Lda.

AdP Timor-Leste assists in the development of water and sanitation infrastructures and provides services in water supply and sanitation and waste collection and is also a future development partner of East Timor (see International Business).

Águas do Brasil, S.A.

Águas do Brasil, S.A. is currently undergoing liquidation.

Trevo Oeste – Tratamento e Valorização de Resíduos Pecuários, S.A.

Trevo Oeste – Tratamento e Valorização de Resíduos Pecuários, S.A. (Trevo Oeste) was set up in 2005. Its business is the construction and management of infrastructures and systems for the collection, treatment and discharge of pig farming effluent, the collection, treatment and discharge of effluent and leveraging the potential for recycling wastewaters, deposits and sludges from effluent treatment, the sale of the by-products resulting from its operations, consultancy and services in these and similar or complementary areas in the western region.

This company did not engage in any business activity in 2017.

Sustainability strategy

In 2017, we maintained our commitment towards contributing significantly to promoting a sustainable future by combining economic growth with environmental responsibility, social justice and the quality of life for people today and for people in the future. We are committed to fighting climate change, to achieving the circular economy and to attaining the MDGs.

The AdP Group, which performs an active function in society and in the environment, is committed to the appropriate management of the resources it holds so as to foster more efficient operations able to guarantee higher quality to the services provided alongside better tariffs for the community.

The AdP Group sustainability strategy results from analysis of its management guidelines and business strategies, the PENSAAR strategic sector plan, reflecting on the expectations of stakeholders, and consolidating best practices as well as the commitments deriving from the United Nations Global Compact and the goals of sustainable development.

Within this framework, and based upon the assumption that sustainability is able to nurture symbiotic relations with the environment, with the shareholders and employees, with the community and the respective other stakeholders, the main challenges facing the Group in terms of sustainability were first identified before defining the principles and strategic commitments for the sustainability of the AdP Group.

Symbiosis with the environment

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

Commitments:

- Preserve and enhance 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 fight climate change

Commitments:

- To ensure the Group's eco-efficiency

Symbiosis with shareholders and customers

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

Commitments:

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

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

Commitments:

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

Symbiosis with employees

Principle: We value employee relationships, ensuring the sustained growth of Group know-how

Commitments:

- Invest in employee development
- 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 nurture growing proximity to the community

Commitments:

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

Communicating with stakeholders takes many direct and indirect channels with our Sustainability Report constituting the core output of this transparency policy.

In 2017, all stakeholders responded to an online questionnaire and developing in partnership with ISEG, a workshop entitled The Sustainability Report as an Instrument for Organisational Transparency, with the following objectives:

- presenting the 2016 Sustainability Report of the AdP Group to stakeholders alongside the respective Group strategic framework;
- promoting interdisciplinary and multi-party dialogue on organisational transparency based upon the sustainability report;
- sounding out the different stakeholder opinions about that already communicated by the sustainability report and that may be improved within the framework of further raising organisational transparency;
- conveying specific recommendations as to how to turn the sustainability report into a tool for organisational transparency.

The AdP Group sustainability report, published annually for the last nine years, integrates the consolidated balance of the activities of the holding and its respective companies whether held directly or indirectly by AdP, SGPS, setting out the strategies adopted, the level of compliance with the set targets and reporting on best practices.

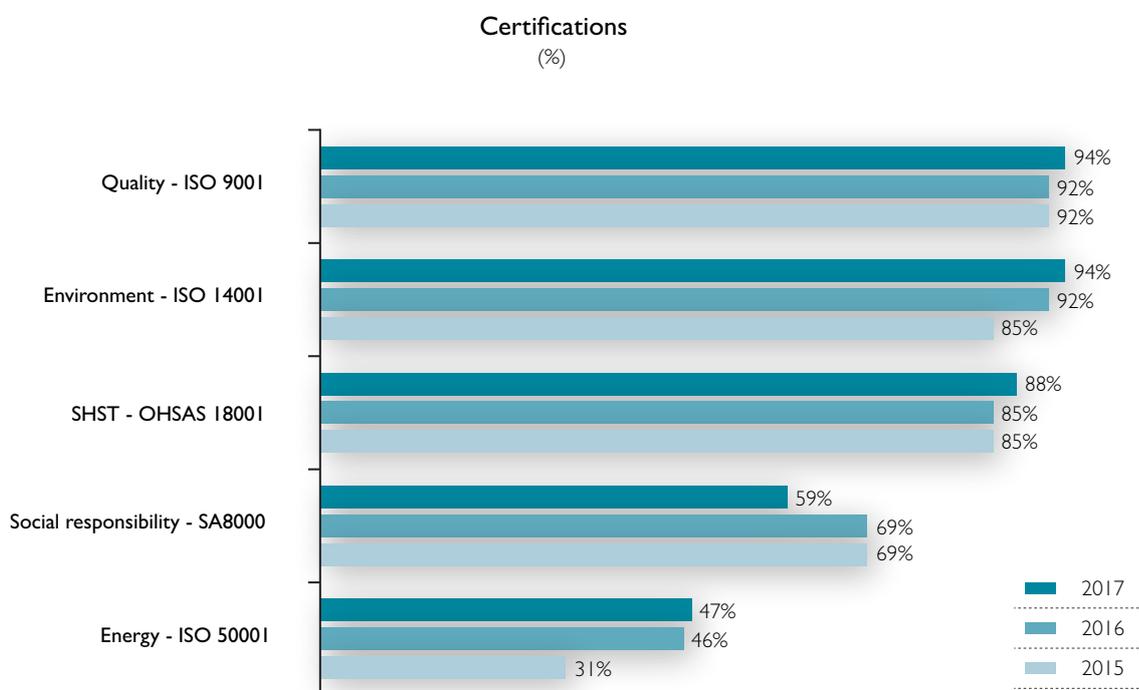
The 2017 Sustainability Report, following on from the precedent of previous years, follows the directives handed down by the Global Report Initiative (GRI) and the ERSAR references and may be consulted on the AdP website at www.adp.pt.

We actively share with citizens our mission, our vision, our values and the principles of sustainability in which we believe and that underpin our strategy so as to foster increasingly sustainable behaviours.

The greater the sustainability of the behaviours of citizens, the greater the efficiency of AdP Group activities.

Important aspects of 2017

The most important aspects of 2017 involved the ongoing implementation of our policy to develop and constantly improve our processes in order to provide a high-quality increasingly efficient public service. One major contribution stemmed from the certification of our quality, environmental, safety, social responsibility and energy systems in keeping with the respective principles of transparency and credibility. In 2017, 94% of Group companies held ISO 9001, 94% ISO 14001, 88% OSHAS 18001, 59% SA 8000 and 47% ISO 50001 certification.



The AdP Group has striven to deepen its governance in the area of sustainability so as to ensure the greater alignment of policies, efficiency in reaching sustainability targets, consistency in the Group's image and spirit while boosting our capacity to measure the social impact. Correspondingly, in 2015 we set up the Functional Sustainability Working Group including all the Group's operating companies while coordinated by the holding company. In 2017, the group continued to discuss and align group-wide issues and proved able not only to boost company best practices through a Group vision but also to foster internal synergies with positive results.

As regards social responsibility, the Group continued to invest in corporate policies and its program of awarding study grants to help with the education of children of staff members. Thirty five higher education grants were awarded in 2017, plus 15 special education grants each for the amount of EUR 1,200. The scope of grants covers practically all Group companies and, as of this year, also include the international businesses. This initiative involves all Group companies as the grants come from funds raised by Group Christmas cards, which involved a 50 cent donation for each card sent.

There was continuity for the corporate volunteering program, Gota a Gota Mudamos Vidas (Drop by Drop We Change Lives), which encourages the voluntary participation of Group members of staff in community activities during which they contribute with their time, their solid, technical knowledge and, above all, with demonstrations of an enormous generosity. Within the scope of Group corporate social responsibility, this volunteer program strengthens our corporate culture through its commitment to the wellbeing of populations. In this same framework, we carried out certain initiatives, including leading events such as the blood donation campaign as well as registering as a bone marrow donor; the campaign Gota a Gota Salvamos Vidas (Drop by Drop We Save Lives) and the Gota a Gota Alegramos no Natal (Drop by Drop We Bring Cheer to Christmas), which consisted of gathering foodstuff, personal hygiene products and toys and gifted to families in need in the Cova da Moura neighbourhood identified by the Alto da Cova da Moura Social Solidarity Association in Amadora, Lisbon, guaranteeing an expanded Christmas basket to 63 persons and new toys «in the stockings» of 37 children.

Furthermore, under the auspices of the Águas Sem Fronteiras (Waters Without Borders) AdP Group Program, a specialist corporate volunteering program for water supply and wastewater sanitation, designed to provide a response to requests for humanitarian aid and international cooperation, the Engineering Department and EPAL played an active and solidarity role in the intervention in the forest fires afflicting Portugal between June and October of 2017. Contacts were established among the municipalities affected so as to provide the technical competences existing in the AdP Group, especially in the field of engineering, in order to solve some of the many problems faced by these municipalities. In this context, there was a survey by AdP Serviços and EPAL engineers of the anomalies in the infrastructures while also drafting an estimate of the costs in conjunction with Pampilhosa da Serra Municipal Council. In this context, eight infrastructures were evaluated following the June fires before another 69 infrastructures were surveyed in the wake of the October fires in Pampilhosa da Serra council.

In this year, we equally continued to invest heavily in the social entrepreneurship ecosystem with the AdP Group participating in the IES – the Institute of Social Entrepreneurship since 2009. Within the scope of its corporate social responsibility policy, this theme fully integrates into the commitments assumed within the framework of fostering a rising level of proximity to the community and contributing to the development of the local economy.

This year, we continued to focus on the social entrepreneurship ecosystem and the AdP Group joined the IES – Institute of Social Entrepreneurship. This closely matched the Group's own commitments as part of its social responsibility policy as this fostered greater proximity between the community and helped in developing renewed participation in the Girl Move Project, by granting an internship to one of the 20 participants in this female entrepreneurship project. Girl Move is a Foundation whose mission is the creation of a life movement whose aim is to empower young women in Mozambique through education and the creation of human networks and international cooperation between generations and peers, by fighting early school abandonment, youth marriages and pregnancies and gender violence. These all constitute problems afflicting the young female population in Mozambique and stand in the way of their attaining basic human rights and the opportunity to achieve their full human potential.

This furthermore incorporates the AdP Group commitment towards the SDGs and strengthening the principles of the Global Compact, to which the Group signed up in 2009, that span the areas of human rights, labour practices, environmental protection and anti-corruption measures. We also deepened our commitment to the Alliance for the Sustainable Development Goals.

In 2017, Águas de Portugal formalised its membership of the Portuguese Corporate Forum for Equality, strengthening the commitment to gender equality and improving its performance in terms of sustainability, organisational justice and satisfying members of staff both male and female in gender. Through this membership, Águas de Portugal commits to developing actions able to foster gender equality and take on commitments for improvement in facets incorporating principles of equality and non-discrimination among men and women, at work and in the workplace as well as in the balance between professional, personal and family life and in protecting parenthood.

AdP Group actively participated in the drought awareness raising campaign run by the Ministry of the Environment. This campaign appealed to the importance of rationally consuming water, especially in the context of drought then prevailing in Portugal. The Group also joined up with the ECO Movement, involving companies in its promotion through the respective channels of communication, with messages of awareness raising as regards risky behaviours and fostering specific actions in defence of the nation's forests.

Águas de Portugal also made an active contribution towards the Água Igual para Tod@s (Water Equal to All), run by the State Secretary of the Environment, which brought about better coordination among the diverse political actors with competences in this field, in particular the fields of the environment, foreign affairs, citizenship and gender equality and local councils. Another of the initiatives highlighted, in this context, was the integration of Águas de Portugal into an intervention group operating under the auspices of the National Strategy for the Integration of Persons Experiencing Homelessness.

Stakeholders

Stakeholders are those people or groups able to affect and/or by affected by the strategic results in effect and who hold relevant demands as regards the group and its performance.

The engagement of stakeholders in AdP Group activities consists of an exercise in sharing and full transparency in its relationship with society and particularly with those entities that impact or are impacted on by Group companies.

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



Through its Planning and Management Control and Regulation Departments, the AdP Group seeks to maintain an appropriate institutional and informative relationship with the stakeholders detailed above.

This department acts as an interlocutor between the executive committee and stakeholders, ensuring engagement and professional and constant communication and is responsible for the speed, reliability and accuracy of all the available information.

Efforts are made and expertise established to this end and ensuring a constant flow of communications with all stakeholders and thereby providing all the necessary information, observing all the applicable formal rules, laws and regulations. Only thus can replies be provided to all the requests for information received.

The AdP Group responsibility in this area has risen and become particularly sensitive given its role as a public service provider and with its core business making a decisive contribution to national sustainable development

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 fully ensuring the duties inherent to an adequate relationship with the universe of stakeholders.

Research, development and innovation

Ongoing research, development (R&D) and innovation projects

2017 saw the approval of two new R&D and innovation projects within the scope of Horizonte 2020 program financing. InteGrid (Demonstration of INTElligent Grid Technologies for Renewables INTEgration and INTERactive Consumer Participation Enabling INTERoperable Market Solutions and INTERconnected Stakeholders) holds the objectives of optimising the internal operating processes from the point of view of energy consumption, analysing the flexibility of these same processes within the perspectives of optimising energy consumption (with the scope for «shifting» processes to other times of the day) and as well as analysing the potential for selling this flexibility to energy providers. The RES URBIS (REsources from URban Blo-waSte) strives to transform wastes, such as WTP sludges, into bioproducts, for example biopolymers.

There was also in 2017 a major advance in the LIFE IMPETUS (Improving Current Barriers for Controlling Pharmaceutical Compounds in Urban Wastewater Treatment Plants) project, especially due to the installation of two prototypes in the Beirolas WTP for carrying out tests and experiments with a view to analysing measures for the removal of pharmaceutical products from urban WTPs, through the conventional treatment of activated sludges.

The RESCCUE (RESilience to cope with Climate Change in Urban arEas) project, with the objective of boosting the resilience to climate change of cities such as Lisbon, Barcelona (Spain) and Bristol (UK) through case studies also underwent development. In particular, various services and infrastructures in the city of Lisbon were subject to identification and description as well as the levels of dependence existing among them taking into account different climate change scenarios.

As regards the LIFE SWSS (Smart Water Supply Systems) project, with its core objective of establishing a platform for support decision making and operational management by the managing entities, taking into consideration the reduction of energy consumption and, consequently, in greenhouse gas emissions, were implemented through the LIFE SWSS platform for the pilot-case of Águas do Algarve, with modules forecasting consumption, identifying losses, evaluation and optimisation. The year also saw the beginning of development of a smartphone application for accompanying the main performance indicators defined under the auspices of this project.

R&D and innovation project financing programs

In 2017, the field of R&D and innovation submitted various applications to international financing programs, in particular, H2020 and Interreg, including the following lead initiatives:

- The application by TWIST – Transnational Strategy for Innovation in the Water Domain – Interreg Sudoe strives for the creation of a collaborative ecosystem for innovation in order to incentivise private investment in research, development and innovation in the water sector, capable of attracting and retaining qualified human capital able to engage in development based on the efficient usage and recovery of resources. The TWIST project is to promote an open model of innovation through transnational and transregional partnerships with actors with the capacities to mobilise R&D and innovation processes within the scope of compliance with the Framework Directive for Water, through means of a circular economy model. TWIST is to foster physical and virtual spaces for co-creation, experimentation and the evaluation of innovative products within the scope of generating value from wastewaters with three complementary and specialist living laboratories.
- The candidacy of CircRural 4.0 – For a Circular and Intelligent Conception of the Management of Wastewaters in Rural Areas – Interreg Sudoe strives to bring about a transformation in the panorama of wastewater treatment in rural areas in accordance with a new concept based on the efficient usage of resources. With this approach, wastewater management in rural surroundings may become energy self-sufficient and ensuring the recovery of essential nutrients such as phosphorous. Hence, the treatment installations need to implement new controllers and advanced data analysis technologies.

Human capital

AdP takes on, within the framework of its corporate policy for human resource management, the commitment to actively promote the continuous development and valuation of all members of staff, thereby contributing to their involvement and commitment as well as to Group sustainability.

The processes of planning, managing and evaluating training seek to provide responses to the training needs identified and guarantee their respective quality, effectiveness and appropriateness. This also involves the holding of dynamic training initiatives of a transversal and strategic nature with a view to fostering organisational development. The Professional Valuation Regulation incentivises the participation of staff in post-graduate programs as well as their participation in professional or class based associations able to contribute towards professional valuation.

The internal mobility of employees is a practice that we value and stimulate across the Group, which represents an important factor in the professional evolution of our human resources. The internal recruitment of professionals for allocation to projects and / or to meet needs for specific knowhow is a process that adds value to AdP and enables employees to gain access to new contexts and challenges that enable the acquisition of further knowledge and competences.

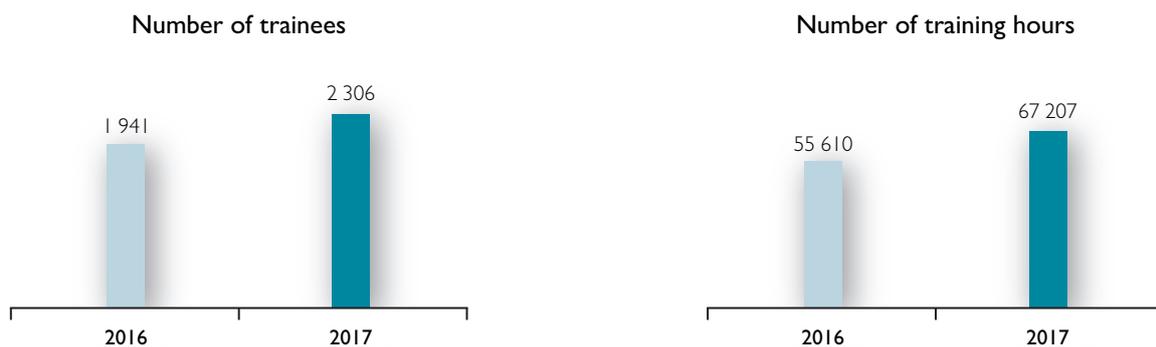
The corporate geographic mobility policy has made an active contribution towards dynamically boosting processes of functional mobility through guaranteeing a set of supports for staff under mobility regimes, designed to facilitate the transition and installation in the new place of work.

Throughout 2017, a significant number of employees saw their respective requests for mobility accepted and implemented.

Training and development

Our strategy embodies a culture of ongoing improvement that we believe essential to providing our human resources with the skills they need to fulfil their potential, thereby contributing to AdP's success. Employee training is therefore a key focus of our human resource management policy.

Our planning, management and training assessment processes are designed to meet those needs identified and guarantee quality, effectiveness and suitability. We arrange for strategic across-the-board training programs to foster organisational development as well as strengthening and consolidating shared values, team working and aligned and joint development.

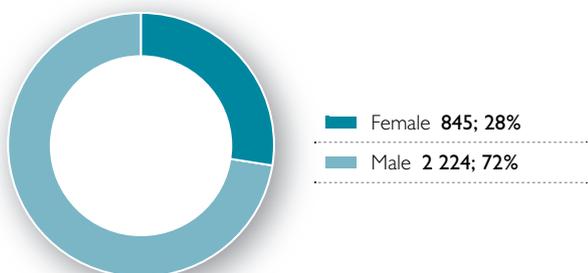


Gender equality

Analysis of the human resource distribution by gender reveals a greater representation of the male gender in the activities of a more operational nature. There is a balance between the genders in administrative and back-office tasks.

Most Group employees occupy technical posts in the operation and maintenance areas. The lower representation of females derives from the low level of attractiveness of duties in these areas. That there are very few women in operation and maintenance greatly influences the overall statistics.

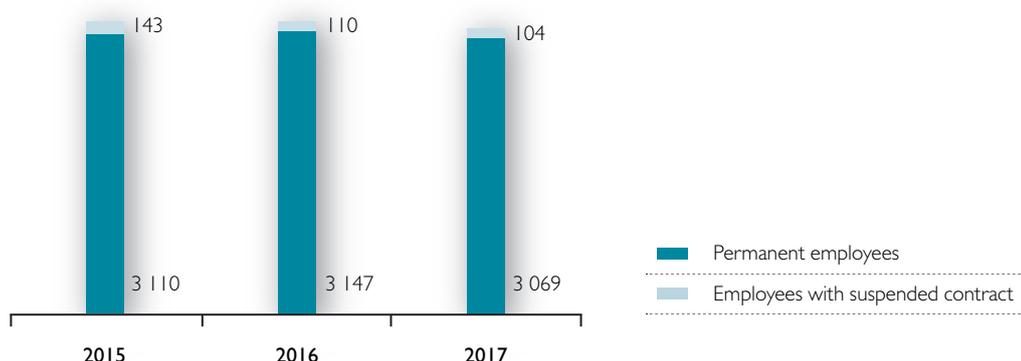
Gender distribution



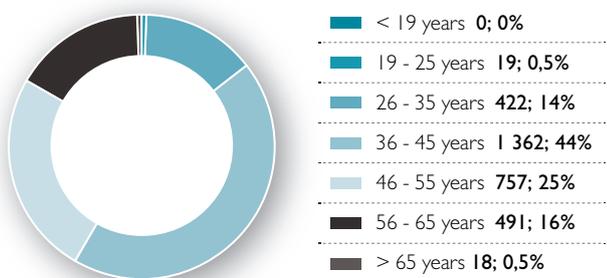
In compliance with paragraph 2 of Council of Ministers Resolution 18/2014 of 7 March and the procedures in place in the AdP Group, AdP SGPS, S.A. promotes, disseminates and publishes online information about the remuneration paid to women and men in its annual sustainability report.

The Group’s human resources on 31 December 2017

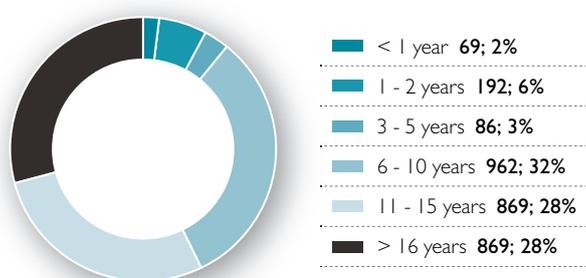
Total Group Employees



Age distribution of permanent employees



Years worked per permanent employees



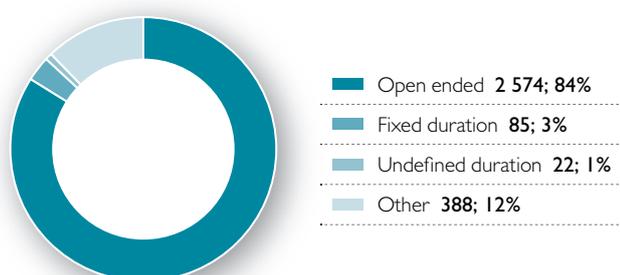
The average age of employees stands at 44.95 years with the most representative age range of the Group including members of staff between 36 and 45 years of age (44%).

The Group employee years of service average stands at 13.2%. Although the AdP Group was established in 1993, the integration of pre-existing companies, such as EPAL, influences this indicator. Between six and ten years of service accounts for 32.0% of total human resources.

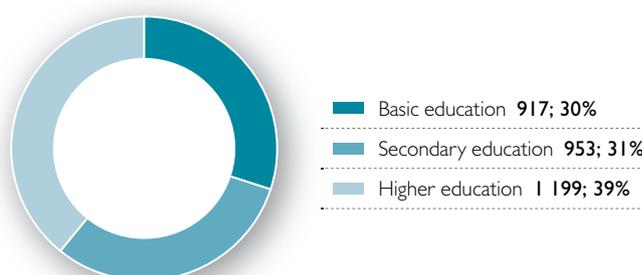
Permanent, open-ended contracts are the most common type of employment contract in effect at AdP, representing 84% of all individual employment agreements. The "Other" section comprises employees on secondment arrangements within the Group and employees transferred in the public interest. Since these employees also have permanent contracts with their parent company, this contractual format in practice represents 96% of the total existing individual employment agreements.

Analysis of the academic level of qualification reports that 39% of Group members of staff hold higher education qualifications.

Types of employee contracts



Employee education levels



PREVPAP – Program for the Extraordinary Regularisation of Renewable Fixed Term Employees in the State Sector

Under the auspices of PREVPAP (Program for the Extraordinary Regularisation of Renewable Fixed Term Employees in the State Sector), stipulated by article 19 of Law no. 7-A/2016, of 30 March, and article 25 of Law no. 42/2016, of 28 December, regulated by Decree no. 150/2017, of 3 May, with the alterations introduced by Decree no. 331/2017, of 3 November, a total of 318 requests were submitted at AdP Group companies.

As a result of the evaluation process of requests submitted by CAB - the ministerial Bipartisan Commission of Evaluation, the integration of 146 employees into the full time staff of companies is to take place over 2018 in keeping with the distribution set out in the table below (for confirmation following ratification by the Government). These employees were deemed to participate in the regular activities of the companies and hold full time and permanent positions.

As a result of this process, a further 25 contracts that are currently of fixed duration shall become of permanent duration.

Looking to the future

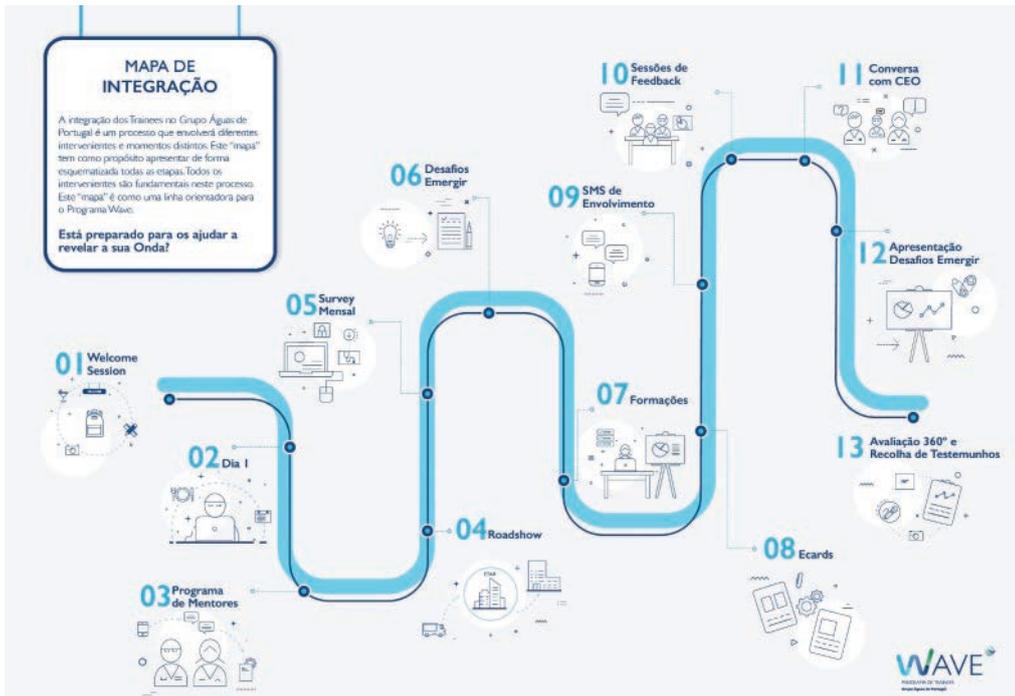


In 2017, the AdP Group launched its first training program (WAVE), seeking to provide training and personal and professional development opportunities in real working contexts to young persons of high potential that share our passion for the environment.

In addition to this essential objective, we consider that there is a significant group of benefits arising from the integration of young persons into various fields of knowledge at various Group companies and thereby fostering the renovation of competences and leveraging the potential for innovation:

- strengthening the reputation of AdP among young persons,
- leveraging the culture of innovation,
- attracting and training young employees in accordance with the functional needs of companies,
- fostering mutual exchanges between AdP and the academic environment,
- responding to the needs for generational renovation.

WAVE is an annual program structured into 13 key stages that seek to welcome, develop and successfully integrate the trainees annually recruited by AdP:



The first group of trainees was selected at the end of the year and their welcome at AdP featured the participation of the Minister of the Environment who correspondingly launched the Program.



Risk management

Risk management policy

The AdP Group in general and the Board of Directors of AdP SGPS in particular pay great attention to the risks inherent to Group activities with regular monitoring of all the main risks arising out of daily operations.

The implementation of a business risk management model provides for the integrated assessment of risks and a more mature risk culture thereby ensuring a common language in the definition and concept of each risk together with the alignment of goals to the risks and controls in place at the company. This serves not only to reduce the risk of loss of assets and investments but also helps in guaranteeing the reliability of financial statements and compliance with the laws and regulations in effect.

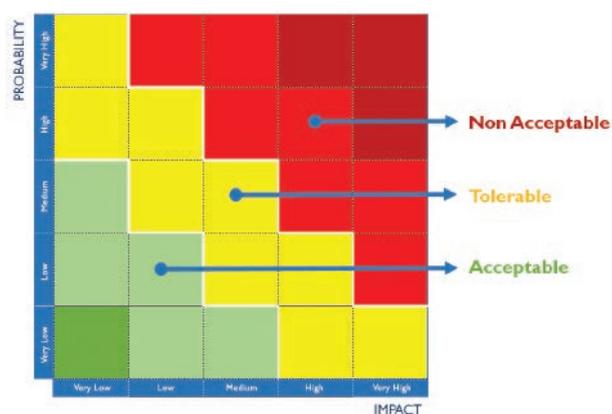
In order to ensure the effectiveness and efficiency of the processes that guarantee its goals are achieved, AdP Group companies run in-house control systems to guarantee a reasonable degree of trust in their respective mechanisms. These include actions that, collectively and individually, guarantee company processes are able to meet the targets set and fulfil their missions.

The suitability of the internal company control systems stems from their risk management model and is always adjusted whenever risk assessments identify unacceptable exposure, inadequacies or other faults detected by control analysis

In the business risk management model in effect at the AdP Group, the risks are organised into a class and category structure defined in accordance with the COSO methodology (Committee of Sponsoring Organizations of the Treadway Commission), as set out below:



Risk assessment is performed from the perspective of the likelihood and impacts, covering both the inherent and the residual risks. The effectiveness of the internal control system is correspondingly assessed in order to maintain risks at an acceptable level in accordance with the following matrix:



Risk assessment from the perspective of impact analysis includes the following analytical dimensions:

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

The probability of risk occurrence is also evaluated according to 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 Internal Audit and Risk Control Department is responsible for identifying the risks to AdP Group businesses, pinpointing the key control factors required to minimise or eliminate their impacts, undertaking compliance tests to assess the results and performing internal audits of those subsidiaries in which it holds a majority interest.

Reporting directly to the AdP SGPS Board of Directors, the department's independence is strengthened in relation to the management of the audited companies and correspondingly experiencing an appropriate degree of autonomy to carry out its work, optimising the resources available and avoiding any duplication of units.

In managing business risk, those risks related to the categories of governance, strategy and planning, compliance and reporting are both handled directly and monitored at the Group company level while periodically examined by AdP SGPS in its capacity as majority shareholder. Operational and infrastructure risks are addressed not only by the Group companies and their governing bodies but also by the majority shareholder's centralised monitoring and control units, which are responsible for both identifying and managing the main risks.

According to the risk assessment conducted by AdP Group companies in 2017, the following constitute some of the core issues:

- **Upstream sanitation infiltrations**

Risk of infiltrations along the upstream sanitation chain with a resulting reduction in treatment capacity and financial losses due to undetected malfunctions and faults, ageing infrastructure and absence of network separation.

- **Physical safety of premises**

Risk of material or financial losses, resulting from damages caused to the Organisation assets, resulting from non-existing or unsuitable measures of mitigation of events of a human, natural or processual nature.

- **Talent management**

Risk of difficulties in attracting and retaining the human capital due to limitations inherent to the sectorial or economic conjuncture.

- **Management of geographic dispersal**

Risk of an inability to or difficulties in leveraging the best of economies of scale and managing human, material and technological resources due to the geographical business dispersal.

- **Safety of information**

Risk of loss of confidentiality, integrity and availability of information systems, resulting from a non-existing or inadequate definition of information security policies.

- **Disasters**

Risk of disasters that may have an impact at the level of continuity of the business.

Whenever risk assessment deems an aspect intolerable or unacceptable to a company, risk handling plans are drafted, approved and adopted as mitigation measures. These identify the corrective actions to be taken, the strategy for handling them (avoiding, accepting, reducing or sharing the risk), the respective timeframe for implementation and the person in charge for each dimension to the implementation plan in question. Depending on the duration of the defined handling period, monitoring date schedules may be defined as well as their designated officers and the impact of such actions is ascertained during the assessment stage.

Following on from analysis of the risk evaluations undertaken by all AdP Group holdings at the end of 2017, these are then to evaluate the need to identify and / or implement corrective actions, which, following this identification, are then incorporated into the risk treatment plans. These are subject to periodic monitoring in order to accompany the respective implementation process, the impact on mitigating the risks identified and ascertaining the respective level of control.

Financial risk management

Risk factors

AdP Group business operations are exposed to a number of financial risk factors: credit risk, liquidity risk and the interest rate associated cash flow risk. The AdP Group has correspondingly developed and implemented a financial risk management program which, in addition to constantly monitoring the financial markets, seeks to minimise potential adverse effects on the financial performance of AdP and its subsidiaries. This risk management is the responsibility of the central treasury department acting in accordance with the policies approved by the Board of Directors. The treasury department identifies, assesses and undertakes operations designed to minimise financial risks in close cooperation with the AdP Group operational units. The Board of Directors drafts the principles for risk management as a whole in addition to policies that cover specific areas such as currency conversion risks, interest rate risks, credit risks, recourse to derivatives, other non-structured instruments and the investment of surplus liquidity. The Board of Directors is responsible for establishing the general risk management principles as well as the exposure limits. All transactions undertaken involving 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.

Market risk

Interest rate risk

The interest rate risk of the AdP Group broadly stems from long-and short-term loans. Such loans, with their variable interest rates, expose the AdP Group to cash flow risks whereas loans with fixed interest rates expose the Group to fair value risks linked to the interest rate. Águas de Portugal, SGPS manages interest rate-linked cash flow risk by taking out swaps that allow for the conversion

of loans with floating interest rates into fixed interest rate loans. Likewise, the guaranteed remuneration of concession contracts, and consequently the tariff deviation, is associated with interest rate volatility. The table below provides approximate sensitivity analysis of the AdP Group financial costs.

	31.12.2017	Average rate +1%	Average rate -1%
Interest incurred at variable rate	6 008 458	12 659 262	4 986 675
	6 008 458	12 659 262	4 986 675

Exchange rate risks

Exposure to the exchange rate risk is negligible 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 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 to recognised assets and liabilities. The AdP Group holds investments denominated in foreign currencies with their net assets exposed to exchange rate risks through conversion, and as well as foreign currency funding exposed to exchange rate risk. The exchange rate risk inherent to the net foreign currency assets is managed both by taking out loans in the same currency and by loans with hedging exchange rate swaps.

Raw material price risks (energy and fuel)

The annual Águas de Portugal Group expenditure on energy and fuel represents approximately 38% of total external supplies and services (EUR 1 88 million). The Group through AdP Servicos negotiates and centrally contracts the acquisition of these raw materials for the entire Group. In the case of electricity (EUR 67.6 million), the price is set for the contractual timeframe.

Liquidity and capital risk

The management of liquidity risk requires both the holding of a reasonable level of availabilities, equivalents and the consolidation of floating debt through an adequate level of credit facilities and the ability to liquidate market positions. The AdP Group treasury department, given the dynamics of the underlying businesses, strives to secure the flexibility of the floating debt through maintaining credit lines available for this purpose. The Group manages its liquidity risk by contracting and maintaining credit lines and financing facilities with a solid underwriting commitment from domestic and international financial institutions providing immediate access to funds. The table below details the AdP Group liabilities by their contracted residual maturity intervals. The amounts listed in the table are the non-discounted contractual cash flows for future payment (without the interest incurred by these liabilities).

	< 1 year	1 to 5 years	> 5 years
Funding (note 28)	88 834 855	491 435 426	1 447 402 859
Suppliers and other liabilities	150 108 186	74 793 199	18 097 256

The AdP Group does not foresee any difficulties in complying with its short-term liabilities. The AdP Group considers it is positioned to ensure the renewal of its main credit facilities, particularly the short-term bank loans, with their immediate repayment therefore correspondingly not expected.

Short-term credit lines

As at 31 December 2017, the AdP Group had contracted short term credit lines for a total amount of EUR 252.2 million, of which EUR 578,000 had been drawn down on that date.

The AdP Group goals regarding its management of capital, which represents a broader concept than the capital disclosed on the balance sheet, strives to maintain an optimal capital structure through prudent recourse to debt to enable it to reduce the cost of capital. The aim of managing capital risks is to safeguard the Group as a going concern, with a reasonable return for shareholders and the generation of benefits for all stakeholders. The AdP Group policy involves the parent company, AdP, SGPS, S.A. contracting loans with financial corporations (except for EPAL and investment loans - EIB), which are in turn loaned to its subsidiaries. This policy seeks to optimise the capital structure for greater efficiency and to reduce the average cost of capital.

	31.12.2017	31.12.2016
Non-current loans	1 938 838 285	2 052 427 136
Current loans	88 834 855	282 938 148
BES bonds	-	4 095 200
Capital reconstitution fund	(51 767 695)	(63 494 841)
Availabilities	(66 460 256)	(223 266 659)
Net indebtedness	1 909 445 189	2 052 698 984
Investment grants	1 600 730 064	1 636 104 671
Total equity	1 517 174 573	1 444 978 843
Capital and grants	3 117 904 637	3 081 083 514
Debt / total capital	0.61	0.67

The AdP Group financing model fundamentally incorporates two major categories enabling the equilibrium of the capital structure, bank loans, in particular those loans contracted from the EIB, and equity and non-repayable investment grants.

Credit risk

Credit risk is essentially related to the risk of a counterparty defaulting on their contractual obligations resulting in financial losses to the Group. The AdP Group is exposed to the credit risk over the course of its operational, investment and cash management activities.

Operating counterparty

Credit risk in operations basically derives from receivables for services rendered to customers (water and wastewater services). This risk is theoretically low, given the nature of the services 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 levels. 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 duly notified central government as to the unsustainability of the current arrears of some municipalities within the objective of finding alternative ways to collect the amounts outstanding. The AdP SGPS Board of Directors constantly assesses the adoption of measures designed to ensure the recovery of the balances receivable from the municipalities, which include the PAEL programme, activating the mechanism associated with preferential claims (focused on current debts) and the establishment of payment agreements, injunctions or lawsuits.

Despite the uncertainties around the periods in which municipal clients might be able to comply with their obligations, the AdP, SGPS Board of Directors continues to understand that, as regards these balances, there are no current indicators that require their recognition as losses due to imparity (with the exception of highly specific situations).

Deposits counterparty

The following table sets out the maximum exposure of the Group to credit risk (not including customer and other debtor balances) as at 31 December 2017, not considering any collateral held or other credit enhancements. The defined exposure for assets on the balance sheet reflects their carried over value as reported on the main balance sheet.

Banking financing assets	31.12.2017	31.12.2016
Current deposits	46 674 403	40 700 933
Term deposits	18 869 149	182 169 149
Others	94 235	4 187 992
Capital reconstitution fund	51 767 695	63 494 841
	117 405 482	290 552 915

Rating	31.12.2017
A-	112 540
A1	1 000
B1	66 994
B3	132 648
Ba1	5 990 483
Baa1	380 121
BB-	6 160 904
BBB-	100 867 218
Caa2	3 099 909
Without known rating	593 665
	117 405 482

Note: rating obtained in the sites of financial institutions in February 2018.

Derivatives counterparty

Águas de Portugal, SGPS manages interest rate-linked cash flow risks by taking out swaps that enable the conversion of loans with floating interest rates into fixed interest rate loans. AdP makes recourse to derivatives solely to manage its exposure to financial risks (interest rate). 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 IAS 39 rules and requirements. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them duly recognised in the profit or loss items. The fair value of derivatives is estimated according to listed instruments whenever available. In the absence of market prices, the fair value of derivatives is estimated by the discounted cash flow method as determined by external entities and based on generally accepted market valuation techniques. Derivatives are recognised at fair value on their trade date. Subsequently, the fair value of derivatives is regularly adjusted and with any gains or losses resulting from this revaluation recorded directly in the income statement for the period, with the exception of those referring to hedge derivatives. In turn, recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model applied.

Operational risk

Catastrophe risk

AdP Group companies are exposed to risks of disasters and natural phenomena that may not only jeopardise the operability of infrastructures but also result in revenue losses. Group companies have correspondingly taken out insurance to offset these risks.

Regulatory risk

Law 10/2014 of 6 March approved the new statutes of ERSAR, which now becomes an independent administrative body with greater autonomy in terms of organisation, functions and financial matters and equivalent to the other independent regulators.

Regulation is the most significant restriction on the profits returned by Group economic activities. The regulator is empowered to take measures that might generate negative impacts on cash flow due to the contractual scope for defining a productive efficiency scenario that stipulates the expenses for recovery by the tariff differ from those actually incurred. These expenses include financial costs.

Financial analysis

Financial analysis, compared to 2016

Net results

EUR 88.6 million

improvement of EUR 17.8 million (+25.1%)

EBITDA (adjusted)

EUR 316.5 million

improvement of EUR 10.2 million (+3.3%)

CRD - Cost Recovery Deviation (Tariff deficit) (results)

EUR 12.5 million

recovery of EUR 23.7 million (-65.5%)

Turnover

EUR 626.8 million

improvement of EUR 16.9 million (+2.8%)

(EBIT-CRD) / Turnover

25.5%

improvement by 4.2 p.p.

OPEX

EUR 466.9 million

reduction of EUR 12.7 million (-2.7%)

COGS/Turnover | COGS=COMC+COSC+PCOSTS

49%

reduction by 1.0 p.p.

Gross indebtedness

EUR 2,027.6 million

reduction of EUR 307.7 million (-13, 2%)

Net indebtedness

EUR 1,909.4 million

reduction of EUR 134.9 million (-6.6%)

Investment

EUR 94.6 million

up by more than EUR 24.9 million (35.7%),
of which 41% is investments in renovation and replacement

COGS - Cost of Goods Sold | COMC - Cost of Materials Consummed | COSC - Cost of Services Consummed

Consolidated financial analysis

The AdP Group management places particular emphasis on economic and financial sustainability, weighing the specific factors for each operation and endeavouring to mitigate external and internal risks to business activities and other economic factors, such as ageing infrastructures or the need to expand public service coverage to areas of lower population density or in tougher terrains.

It considers in particular the following issues.

a) Economic sustainability

The AdP Group operates on the basis of its plans to return ongoing improvements through rational investments and efficient operations able to absorb the rising costs of operating and maintaining the systems coupled with the more restrictive regulatory frameworks in terms of quality and the environment, without this adversely affecting tariff stability.

These operations take place in close coordination with the concession grantor, the Portuguese state, regulators, ERSAR and APA, and as well as the municipalities in their different capacities, i.e. as the shareholders of subsidiaries, customers and delegators of the water services through partnership commissions. The underlying objective is to establish a regulatory framework enabling rational investments and efficient operations and maintenance, standardised prices between areas, tariff stability and generating operating cash flows for companies.

Within this framework, the defining of efficiency indicators by ERSAR and the setting of corridors for price standardisation between systems hold particular importance as is the case with other utility sectors in Portugal and internationally.

Finally, there is the Multi-Annual Price-Convergence Plan that began with the partnership processes and continued with the sector restructuring in 2015. Its aims include eliminating the cost recovery deviations resulting from deficits arising from the difference between the prices charged and the tariffs as returns on investment (as set out in the concession or partnership management agreements).

b) Financial Sustainability

AdP takes consolidated action as regards managing Group financial sustainability and reflected both in each operation and at the consolidated level by: **(i)** the amount of financing matching the Group's ability to release resources, **(ii)** funding from multiple sources of permanent, long-term financing consistent with the useful life of assets and the system concession periods and **(iii)** managing the interest rate risk by maximising the natural hedge between the fixing of interest rates and their recoverability via the prices charged.

Collection and customer account risks also require special action given their specific weighting in some operations.

The year of 2017

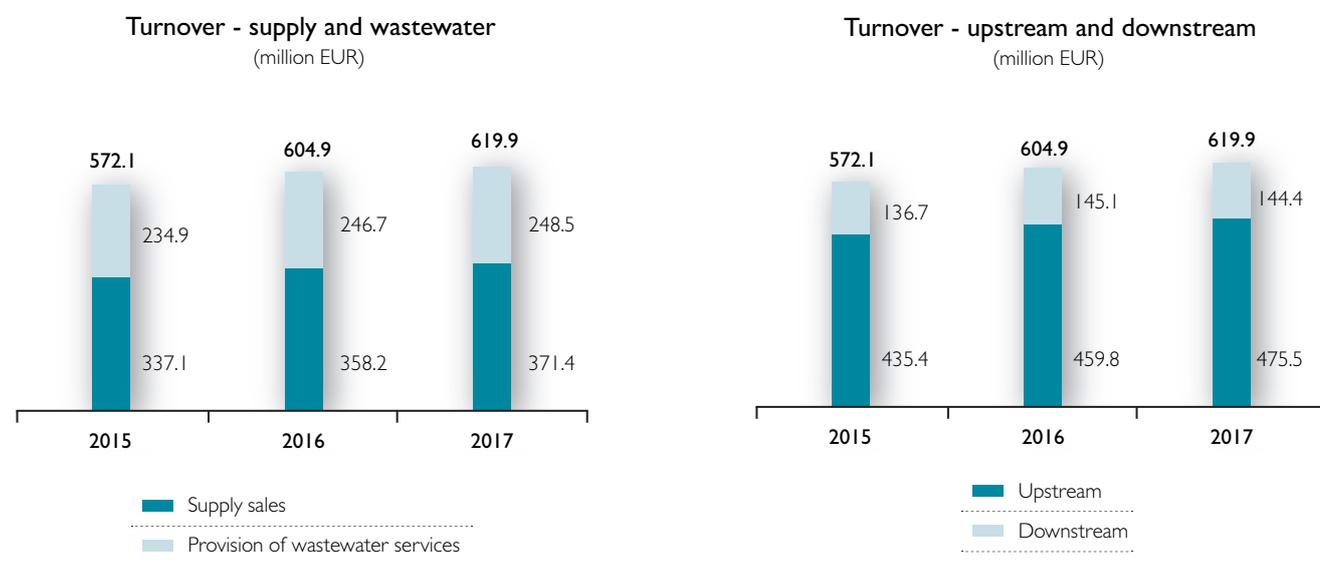
Income statement

The AdP Group closed the 2017 financial year with a net result of around EUR 88.6 million, which represents an increase of 25% on the 2016 financial year (around EUR 70.8 million), representing net earnings per share of EUR 1.02 EUR (vs. EUR 0.81 EUR in 2016).

EBITDA came in at EUR 316.5 million, which represents a year-on-year rise of 3.3% (EUR 306.3 million). This growth derives above all from an improvement to turnover (up EUR 16.9 million, of which EUR 6.1 million was received from the Environmental Fund under the auspices of that stipulated by Decree-Law no. 16/2017, of 1 February, and no. 34/2017, of 24 March, and within the framework of cooperation projects) and the reduction in the COSC item (EUR - 3.3 million), which collectively compensated for the rise in other operating costs: human resource costs (EUR + 4.6 million), other operating costs (EUR + 4.0 million) and sales costs (EUR + 1.4 million).

During 2017, there was an improvement to the coverage ratios for operating costs against turnover (COGS/Turnover). The coverage ratio for operating costs (COGS/Turnover | COGS=COMC+COSC+GP) returns an improvement of 1 p.p. regarding 2016 (without the effect of the reclassification of the subsoil rate, this variation would be 0.5 p.p.), and the EBIT coverage ratio, an improvement of 3.7 p.p. on the previous year, which reflects the consolidation of the water supply and sanitation operations within a context of greater demands in terms of productive efficiency.

Consolidated Group turnover (stripped of any earnings from the construction of concessioned assets, in accordance with the norm IFRIC 12 and the deviations in the recovery of costs) amounted to EUR 626.8 million (+ 2.8% year-on-year), of which €619.9 million derive from the supply and sanitation activities that experienced the following evolution:

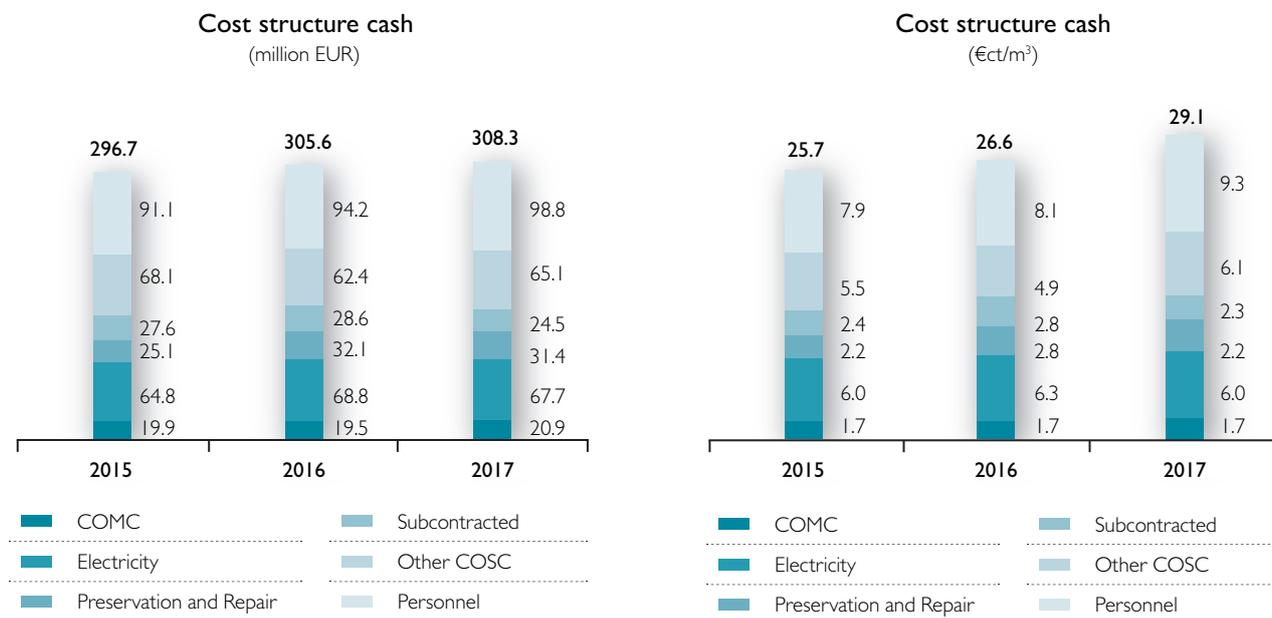


The 2.8% variation in turnover arises out of the following factors.

- In terms of supply, the 3.7% increase in sales stems from the rise in the water invoiced upstream (+ 4.9%) and the water distributed downstream (+ 2.4%), combined with an increase in the tariffs under the framework of the trajectory of convergence established for the period 2015–2020, as well as the remaining contractual instruments for tariff harmonisation.
- In the sanitation segment, there was a 1.5% rise in service provision, above all resulting from the pricing effect, as well as the remaining contractual instruments for tariff harmonisation given that the volumes invoiced registered a decline of 1.5% in upstream activities and 0.44% downstream. In terms of sanitation invoicing, this needs to take into account how the turnover associated with the treatment of upstream wastewaters maintained the two essential stabilisation parameters: (i) recourse to the permitted gains method, separate to the treated flow volumes, and (ii) utilisation of shifting multi-annual or estimated averages so as to level out the effects of variations in the levels of rainfall.

As regards the operating and maintenance costs, there was a negative performance of 9.3% in the cash-cost per unit produced and treated, which correspondingly rose from 26.6 € ct/m³ in 2016 to 29.1 € ct/m³ in 2017.

The following graph displays the variation in the main cost items, which highlights the 1.2% increase in the unit costs of energy and the increase of 5.7% in the unit cost of maintenance (conservation and repairs).

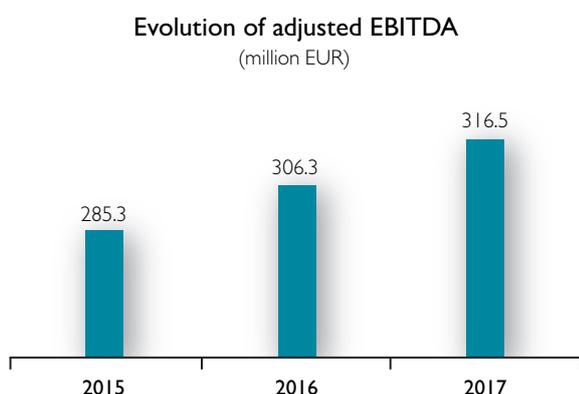


The amount recorded under the maintenance item (EUR 31.4 million) represents around 0.7% of the total net asset value (EUR 4,611.2 million) and in line with the range of best practices for the sector (between 0.8% and 1.3%). The maintenance total, in addition to that of investment in the replacement of productive capacity, represents 1.5% of the total net asset value, slightly above the higher range of the interval. We would nevertheless highlight that the values recorded in the previous financial years were influenced by restrictive measures, with this rise reflecting the recovery in preventive maintenance to more appropriate levels.

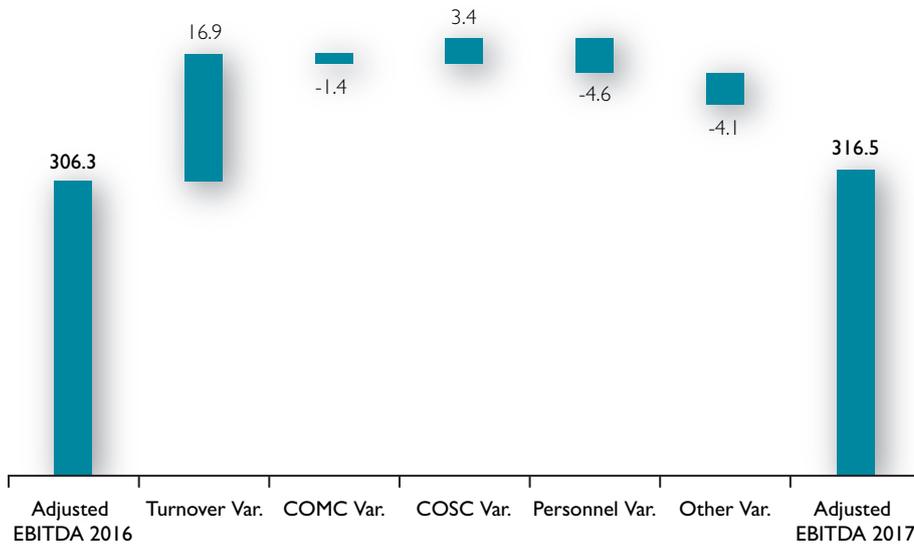
The reduction in electricity costs by around 1.8% (from EUR 68.8 million in 2016 to EUR 67.6 million in 2017) stems from a reduction of 4.9% in the flow volumes produced and treated, an 8.8% rise in associated unit consumption (up from 0.6307 kWh/m³ in 2016 to 0.6864 kWh/m³ in 2017) and a 3.3% increase in the average unit cost of energy (thus advancing from 0.0618 €/m³ to 0.0638 €/m³).

Human resource costs were up by EUR 4.6 million to total around EUR 98.8 million, essentially resulting from the effects of the increase in compensation paid out due to the departure of members of staff (EUR + 1.6 million), the reversion in salary reductions given that austerity driven wage cuts were entirely reversed in 2017 (EUR + 0.8 million), the return of remunerations established by the collective working regulatory framework (EUR + 0.6 million) and the increase in the number of company directors brought about by the rise in the number of companies.

Despite these rises in cost, the combination of the increase in invoicing and greater operating efficiency reflected positively on the Group EBITDA result that put on 3.3% to total around EUR 316.5 million.

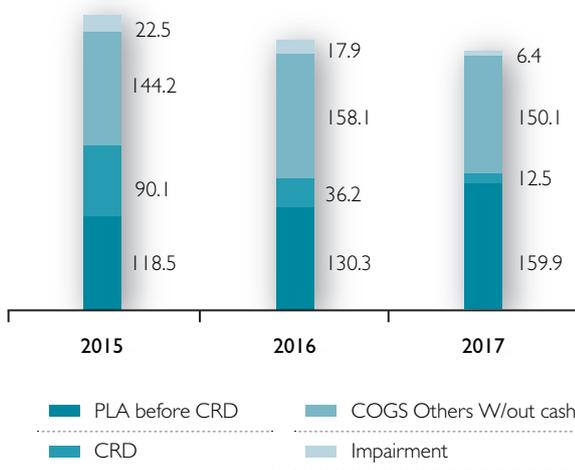


Adjusted EBITDA (million EUR)



The operational results, with the cost recovery deviations totalling around EUR 172.4 million in the financial year, present a year-on-year increase of 3.6%. The operating profit/loss without cost recovery deviations amounts to EUR 159.9 million, which reflects an improvement of 22.7% on the previous year.

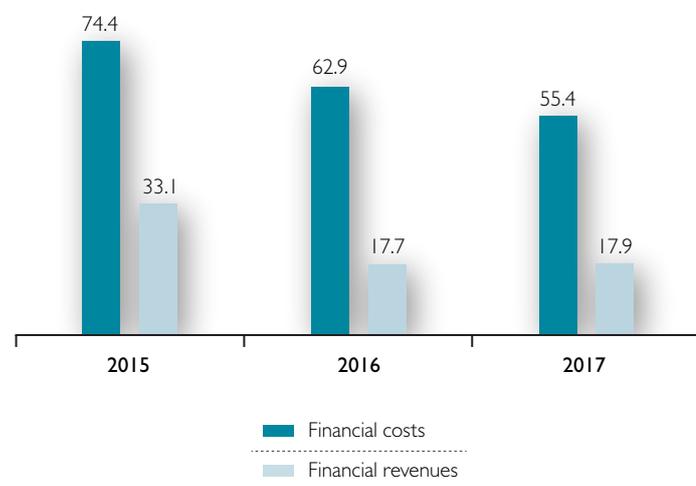
Operational results (million EUR)



AdP Group did not gain recognition from the regulatory authority of the sum of around EUR 5.4 million in charges relating to system operation, of which EUR 3.1 million was incurred by Águas do Tejo Atlântico, EUR 0.8 million by Águas do Norte, EUR 0.7 million by Águas de Lisboa e Vale do Tejo, EUR 0.4 million by Águas do Centro Litoral, EUR 0.3 million by Águas do Douro e Paiva and EUR 0.1 million by SIMDOURO. The impact on the net result amounts to around EUR 2.4 million.

In the financial terms, there was the following variation:

Financial costs and revenues
(million EUR)



The financial costs registered an improvement of 11.4%, particularly stemming from the EUR 5.7 million reduction in interest rates charged driven by the reduction both in gross debt and the interest rates in effect, especially those charged by commercial banks. This reduction in costs reflects the financial management consolidation policy of the Group that has enabled a better leveraging of the surpluses generated by some operations.

The financial revenues experienced a slight improvement of EUR 0.2 million (+ 1.1%), highlighting the increase of EUR 1.9 million in penalty interest payments in keeping with the payment agreements reached with various municipalities, the EUR 0.6 million in the fair value of financial instruments, which this year registered a positive gain compensating for corrections made in the previous financial years for a total of EUR 0.7 million, and the EUR 1.0 million reduction in interest received.

The financial function also registered a positive year-on-year variation of around EUR 7.0 million that stems from the capital gain of EUR 6.2 million returned by the operation to sell the remaining 5% of shares in EGF, which included the reversion of a provision for the sum of EUR 1.4 million and the disposal of the remaining financial investment in BES issued bonds.

AdP, SGPS shareholders also contributed to the net profit/loss for the financial year:

	2015	2016	2017
Adjusted EBITDA	285,3	306,3	316,5
Operational results (with CRD)	208,7	166,5	172,4
Operational results (without CRD)	208,7	130,3	159,9
Financial income	34,1	(45,9)	(31,2)
Taxes	(60,4)	(37,0)	(38,6)
NI of discontinued operations	3,0	0,0	0,0
NI of the period	185,3	83,6	102,6
NR allocable to minority shareholders	19,4	12,8	14,0
NR allocable to AdP SGPS shareholders	166,0	70,8	88,6
NR allocable to AdP SGPS shareholders (without CRD)	131,3	53,1	79,4

Assets

The total AdP Group net assets decreased during the financial year of 2017 from around EUR 6.383 billion to around EUR 6.151 billion. The following constitute the material assets.

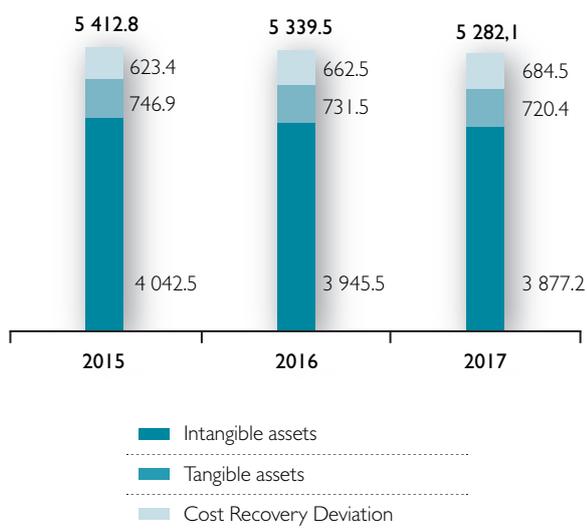
Non-current operating assets

These assets are made up of intangible assets (that essentially correspond to accounting for the right to infrastructure utilisation), tangible fixed assets and the accumulated value of the tariff deficit.

The reduction in intangible assets and fixed tangible assets stems from the decrease in investment in the financial year and the continued amortization through the duration of the concession. The contractual obligation of multi-municipal system management entities to present, under the terms of their respective concessions, the total of amortized assets shall ensure that the net fixed assets of AdP Group always present a downwards trend despite the investments in rehabilitation and renovation carried out for the replacement of productive capacity.

Operational assets and CRDs

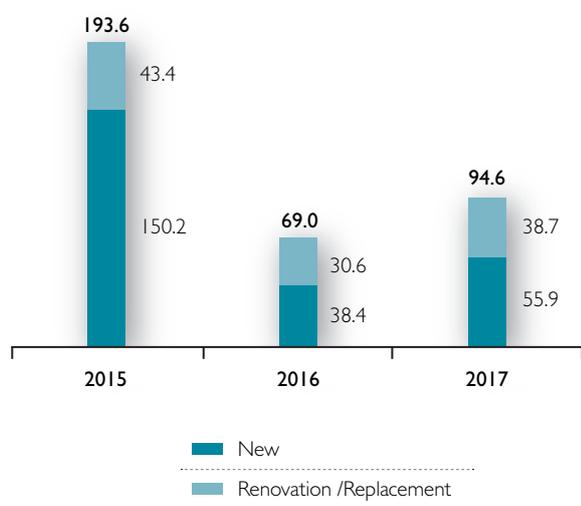
(million EUR)



The investment carried out during the 2017 financial year amounted to EUR 95 million, up 31.7% year-on-year. Of this investment, 41% was applied to the rehabilitation and replacement of the productive capacity of the existing infrastructures.

Investments

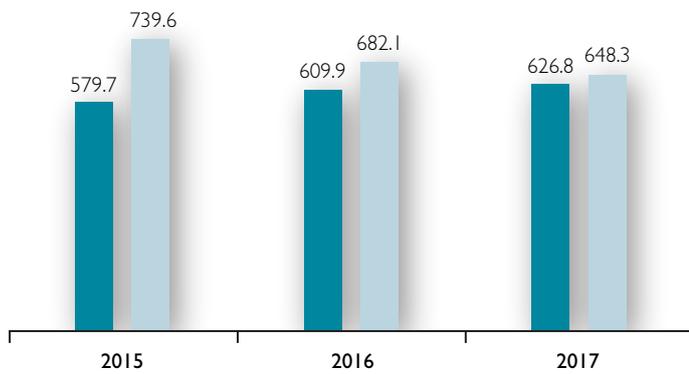
(million EUR)



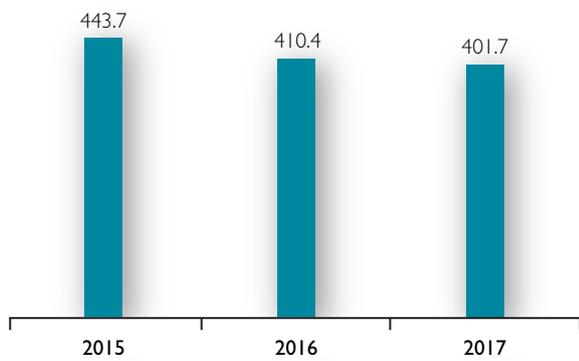
Clients

Group clients are essentially municipalities and municipal companies (million EUR):

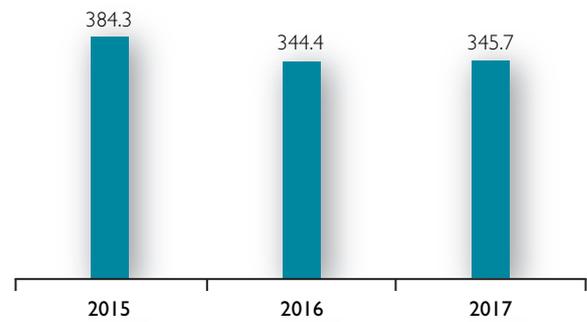
Invoicing vs. receipt of payments



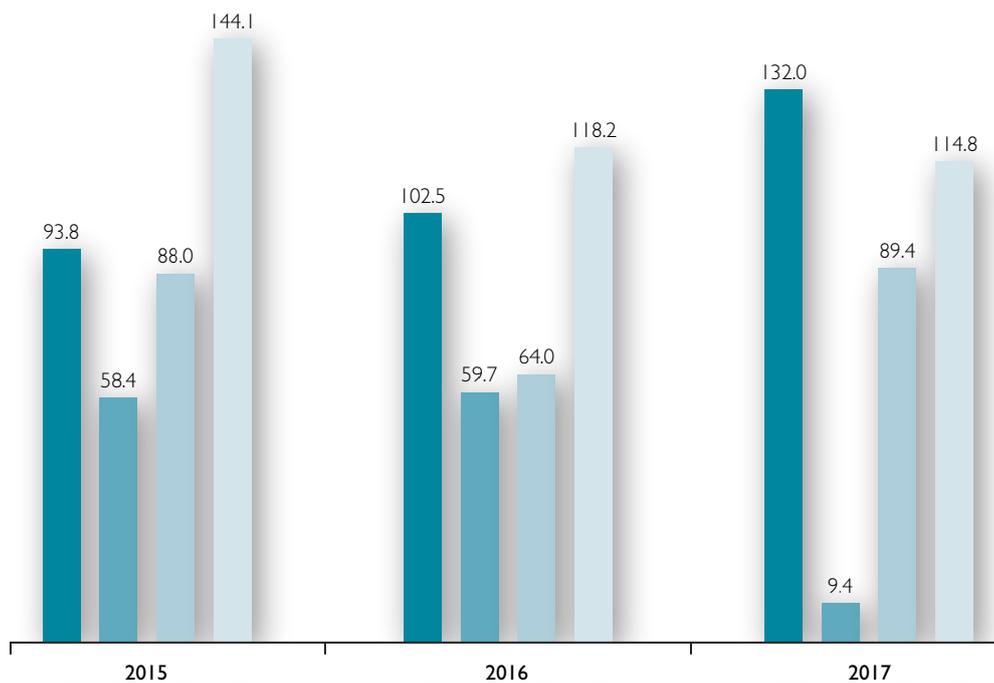
Gross Client Debt

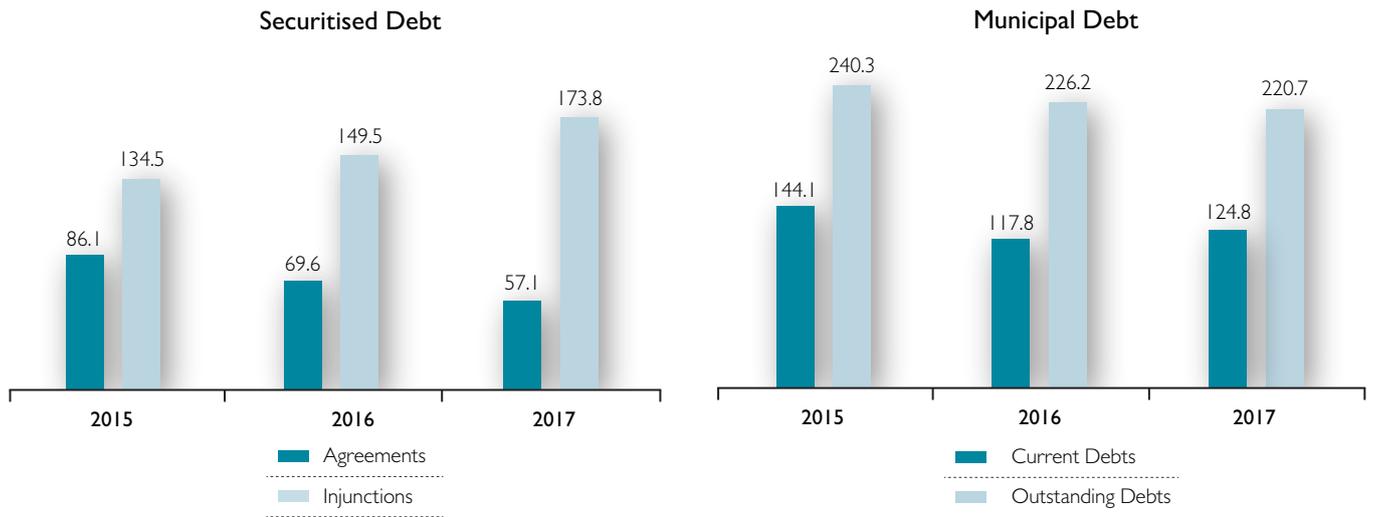


Gross Municipal Client Debt



Outstanding Municipal Debt





Following strong recovery in 2016, during the financial year under analysis, there was stagnation in the volume of recovered municipal credits. This reflects different realities, with multi-municipal systems able to progress with recovering outstanding debts, as is the case with SIMARSUL, and alongside other historical questions, as in the case of AdVT.

The AdP Group has continued with its efforts to recover and securitise the debts of municipalities and of water supply and sanitation municipal companies, while importantly noting:

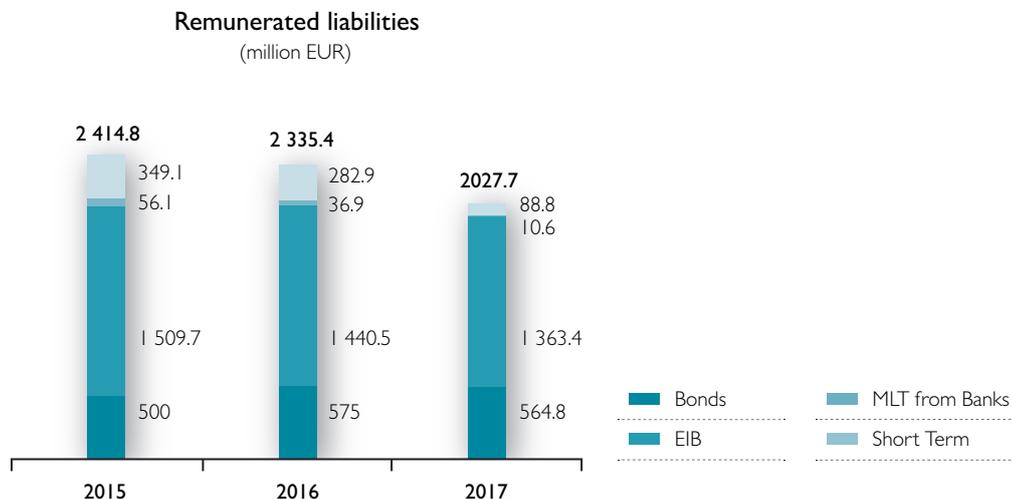
- a) the lower volume of payments received in relation to the annual invoiced total of around EUR 17.9 million;
- b) the rise in the outstanding debt in the current account by around EUR 14.7 million;
- c) the reduction in non-matured debt by around EUR 3.0 million, respectively;
- d) the reduction in the proportion of debt securitised by agreements and injunctions against the total value of non-securitised debt from 1.8 times in 2016 to 1.7 times in 2017;
- e) the rise in the total of debt outstanding for a period of greater than one year at the main debtor municipalities;
- f) the policy of beginning injunction processes 90 after the date of the invoices falling due whenever not settled in the meanwhile.

Equity

AdP equity increased EUR 72 million in the financial year of 2017 due to the improvement in the profit and loss account, rising to 1.517 billion in 2017.

Liabilities

Remunerated liabilities



Over the 2017 financial year, the total liabilities of the AdP Group decreased from around EUR 4.938 billion to around EUR 4.633 billion, duly highlighting:

- a) the decrease in gross Group debt by around EUR 307.7 million, from 2,335.4 million to EUR 2,027.7 million (- 13.2%);
- b) the decrease in net Group debt by around EUR 139 million, from EUR 2,045 million to EUR 1,909.4 million, having thereby complied with the rule established for debt limits held by companies in the public business sector;
- c) strengthening the liquidity ratios through raising the percentage of long term financing to 96% of the gross total and the coverage of non-current assets by own capital and non-current liabilities;
- d) the reduction in the financial exposure to interest rate risks by raising the percentage of fixed rate financing within the total of medium and long term loans to 69%.

Non-repayable investment grants

The net value of investment grants decreased by around EUR 1,636 million to around EUR 1,601 million, a total offset against results for the year. During the 2017 financial year, the AdP Group took receipt of around EUR 33.3 million in funding (vs. around EUR 15.9 million in 2016) and with the balance of the amounts receivable from the Cohesion Fund correspondingly dropping from around EUR 53.1 million to EUR 43.9 million as a result of the migration of the operational programs in effect.

The contractual obligations of multi-municipal system management entities, in terms of their respective concessions, the total of amortized assets ensures that the subsidy received to finance the construction of infrastructures reports the same evolution and hence this item displays a downwards trend despite the new investments that may be eligible for the receipt of subsidies.

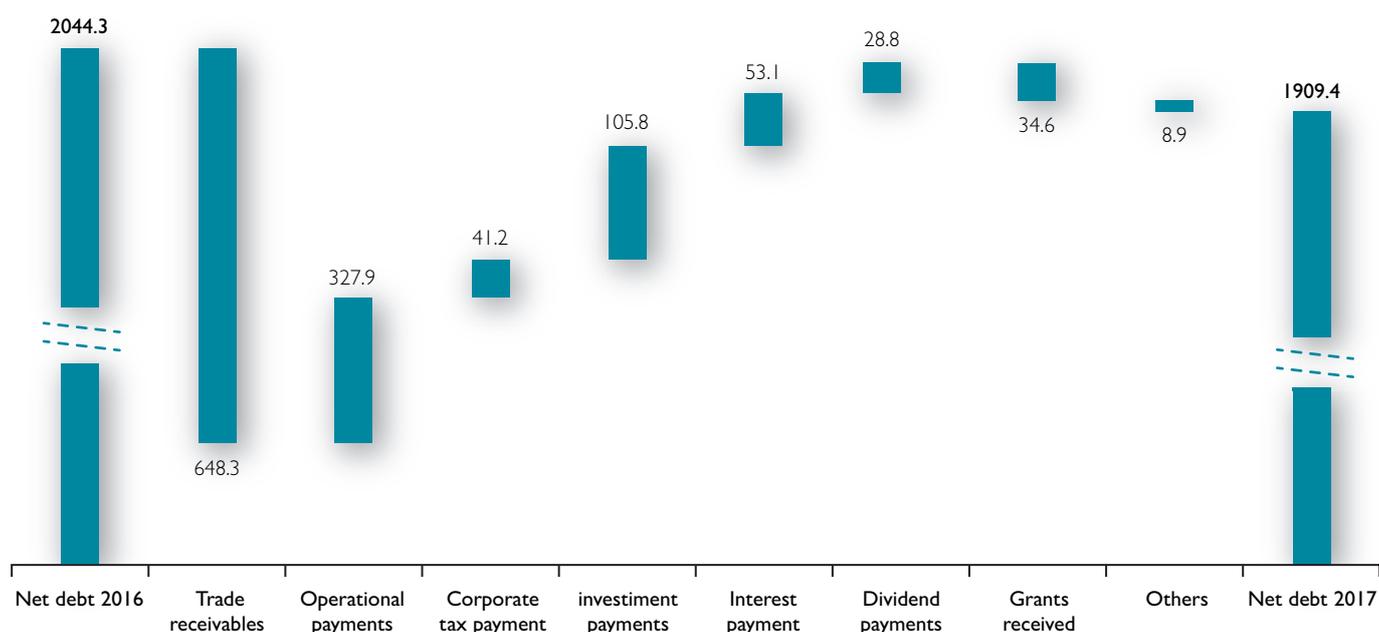
Accrued contractual investment expenses

The AdP Group recognises the proportion of expenses estimated necessary for meeting the contractual costs of unrealised investments or expansion and modernisation investments whether approved or imposed by the concession granter. This amount is depreciated annually and transferred to Group companies as and when the investments take place.

As at 31 December 2017, the balance of this item was around EUR 428.6 million.

Cash flow

The graph below describes the main annual variations in cash flow.



Financial analysis of separate accounts

2017

Income Statement

AdP SGPS ended 2017 with a net result of EUR 62.9 million, represented by an increase of 67% regarding last year's result of € 37.7 million, earnings per share moved from EUR 0.43 in 2016 to EUR 0.72 in 2017.

The improvement in the individual net AdP, SGPS result stems essentially from the gains made from financial holdings with the result surging by EUR 25.0 million, leveraged by the increase in the dividends received (EUR + 16.0 million), particularly due to the returns from EPAL, Águas de Santo André and Águas do Algarve, capital gains from the sale of the remaining 5% capital stake in EGF and the BES bonds (EUR + 6.2 million).

Despite the downturn in the operating profit/loss item, AdP, SGPS, managed to report an improvement to the COGS/Turnover indicator that, in 2017, reached 88.2%, reflecting an annual appreciation of 5.5 p.p., due to a lower level of external supplies and services and higher turnover. As regards the EBIT/Turnover ratio, there was also a better performance, up from 7% in 2016 to 10% in 2017.

	2015	2016	2017	(EUR million)	
				Variation 2017- 2016 Value	%
Operational income	9.9	10.0	10.2	0.1	1%
Turnover	9.6	9.9	10.0	0.1	1%
Other operational income and gains	0.2	0.2	0.2	0.0	14%
Operational expenditure	15.3	9.4	9.9	0.5	6%
Supplies and external services	8.7	4.8	4.6	(0.2)	(4%)
Personnel costs	4.5	4.5	4.5	0.0	0%
Amortisations, deprec., rever. and provisions	2.1	0.0	0.7	0.7	-
Other operational costs and losses	0.1	0.1	0.1	(0.0)	(36%)
Operational income	(5.4)	0.7	0.3	(0.4)	(56%)
Financial income	147.0	40.9	68.5	27.6	68%
Net results	143.6	37.8	62.9	25.2	67%

The turnover – that results essentially from the management fees charged to subsidiaries, rose 1% to EUR 10 million as a 3.6% result of the rise in Group turnover to around EUR 626.8 million.

As regards the external supplies and services (EUR 4.6 million), this maintained the contention of the previous year with a further saving of 4%. This thus takes on greater relevance than expenditure on specialised works – shared services (46%), as well as costs with the leasing of the headquarters office facilities (23%).

As regards the costs with staff, there was a stabilisation in the levels of the last three years, coming in at EUR 4.5 million, which reflects compliance with the remunerations policy and the cut in total employee numbers.

The operating profit/loss item, despite the already highlighted positive effects, experienced a year-on-year reduction of EUR 0.4 million as a result of the setting aside of a EUR 0.7 million provision against fiscal contingencies associated with the application of RETGS – the Special Taxation Regime for Corporate Groups, in the years of 2015 and 2016, totalling EUR 0.3 million.

(EUR million)

	2015	2016	2017	Variation 2017- 2016	
				Value	%
Financial income	23.2	21.9	21.7	(0.2)	(1%)
Financial expenditure	11.2	9.4	7.1	(2.4)	(25%)
Gains / Financial investment losses	135.0	28.4	53.8	25.4	90%
Financial income	147.0	40.9	68.5	27.6	68%

AdP, SGPS has continually sought to pass on to its subsidiaries the improvements in the financial income achieved through the new financial management policy. The average financing rates have evolved as detailed below:

	2015	2016	2017
Average financing rate	3.18%	2.58%	2.19%

The financial income of the company totalled in the vicinity of EUR 68.5 million, representing a 68% year-on-year surge justified by:

- a) a 48% increase in the total of the dividends received from subsidiary companies to total EUR 49.2 million, with the most significant variations paid out by EPAL, up over EUR 13.8 million; Águas de Santo André, up EUR 4.9 million; and Águas do Algarve, with a fall of EUR 2.9 million;
- b) reporting capital gains with the amount of EUR 6.2 million, corresponding to: i) the sale of the remaining 5% stake held in EGF (EUR 5.2 million) and ii) disposal of the bonds of a financial institution (EUR 1.0 million);
- c) the reduction in financial costs (stripped of any effect of variations in the fair value of financial instruments) of EUR 2.4 million, essentially due to the cut in the level of interest paid out on bond loans through means of amortization totalling EUR 3.4 million and the reduction in other banking costs;
- d) variation in the result referring to the fair value of financial instruments (calculated based on the mark-to-market value of derivative contracts in the portfolio), moving from a loss of around EUR 1.3 million in 2016 to a gain of about EUR 0.6 million in 2017 following the early cancellation of a contract;
- e) slight decrease in financial earnings (stripped of any effect of variations in the fair value of financial instruments) of EUR 0.2 million, essentially due to the reduction in commissions and the EIB guarantee (previously contracted);
- f) establishing losses due to impairment in the region of EUR 1.6 million against investments made by AdP Internacional and by AdP Energia.

In terms of the tax on earnings for the financial year, this was calculated as attaining around EUR 5.8 million, up 54% on the preceding financial year.

Assets

The total net AdP Group assets rose during 2017 from around EUR 1.320 billion to around EUR 1.460 billion.

In keeping with its founding objective, the main AdP SGPS assets are financial investments and loans (subsidies and cash flow support) to Group companies.

During the 2017 financial year, AdP, SGPS subscribed around EUR 18 million in capital for its subsidiaries Águas do Norte, AgdA - Águas Públicas do Alentejo and Águas do Vale do Tejo, and proceeded with the incorporation of losses at AdP Internacional, through the provision of approximately EUR 3.9 million in liquid funding. Thus, the net value of the financial investments of the holding stood at EUR 706.3 million.

Medium- and long-term loans to Group companies increased EUR 194.1 million. Variations by subsidiary were as follows:

(EUR million)

Company	31.12.2015	31.12.2016	31.12.2017	Variation 2017/2016
Águas do Norte	220.3	249.3	300.0	50.7
Águas do Vale do Tejo	77.5	67.5	97.5	30.1
Águas do Centro Litoral	63.0	73.0	76.9	3.9
AgdA - Águas Públicas do Alentejo	37.0	42.0	50.0	8.0
AdRA - Águas da Região de Aveiro	13.3	23.3	49.5	26.2
Águas do Douro e Paiva	0.0	0.0	44.0	44.0
SIMDOURO	0.0	0.0	36.0	36.0
Águas do Algarve	35.0	30.0	30.0	0.0
AdP Serviços	4.0	4.0	2.0	(2.0)
AdP Internacional	0.0	2.2	0.6	(1.5)
AdP Energias	0.0	1.2	0.0	(1.2)
Águas do Brasil	0.1	0.1	0.1	0.0
Trevo Oeste	0.1	0.1	0.1	0.0
Total	450.2	492.6	686.8	194.2

Values net of impairment.

The loans and short term debt of Group companies rose by around EUR 10.9 million to in the vicinity of EUR 59.3 million, reflecting the following key variations per subsidiary:

(EUR million)

Company	31.12.2015	31.12.2016	31.12.2017	Variation 2017/2016
Águas do Vale do Tejo	4.5	0.0	30.0	30.0
Águas do Algarve	0.0	0.0	9.8	9.8
Águas do Norte	7.7	7.7	7.5	(0.2)
SIMDOURO	0.0	0.0	3.1	3.1
Águas do Centro Litoral	1.7	1.7	2.2	0.5
AdP Internacional	7.0	0.8	1.7	0.9
AdP Serviços	0.7	0.0	1.4	1.4
AdRA - Águas da Região de Aveiro	0.0	0.0	1.1	1.1
AdP Energias	1.2	0.0	0.0	0.0
AgdA - Águas Públicas do Alentejo	0.0	0.0	0.9	0.9
AQUASIS	0.6	0.6	0.6	0.0
Total	23.5	10.9	58.3	47.5

The client balance reports a rise of about EUR 3.6 million, essentially stemming from non-matured debt relative to the invoicing of loan interest charges to holding companies. In 2017, this item began to account for the increase in earnings relative to the specification of the amounts for invoicing to subsidiary companies (EUR 1.9 million) contrary to accounting practice in 2016 when this amount was reported in the other accounts receivable item.

Equity

The AdP, SGPS equity registered a year-on-year rise of EUR 37.7 million on the previous year to close the year at EUR 751.7 million. The net result of the year contributed EUR 62.9 million equally reporting the variations deriving from the application of the 2016 results. This established a legal reserve of EUR 1.9 million and distributing dividends for the amount of EUR 26 million.

Liabilities

The company's liabilities increased from around EUR 606.3 million to around EUR 708.9 million in 2017.

This highlights the short term, remunerated, loans obtained by Group companies with treasury surpluses with a value of EUR 120 million – EPAL (EUR 60 million), AdTA (EUR 57 million) and SIMARSUL (EUR 3 million), courtesy of the implementation of a centralised financial availability policy taking into account a significant reduction in the debt and financial charges incurred by the Group.

The amount of loans (non-intragroup) fell by around EUR 3.4 million through means of the amortization of the annual payment of bond emissions.

AdP SGPS's borrowing structure by maturity is as follows:

(EUR million)		
Maturity loans	2016	2017
Up to 1 year	3.4	6.8
1 to 5 years	27.3	177.2
Over 5 years	544.3	387.5
Total	575.0	571.5

The suppliers balance amounts to EUR 1.4 million, with 85% made up of intra-group debts (especially to AdP Serviços), which corresponds to a decrease of EUR 135,000 on the previous year. The debt to external suppliers rose by EUR 58,000 to stand at EUR 208,000. The average payment time for external suppliers is 71 days.

Cash flow

Company operating activities generated EUR 16.1 million in 2017, essentially due to receipt of client payments.

As regards the investment activities, the negative balance of EUR 201.6 million stems from the financing of advances and treasury support to subsidiary companies set against dividends received.

The financing activities, with a balance of EUR 72.6 million, were boosted by the loans obtained from subsidiaries for a value of EUR 120 million. Furthermore, there was the outflow for the dividends paid to the shareholder with a value in the region of EUR 26 million, the early cancellation of a derivative contract, with a value of EUR 11 million, alongside the other financial costs.

There was a negative variation in cash flow and its equivalents totalling EUR 112.8 million, having closed the year with a balance of EUR 2.3 million.

The net debt of AdP, SGPS was, at the end of the financial year, around EUR 689.2 million, over 50% more than at the end of the previous financial year in keeping with the group policy adopted within the scope of optimising the AdP Group capital structure.

Treasury Unit Principle

Following the procedure adopted in previous years, on 28 April 2016, AdP - Águas de Portugal, SGPS, S.A. (hereinafter referred to as AdP SGPS) requested, under the provisions of article 86, paragraph 1, the final section of Law 7-A/2016 of 30 March, which approved the State Budget for 2016 and that established in article 28, paragraph 3 of Decree-Law 133/2013 of 3 October, by the Under Secretary of State of Treasury and Finance and the Secretary of State of the Environment, partial exemption from compliance with the treasury unit of the state for a two year term.

Order 841/16-SEATF of 16 August, issued in response to a request from AdP SGPS, expressly authorises the partial exemption from compliance with the state treasury unit, thus authorising Águas de Portugal Group to make recourse to commercial banks for financing operations as the "IGCP does not guarantee the provision of short- or medium-term financing operations as this falls beyond the remit of its legal framework."

However, this order does not cover the transfer of non-permanent cash surpluses to the IGCP, which led to different legal interpretations by AdP SGPS and the IGCP over the compulsory transfer of non-permanent surpluses to the IGCP by all state-owned enterprises.

In order to clarify this issue, on 23 December 2016, AdP SGPS sent another letter to the Under Secretary of State of the Treasury and Finance and the Secretary of State of the Environment to request instructions on the scope of the State Budget Law provisions

for 2016 while also informing of the negative financial impact incurred from increasing the scope of the mandatory transfer of surpluses to the IGCP to include non-permanent surpluses

In reply to this request for clarification, Order 38/17-SEATF of 16 January approved the opinion of the IGCP, stating that all financial investments by state-owned enterprises, both permanent and non-permanent, are transferred to the IGCP.

The AdP Group immediately took the necessary corresponding measures to fully implement and perform the instructions of the Under Secretary of State of the Treasury and Finance in all Group companies.

AdP, SGPS within the framework of that defined as its social goal, operates as a flexible and efficient instrument enabling the centralised and specialised management of the company holdings that make up its portfolio. In conformity, in addition to the strategic guidelines issued by the managers that represent them, and the provision of technical administrative and management services, this constitutes a crucial factor in the financial functioning of the holding companies in relation to the scope (the totality of holdings owned).

The Group universe of companies spans a set of holdings in the environmental sector with different phases of maturity, hence, AdP, SGPS, took responsibility for coordinating and obtaining the financing necessary to meet the needs of these companies and always maintaining the final objective of ensuring the balance in the financing structure from a consolidated perspective. Within this framework:

- accompanying the companies in their relations with the Cohesion Fund so as to facilitate access to community support funding;
- carrying out negotiations, dating back to 1997, with the EIB, with the objective of financing the projects associated with the first phase, having secured a credit line of EUR 167 million;
- in 2000, beginning a new negotiating process with the EIB, with a view to the investments associated with the second phase that culminated in the granting of three lines of financing (drawn down between 2005 and 2009), for the total amount of EUR 1.472 billion;
- in 2017, signing a 25-year financing line with the EIB for EUR 220 million to meet the investments needs at existing companies, ongoing through to 2021, without the support of any guarantee, whether of the State or the banking system;
- given that the EIB credit lines and the support from the Cohesion Fund are insufficient to meet the total financing needs of the project portfolio, AdP, SGPS embarked on a process of accessing external markets in 2003, bringing about the private placing of 10-year bonds in Japan in 2005 and proceeding with the issuing of three bonds in private placements in 2007, for 15 and 20 years and, in 2016, a 12-year shareholder bond for a total of EUR 675 million.

All such funding stems from long term operations designed for the financing of multi-municipal and partner systems in the component relating to investments and the reserve fund for the first years of operation.

The emphasis placed on water supply and wastewater treatment systems interrelates with the scale of the investments and the correspondingly associated timeframes.

The centralisation of a significant part of AdP, SGPS funds has enabled the cohesive and coherent management of the financial needs of the Group, having avoided treasury shortages or bankruptcy related problems despite the serious financial problems that Portugal has passed through. Complementary to this medium and long term framework, AdP, SGPS also centralised its negotiations with the banking system for the obtaining of short term loans, reducing the capacity for banks to be able to individually penalise some holdings whether in terms of the costs charged or the terms of credit.

The fact that AdP, SGPS centrally manages the negotiation of credit lines and that there may occasionally exist some temporary surpluses has enabled the maintenance of a satisfactorily stable financial status and with low levels of impact on Group operating activities.

Subsequent events

On the date of issuing the currently consolidated financial statements, there is no knowledge of subsequent events that materially affect their presentation.

Outlook

Concentrated on its mission and its vision, the AdP Group is to continue to develop its activities within the framework of continuously defending service universality and continuous improvements in the quality of the services provided, with a greater focus on its business, reflected in financial consolidation and the level of operating efficiency, which has been achieved in partnership with the various stakeholders and within the framework of the sector policies, especially the National Commitment to the Sustainability of Public Water Service and PENSAAR 2020.

Environment

In 2018, there is to be a major focus on developing the Strategic Plan for Adapting to Climate Changes by the AdP Group, seeking to ensure a reduction, across the short, medium and long terms, in the vulnerabilities of company activities and fostering the resilience and response capacities of systems.

Taking into account the particular vulnerabilities of the Alentejo region as regards its hydric resources, especially aggravated by periods of low levels of rainfall, investments shall advance to improve the resilience of the water supply systems in this region, especially the infrastructures connecting the Alqueva Dam projects with the water supply systems managed by AdP Group companies.

The integration of reservoirs into the AdP Group companies abstracting water shall bring about an increase in the total storage capacity under management, which may practically triple. With this integration, the AdP Group may soon be responsible for the management of a total of 29 dams.

Under the auspices of the development of the PEPE energy efficiency program for the period of 2017–2019, this highlights the goal of a reduction of 3.6 GWh deriving from efficiency measure and an increase in the Group's own production of energy by around 1 GWh based on endogenous and renewable sources through means of the existing infrastructures.

This furthermore highlights the conclusion of the Solar Power Electricity Production Plan (internally referred to as Solar III), which is due to include the building of new solar panel production plants for self-consumption with an estimated 12 GWh level of production. As regards adhering to electricity powered mobility, plans include expanding the electric vehicles fleet and raising the number of recharging points, whenever possible powered by renewable energies produced by the Group itself.

2018 is also expected to see the conclusion of the AdP Group Sludge Plan that incorporates a set of aggregate measures taken by various Group companies, in some cases through recourse to new technologies and correspondingly prioritising initiatives in keeping with that stipulated by the National Strategy for the Circular Economy.

There was also the approval of ENEAPAI 2018–2025, which is to induce a set of complementary infrastructures to the AdP Group. These shall capitalise on the existing capacity and enable the appropriate treatment of the aforementioned effluents as well as compliance with the national and community normative frameworks for this field.

Sector

The AdP Group shall continue to invest in expanding the scope of its coverage and the quality of the water supply and wastewater treatment network, both upstream and downstream, balancing the assumptions of rationality, economies of scale and efficiency with its role as a provider of an essential public service.

2018 also features the continuity of the consolidation of the operating activities of AdP Group operating companies established by the 2017 demerger, specifically Águas do Douro e Paiva, SIMDOURO, Águas do Tejo Atlântico and SIMARSUL.

The planning and design work shall also advance on new partnerships for downstream network systems for specific territories carried out by our teams in response to the requests received.

The AdP Group is to, in coordination with AMAL and the municipalities of the Algarve, propose to the concessioner that the two current concessions for eastern and western Algarve undergo consolidation into a new concession contract better aligned with the useful working life of the infrastructures and the substantial program of investment planned for the region, especially the system of dams and the new wastewater treatment stations designed to raise the resilience and quality of water for public supply and the quality of the treated effluents.

Stakeholders

Throughout 2018, the Government expects to produce legislation that shall replace Decree-Laws no. 194/2009 and no. 195/2009, of 20 August, which establish bases for the regulation of the sector, and that ERSAR comes to define, following the ruling from the Tariff Council and the public consultation of interested parties, the Tariff Regulation for Water Services similar to the Tariff Regulation for the Urban Wastewater Management Service.

Taking into consideration the end of the first tariff period in 2019, Águas da Região de Aveiro is to submit to the Partnership Commission, a tariff project for the following five-year period and that shall furthermore be subject to the opinion of ERSAR.

Alongside the aforementioned legislative measures for the reorganisation of multi-municipal systems, the Government has, through Law 114/2017, of 29 December – Law of the State Budget for 2018 – article 83, introducing the scope for resolving, in a structural and consolidated fashion, the debts owed by local government and municipal entities to the multi-municipal water supply and wastewater sanitation systems; furthermore strengthening that stipulated by Decree-Law 114/2014, of 21 July, as regards detailed invoices.

Throughout 2018, AdP shall strive to agree with the EIB the terms for the utilisation of the credit line of up to EUR 200 million, approved in 2017 and designed for the financing of local government and municipal entities so they may settle their respective debts to AdP Group companies. Efforts shall also focus on agreeing with local governments and municipal entities the greatest number possible of agreements over settling outstanding debts within the scope of the aforementioned credit line provided by the EIB.

Furthermore, within the scope of sector policies, and especially with the objective of measures able to counter the effects of drought and resilience to climate change, the AdP Group is to present to the government and to ERSAR a model that seeks to make better recourse of treated wastewaters and thereby expanding the scope of activities of those management entities responsible for the collection and treatment of wastewaters.

Final considerations

The Board of Directors would like to underscore the great contribution made to AdP Group business activities and thank everyone for their collaboration which was so very essential to our pursuing our goals for 2017 and especially:

- our employees who, with dedication, competence and professionalism have worked so hard over the year;
- the management teams for their leadership and commitment to fulfilling the mission that we have undertaken;
- the members of the governing bodies for their collaboration;
- the shareholders for their guidance, commitment, trust and support;
- our customers, private partners and financial institutions for their renewed confidence;
- the technical support and monitoring unit for their advice and guidance;
- the regulator for its cooperation and availability;
- national and international environmental authorities;
- the ministers and other members of the ministries in charge of the sector and finances of the AdP Group.

Lisbon, 13 April 2018

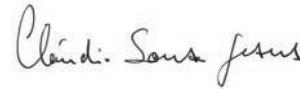
The Board of Directors



João Nuno Marques de Carvalho Mendes
(Chair)



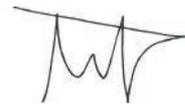
Carla da Conceição Afonso Correia
(Vice-Chair)



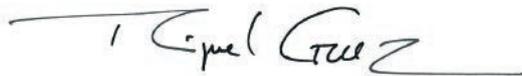
Cláudio Miguel André Sousa Jesus
(Director)



José Manuel Leitão Sardinha
(Director)



Juan Miguel Martín Iglesias
(Director)



Miguel Jorge de Campos Cruz
(Non-Executive Director)

Proposed appropriation of profit

The net income of AdP SGPS in 2017 was EUR 62 939 863 00 (sixty-two million, nine hundred and thirty nine thousand, eight hundred and sixty-three euros).

In view of the above, in accordance with 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 2017 financial year net profit in the separate financial statements be appropriated as follows:

To the legal reserve - EUR 3 146 993 00 (three million, one hundred and forty six thousand, nine hundred and ninety three euros).

To retained earnings - EUR 33 292 870 00 (thirty three million, two hundred and ninety two thousand, eight hundred and seventy euros).

As dividends - EUR 26 500 000 00 (twenty-six million and five hundred thousand euros).

Lisbon, 13 April 2018

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 powers of non-executive director, the management of the company over the 2017 financial year. I can therefore assess the performance of the company's Executive Board and each of its members.

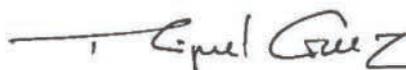
The accounts reporting to 31 December 2017 adequately comply, to the best of my knowledge and in general terms, with the specific legal framework for businesses integrating the State-owned corporate sector. It should be noted in particular that the legal guidelines were complied with by the company in the 2017 financial year. 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 as well as the strategic guidelines on the role of shareholders have also been complied with.

3. Opinion

As a result of the activity undertaken and the monitoring performed, to the present date 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 report herein their extensive commitment and diligence in conducting the business, with precision and transparency, always bearing in mind compliance with the law and the strategic guidelines received from the governing Ministry as well as the efficiency and specific objectives defined, particularly as regards containment of expenditure and the financial and economic valuation of the different business areas.

Lisbon, 13 April 2018

The Non-executive Director



Miguel Jorge Campos Cruz

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Accounts



Accounts

Separate financial statements

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Statement of financial position

(EUR)

	Notes	2017	2016
ASSETS			
Non-current assets			
Tangible fixed assets		-	21
Financial investments	7	706 278 395	694 764 405
Loans to Group companies	8	686 783 425	492 605 887
		1 393 061 820	1 187 370 313
Current assets			
Clients	9	4 634 028	998 622
Group companies	8	59 278 000	14 099 930
Other accounts receivable	10	1 300 221	2 606 454
Cash and cash equivalents	11	2 295 884	115 170 252
		67 508 133	132 875 258
Total assets		1 460 569 953	1 320 245 571
EQUITY			
Share capital	12	434 500 000	434 500 000
Adjustment of shareholdings in subsidiaries and associate companies		25 571 780	25 571 780
Fair value reserve		(1 332 371)	(2 168 508)
Legal reserve		29 798 581	27 910 684
Retained earning		200 216 532	190 416 493
Net profit of financial year		62 939 863	37 757 936
Total equity		751 694 385	713 988 385
LIABILITIES			
Non-current liabilities			
Provisions	13	6 085 139	6 789 931
Loans	14	564 772 727	571 590 909
Derivatives	15	3 770 757	16 341 468
		574 628 623	594 722 308
Current liabilities			
Loans	14	6 818 182	3 409 091
Group Subsidiaries	16	120 000 000	-
Suppliers	17	1 428 497	1 508 580
Income tax for the year	18	3 179 735	4 227 065
Other payables	19	2 820 531	2 390 142
		134 246 945	11 534 878
Total liabilities		708 875 568	606 257 186
Total liabilities and equity		1 460 569 953	1 320 245 571

The Board of Directors

João Nuno Marques de Carvalho Mendes (Chair)
 Carla da Conceição Afonso Correia (Executive Vice-Chair)
 Cláudio Miguel André Sousa Jesus (Executive Director)
 José Manuel Leitão Sardinha (Executive Director)
 Juan Miguel Martín Iglesias (Executive Director)
 Miguel Jorge de Campos Cruz (Non-Executive Director)

Chartered Accountant
 Carla Isabel Costa Pinto Ribeiro

Income statement for the period

(EUR)

	Notes	2017	2016
Services rendered	20	9 976 140	9 865 814
Turnover		9 976 140	9 865 814
Supplies and services	21	(4 559 141)	(4 759 756)
Personnel costs	22	(4 515 261)	(4 513 005)
Amortisations in financial year		(21)	(283)
Provisions and reversals in financial year	13	(745 000)	-
Other operating expenses	23	(54 155)	(84 744)
Other operating income and gains	24	192 874	169 043
Operating income		295 436	677 069
Financial expenses	25	(7 094 205)	(9 445 119)
Financial income	26	21 721 204	21 911 031
Income from shareholdings	27	53 839 693	28 395 420
Financial income		68 466 692	40 861 332
Profits before tax		68 762 128	41 538 401
Income tax for the year	18	(5 822 265)	(3 780 465)
Net profit from continued operations		62 939 863	37 757 936
Net profit for the year		62 939 863	37 757 936
Earnings per share (basic and diluted)	12	0.72	0.43

Statement of comprehensive income

(EUR)

	2017	2016
Net profit of financial year	62 939 863	37 757 936
Fair value of hedging instruments	836 137	32 264
Comprehensive income	63 776 000	37 790 200
Comprehensive income per share	0.73	0.43

The Board of Directors

João Nuno Marques de Carvalho Mendes (Chair)
 Carla da Conceição Afonso Correia (Executive Vice-Chair)
 Cláudio Miguel André Sousa Jesus (Executive Director)
 José Manuel Leitão Sardinha (Executive Director)
 Juan Miguel Martín Iglesias (Executive Director)
 Miguel Jorge de Campos Cruz (Non-Executive Director)

Chartered Accountant
 Carla Isabel Costa Pinto Ribeiro

Statement of changes in equity

(EUR)

	Share Capital	Adjustments in shareholdings	Legal Reserve	Other Reserves Hedging Instruments	Retained Earnings	Profits for the year	Total
Balance as at 31 December 2015	434 500 000	25 571 780	20 730 230	(2 200 772)	100 810 338	143 609 084	723 020 660
Appropriation of profit for 2015	-	-	7 180 454	-	136 428 630	(143 609 084)	-
Dividend paid	-	-	-	-	(46 822 475)	-	(46 822 475)
MTM of hedging adjustments	-	-	-	32 264	-	-	32 264
Net profit for the year 2016	-	-	-	-	-	37 757 936	37 757 936
Balance as at 31 December 2016	434 500 000	25 571 780	27 910 684	(2 168 508)	190 416 493	37 757 936	713 988 385
Appropriation of profits for 2016	-	-	1 887 897	-	35 870 039	(37 757 936)	-
Dividend paid	-	-	-	-	(26 070 000)	-	(26 070 000)
MTM of hedging adjustments	-	-	-	836 137	-	-	836 137
Net profit for the year 2017	-	-	-	-	-	62 939 863	62 939 863
Balance as at 31 December 2017	434 500 000	25 571 780	29 798 581	(1 332 371)	200 216 532	62 939 863	751 694 385

The Board of Directors

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Chartered Accountant
 Carla Isabel Costa Pinto Ribeiro

Cash flow statements

(EUR)

	2017	2016
Operating activities		
Trade receivables	31 356 830	47 351 357
Trade payables	(5 192 871)	(5 485 533)
Payments to personnel		
Wages	(2 261 332)	(1 946 941)
Social Security	(1 144 837)	(1 058 733)
Other	(81 360)	(86 133)
Corporate Income Tax and VAT receivable/ (payable)	(4 362 288)	(3 597 129)
Other receivables (payments) related to operating activities	(2 206 372)	(3 245 853)
Total Operating Activities (1)	16 107 770	31 931 035
Investing activities		
Receivables from:		
Financial investments	11 977 991	696 000
Cash support	41 774 684	13 615 780
Subsidies	63 409 091	35 978 569
Interest and similar income	50 091	172 864
Dividends	49 202 058	33 197 429
Sub-Total	166 413 915	83 660 642
Payments for:		
Financial investments	(23 708 769)	(4 508 308)
Cash support	(188 497 000)	(1 000 000)
Subsidies	(155 835 000)	(82 216 055)
Sub-Total	(368 040 769)	(87 724 363)
Total Investing Activities (2)	(201 626 854)	(4 063 721)
Financing activities		
Receivables from:		
Loans	120 000 000	80 000 000
Subsidies	270 943	-
Sub-Total	120 270 943	80 000 000
Payments for:		
Loans	(3 409 091)	(10 000 000)
Interest and similar expenses	(7 031 586)	(8 822 555)
Dividends	(26 070 000)	(46 822 474)
Other	(11 115 550)	-
Sub-Total	(47 626 227)	(65 645 029)
Total of Financing Activities (3)	72 644 716	14 354 971
Changes in cash and cash equivalents (1 + 2 + 3)	(112 874 368)	42 222 285
Cash and cash equivalents at the beginning of the period	115 170 252	72 947 967
Cash and cash equivalents at the end of the period	2 295 884	115 170 252
Changes in cash and cash equivalents	(112 874 368)	42 222 285

The Board of Directors

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Notes to the individual financial statements

1. Economic activity of AdP SGPS, S.A.

1.1 Introduction

AdP – Águas de Portugal, SGPS, S.A. (hereinafter called AdP or the Company) was incorporated on 29 September 1993 with its head office at Rua Visconde Seabra no. 3 in Lisbon. The core activity of AdP, SGPS, S.A. involves the management of equity stakes as an indirect means of exercising economic activities.

1.2 Business Activities

AdP, SGPS, S.A. was incorporated in 1993 and entrusted with 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. In 1996, the company's mission was expanded, beginning a process of diversification at the levels of both business segments and geographies. It expanded into water distribution systems and the collection of effluents directly from the communities served in national and international markets. In 2000, within the context of strategic guidelines for the consolidation of the main business group in the environmental area, AdP, SGPS, S.A. became sole owner of Empresa Geral do Fomento, S.A. (EGF) and as a result took over control of its invested companies, which had been awarded concessions for developing multi-municipal systems for collecting and treating solid household waste and was sold off in 2015 (95%) and in 2017 (5%). Council of Ministers Resolution No. 72/2004 of 16 June, which set the guidelines for restructuring the water sector in Portugal, redefined the strategic positioning of the AdP Group, focusing it on completing the cycle of instrumental and basic sanitation infrastructures 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 17th Constitutional Government Program emphasised the contribution of the AdP Group to the national challenge of building and managing environmental infrastructures in order to achieve service levels appropriate to developed countries. This thus brought forward a strategy for the water and waste business sector that differed to that established by Council of Ministers Resolution No. 72/2004. These guidelines advocate the consolidation of this business group, endowing 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 in addition to the possibility of establishing strategic partnerships to strengthen its response capacity, to develop national capacities and to structure investments in keeping with the goals of the Strategic Plan for Water Supply and Wastewater Treatment (PEAASAR) and the Strategic Plan for Solid Household Waste (PERSU). The Joint Ministerial Order No. 169/2006 of the Ministries of Finance and Public Administration and of the Environment, Spatial Planning and Regional Development approved the recommendation to the AdP - Águas de Portugal, SGPS, S.A. Board of Directors concerning the company's mission for the current mandate as well as defining each unit's mission and guidelines. The prevailing AdP Group business model incorporates 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 also establish the criteria for setting and approving the tariffs to be charged annually by the companies to ensure the financial balance of concessions 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 concessions in conjunction with planning the replacement of these assets;
- c) consider the costs of efficient system management and the existence of revenues beyond 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 to the concession holder's equity stake, based on the date of settlement.

1.3 Shareholders

The shareholders of AdP SGPS, S.A. 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
	100.00%	434 500 000	86 900 000	

1.4 Approval of financial statements

These consolidated financial statements were approved by the Board of Directors on 13 April 2018. 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 the respective financial year.

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 ongoing 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 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 that ended on 31 December 2017, 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 2016.

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 changes coming into effect after 1 January 2017

- [New standards, changes and interpretations adopted by the Company](#)

Between January 2017 and February 2018, the EU issued the following Regulations that the Company has adopted since 1 January 2017:

EU Regulation	IASB Norms or IFRIC Interpretations adopted by the EU	Issued on	Obligatory application in the financial years beginning on or after
Regulation no. 1989/2017	IAS 12 Taxation on Earnings: Recognition of Deferred Taxation On Unrealised Losses (alterations)	January 2016	1 January 2017
Regulation no. 1990/2017	IAS 7 Demonstration of Cash Flows: Information Publication Initiative (alterations)	January 2016	1 January 2017
Regulation no. 182/2018	2014-2016 Cycle of improvements to norms IFRS: IFRS 12 Publication of Interests in Other Entities (alterations)	December 2016	1 January 2017

The Company adopted the aforementioned alterations, which did not generate any significant impact on the Financial Statements as of 31 December 2017.

- New norms, alterations and interpretations adopted by the EU but without any application in the financial year beginning on 1 January 2017 and not pre-emptively applied

Between January 2017 and February 2018, the EU adopted a set of norms and alterations issued by the International Accounting Standards Board (IASB) for application in subsequent periods:

EU Regulation	IASB Norms or IFRIC Interpretation adopted by the EU	Issued on	Obligatory application in the financial years beginning on or after
Regulation no. 1905/2016	IFRS 15 Revenues from Contracts with Customers (new)	May 2014	1 January 2018
Regulation no. 2067/2016	IFRS 9 Financial Instruments (new)	July 2014	1 January 2018
Regulation no. 1986/2017	IFRS 16 Leasing (new)	January 2016	1 January 2019
Regulation no. 1987/2017	IFRS 15 Revenues from Contracts with Customers: Clarifications (alterations)	April 2016	1 January 2018
Regulation no. 1988/2017	IFRS 4 Insurance Contracts: Application of IFRS 9 Financial Instruments in conjunction with IFRS 4 Insurance Contracts (alterations)	September 2016	1 January 2018
Regulation no. 182/2018	2014-2016 Cycle of improvements to the IFRS norms: IFRS 1 Adoption for the first time of the International Norms for Financial Reporting and IAS 28 Investments in Jointly Controlled Subsidiaries and Entities (alterations)	December 2016	1 January 2018

These norms and alterations are due for full application in the financial years that begin on or after 1 January 2018, and were not applied in the preparation of the Financial Reporting on 31 December 2017. They are not expected to have any significant impact on the Company's Financial Accounts except as regards the new IFRS 16 Leasing norm, as detailed below.

IFRS 15 Revenues from Contracts with Customers

The new norm 15 Revenues from Contracts with Customers (IFRS 15) establishes a five stage model for the recognition of earnings resulting from contracts celebrated with clients. According to that stipulated by the norm, the revenue is recognised for the amount the entity expects to receive from the client in exchange for the goods and services provided.

The application of the norm is obligatory for the financial years beginning on or after 1 January 2018, with its adoption due for implementation through either the full retrospective method or the modified retrospective method.

The Company has adopted this norm since 1 January 2018 through applying the modified retrospective method, with the cumulative effect of the adoption of this norm recognised in the Company Results carried over on that date.

During 2017, the Company proceeded with analysis of the impact of its adoption and correspondingly does not expect any significant impact on its Financial Reporting but rather an increased level of disclosure associated with its "Sales and provision of services".

In preparation for the adoption of IFRS 15, the Company took the following relevant aspects into consideration:

i) Sale of goods and provision of services

In the majority of sales of goods or provision of services carried out by the Company, there is only a performance obligation and hence revenues are immediately recognised on delivery of the goods to the customer.

The application of IFRS 15 shall not have any significant impact on the way in which the Company currently recognises the revenues from sales of goods and services to customers.

ii) Rights of return

With the application of IFRS 15, sales to customers should include estimates of the goods that may be subject to return by customers, therefore recognising: **a)** a liability for returns, represented by the obligations to deliver to the customer the amounts relating to the goods returned; and **b)** a return asset – with the adjustment to the sales cost – due to the right to receive the goods returned by customers.

The returns of goods for which liability is assumed directly by the Company, do not display any material relevance that significantly impacts upon the Financial Accounts of the Company.

IFRS 9 Financial Instruments

The new norm IFRS 9 Financial Instruments, which replaced IAS 39 Financial Instruments: Recognition and Measuring, particularly focuses on the following aspects: **i)** Classification and measuring; **ii)** Impairities; and **iii)** Accounting of Coverage.

The Company adopted this new norm on 1 January 2018, the date when its obligatory application entered into effect and hence lacking the scope for any re-expression of comparative information.

Throughout the year of 2017, the Company did analyse the impact of adopting this new norm and concluding that there is no expectation of any significant impact on the Company's Financial Accounts.

i) Classification and measuring

The Company does not foresee any significant impact on its Reporting of its Financial Position or its Equity Capital stemming from the application of the new IFRS 9 classification and measuring requirements.

ii) Impairities

IFRS 9 requires that the Company recognise impairities in the credits receivable based upon the estimated losses model (whether based on the losses expected after 12 months or the losses expected over the entire lifespan of the credits receivable), in place of the incurred losses model provided for under IAS 39. The Company is to apply the simplified approach to the credits receivable, recognising the estimates for the entire lifespan of the credits receivable.

The current accounting policy in force at the Company already provides for the recognition of generic impairities on commercial credits receivable taking into account the track record of non-recoverable debts in each business.

The Company does not expect any material impact on its Financial Reporting due to the application of this new impairment recognition model.

iii) Accounting of Coverage

The Company determined that all currently designated coverage relations are to continue to qualify under the accounting of coverage following the application of IFRS 9.

As the norm does not alter the general principles for registering effective coverage, the application of the coverage requirements under IFRS 9 will not generate any significant impact on the Company's Financial Accounts.

IFRS 16 Leasings

The new IFRS 16 norm eliminates the classification of leasings as operational or financial leasings to the lessee as stipulated by IAS 17. In its place, this introduces a single accounting model, very similar to the treatment currently applied to financial leasings in the lessee accounts.

For the lessee, this model requires the recognition of: **i)** assets and liabilities in the Financial Reporting for all leases with a duration of greater than 12 months (while excluding assets with low levels of value, irrespective of the term of the lease); and **ii)** detailing depreciation and interest separately on the Results balance sheet.

The Management is to evaluate the impacts resulting from the adoption of this new norm with this already expected to generate a significant impact on the Company's financial position resulting from the incorporation of the assets currently registered under operational leasing and the respective liabilities.

- [New norms, alterations and interpretations issued by IASB and IFRIC but not yet adopted by the EU](#)

In 2014, 2016 and 2017, the IASB issued the following norms, alterations and interpretations that are still under a process of adoption by the EU:

IASB Norm or IFRIC Interpretation	Issued on	Obligatory application in financial years beginning on or after
IFRS 14 Tariff Deviations (new)	January 2014	Date to be determined ¹
IFRS 10 Consolidated Financial Reporting and IAS 28 Investments in Jointly Controlled Subsidiaries and Entities: Sale of assets controlled between an investor and its subsidiary or joint venture (alterations)	September 2014	Date to be determined ²
IFRS 2 Share Based Payments: Classification and measuring transactions (alterations)	June 2016	1 January 2018
IFRIC 22 Transactions in foreign currencies and early payments (new)	December 2016	1 January 2018
IAS 40 Ownership of Investments: Transfers (alterations)	December 2016	1 January 2018
IFRS 17 Insurance Contracts (new)	May 2017	1 January 2021
IFRIC 23 Uncertainties as regards the treatment of taxation on earnings (new)	June 2017	1 January 2019
IFRS 9 Financial Instruments: Details on pre-payments with negative compensation (alterations)	October 2017	1 January 2019
IAS 28 Investments in Jointly Controlled Subsidiaries and Entities: Long term interests in Jointly Controlled Subsidiaries and Entities (alterations)	October 2017	1 January 2019
Cycle 2015-2017 on improvements to the norms IFRS: IFRS 3 Concentration of Business Activities; IFRS 11 Joint Agreements; IAS 12 Taxation on Earnings and IAS 23 Cost of Loans (alterations)	December 2017	1 January 2019

¹ The EU decided to suspend the approval process for this interim norm and await the definitive norm.

² The EU decided to suspend indefinitely the approval of these alterations as did the IASB.

The Management is currently evaluating the impact of the future adoption of these new norms, alterations and interpretations of the norms already in effect and with no significant impact hitherto identified for the Company's Financial Accounts.

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 negotiations or contracting took place, thus the date on which AdP undertakes to acquire or dispose of the asset. In the transition period, shareholdings are recognised in accordance with the presumed cost or deemed cost (paragraph 31, IFRS 1), that is, at the value 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 to receipt of its cash flows expire; **(ii)** AdP has substantially transferred all the risks and benefits associated with the holding; or **(iii)** AdP has transferred control over the assets even while it may still retain part, but substantially not all of the risks and benefits associated with holding them. Recognition of dividends is recorded in the income statement on the date of their reporting.

Recognition of dividends is recorded in the income statement on the date of their reporting.

Impairment of financial investments in subsidiaries

Financial holdings in subsidiaries and associates are analysed on the date of each Financial Accounting Report in order to detect indications of any eventual losses due to impairments. Whenever such an indication exists, the financial amount recoverable from the stake is evaluated. Whenever the amount registered for a financial holding exceeds the sum receivable, this is reduced to the amount recoverable with this loss due to impairment recognised in the results for that financial year. The amount recoverable from the financial holdings in subsidiaries and associates corresponds to the greatest of the value of use and the value of sale. The losses through impairments are reverted through to the value that the asset would have held had the loss due to impairment not been recognised.

Group companies are:

Business Unit / Company	Head office	% de Capital held (*)		Share Capital (**)
Water and Sanitation				
Águas do Norte, S.A.	Vila Real	68.73%	EUR	1 11 061 732
Águas do Douro e Paiva, S.A.	Oporto	51.00%	EUR	20 902 500
SIMDOURO - Saneamento do Grande Porto, S.A.	Vila Nova de Gaia	58.52%	EUR	20 046 075
Águas do Centro Litoral, S.A.	Coimbra	60.33%	EUR	40 225 881
Águas do Vale do Tejo, S.A.	Guarda	68.35%	EUR	83 759 578
Águas do Tejo Atlântico, S.A.	Lisbon	50.68%	EUR	113 527 680
SIMARSUL - Saneamento da Península de Setúbal, S.A.	Setúbal	51.00%	EUR	25 000 000
Águas do Algarve, S.A.	Faro	54.44%	EUR	29 825 000
Águas de Santo André, S.A.	Vila Nova de Santo André	100.00%	EUR	1 000 000
AgdA - Águas Públicas Alentejo, S.A.	Beja	51.00%	EUR	6 630 000
AdRA - Águas da Região de Aveiro, S.A.	Aveiro	51.00%	EUR	17 500 000
EPAL, S.A.	Lisbon	100.00%	EUR	150 000 000
International				
AdP - Águas de Portugal Internacional - Serviços Ambientais, S.A.	Lisbon	100.00%	EUR	175 000
Águas de Timor, S.A.	Dili - East Timor	100.00%	EUR	5 002
Águas do Brasil, S.A.	Rio de Janeiro - Brazil	100.00%	BRL	2 050 100
Aquatec, Lda.	Maputo - Mozambique	100.00%	MZM	2 476 580
Corporate				
AdP - Águas de Portugal Serviços Ambientais, S.A.	Lisbon	100.00%	EUR	50 000
AQUASIS, Sistemas de Informação, S.A.	Lisbon	55.00%	EUR	50 000
AdP Energias - Energias Renováveis e Serviços Ambientais, S.A.	Lisbon	100.00%	EUR	250 000
Associates				
Trevo Oeste, S.A.	Alcobaça	43.20%	EUR	1 336 085

(*) percentages held directly and indirectly.

(**) nominal equity capital, whether or not having already been realised.

2.3 Financial assets and liabilities

2.3.1 Classification of financial assets

The AdP Group financial assets are classified into the categories detailed below. The classification depends on the purpose for acquiring the investment and determined at the time of initial investment recognition (its trade date) and revalued on each subsequent reporting date. The Board of Directors decides on the classification of its investments on the acquisition date and regularly revalue this classification. The AdP Group classifies its financial assets according to the categories defined in IAS 39 whereby in the case of AdP only "Loans and receivables" apply.

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 and are recorded in the items of Statement of Financial Position "Clients", "Group Subsidiaries" and "Other payments receivable" and (ii) investments in companies holding multi-municipal concessions which, according to the special terms and conditions of the underlying concession agreements, qualify as loans granted, remunerated at an agreed rate and recorded in an item of the non-current assets "Loans to Group Subsidiaries".

Loans and receivables are initially recorded at fair value and afterwards on an amortised cost based on the effective interest rate, less any impairment losses. Impairment losses are recorded based on the estimate and evaluation of the losses associated with bad debts, on the date of the balance sheet so that they duly reflect their net realisable value.

Whenever the sums receivable from trade receivables or other debtors fall due and their terms are subject to renegotiation, they are no longer regarded as overdue and correspondingly treated as new credits.

2.3.2 Classification of financial liabilities

Financial liabilities are classified according to their 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. AdP only has liabilities classified as "Other financial liabilities". Other financial liabilities include loans obtained (shareholder loans and Group Company loans) and suppliers and other payables.

Bank loans

Loans are initially recognised at fair value and net of any transaction costs incurred and are subsequently measured at their amortised cost. Any difference between the issue amount (net of any 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 when the AdP Group expects to settle the liability within twelve 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 their 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.

2.4 Derivative financial instruments and hedge accounting

AdP SGPS uses derivatives solely to manage its exposure to financial risks. AdP SGPS does not contract derivatives for speculation in accordance with its financial policies. Even though the derivatives contracted by AdP Group are effective instruments for the hedging of risks they do not all qualify as hedge accounting instruments under IAS 39 rules and requirements. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes recognised in the profit or loss item. 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 applied.

2.4.1 Hedge accounting

Hedge accounting is adopted whenever there is a relationship between the hedged item and the hedging instrument that meets the following conditions:

- i) the hedge relationship is identified and formally documented on its starting date;
- 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 the derivatives 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 the equity item.

2.5 Fair value hierarchy

The AdP assets and liabilities, measured at fair value, are classified according to the following levels of fair value hierarchy and as established in IFRS 7: **Level 1**, the fair value of financial instruments based on the active net market prices on the balance sheet reference date. 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 does not derive from active market prices but rather on the application of valuation models. The main model inputs are market observable and this level thus includes, for example, over-the-counter derivatives and **Level 3**, the fair value of financial instruments is not determined by active market prices but rather by valuation models with their main inputs not market observable. Note 6 presents the table with the level classified fair value assets and financial liabilities.

2.6 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 within the scope of the consolidated cash flow statement.

2.7 Impairment

2.7.1 Impairment of financial assets

AdP SGPS analyses for objective evidence of impairment to either a financial asset or a group of financial assets on the date of the balance sheet.

Trade receivables and other financial assets

Adjustments for impairment losses are recorded whenever AdP SGPS holds impartial indicators that it will not collect all of the amounts owed according to the original contractual terms. The various indicators serving to identify situations of impairment include: (i) analysis of breach; (ii) debtor financial difficulties; and (iii) likelihood of debtor bankruptcy.

Impairment losses are determined by the difference between the recoverable amount and the financial asset value carried over and recognised against the profit or loss of the financial year. The carried over asset value is reduced to the recoverable value through the application of an adjustments account. Whenever an amount receivable from customers and debtors is considered irrecoverable, this is written off in the adjustments account for accrued impairment losses. Subsequent recoveries of amounts that may have been written off are then recognised in the profit or loss item. When the sums receivable from trade receivables or other debtors are due and their terms renegotiated, they are no longer accounted for as overdue and treated as new credits.

2.8 Share capital

Ordinary shares are classified as equity. Costs incurred directly from issuing new shares or options are presented in equity as a deduction, net of taxes, on the amount issued.

2.9 Dividends payable

Dividends are recognised in the liabilities item following their declaration.

2.10 Government grants

Grants (related to assets) for investment are recognised when there is reasonable certainty both that the grant is receivable and that AdP SGPS shall meet all the obligations inherent to its receipt. Investment grants for the acquisition and/or construction of tangible and/or intangible assets fall under non-current liabilities and credited to the income statement in accordance with the same amortisation method as that for underlying assets.

Operating grants are deferred and recognised in the income statement for the same period as the expenses they offset, recognised as a deduction against costs in the item recognising such costs.

2.11 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 of a reasonably estimated amount. Whenever any criterion is not met or the existence of the obligation depends on the (non-)occurrence of a particular future event, AdP discloses this as a contingent liability apart from whenever evaluation of the requirement to pay funds for its settlement is deemed unlikely. When there is a large number of similar obligations, the probability of generating an outflow of internal resources is determined for the group as a whole. This provision is recognised even when the likelihood of an outflow of internal resources due to an item in the same obligation class may only 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 deriving from the same. The provisions are measured at the present value, on the balance sheet date, according to the best estimate by the Board of Directors regarding the expenditure required to discharge the obligation. The discount rate in effect for calculating the present value reflects the then prevailing market expectation both 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 are potential Company assets that result from past events but with recognition depending on the occurrence of one or more future events, which fall beyond the scope of its control. The Company proceeds with their identification through notes to the accounts, whenever the receipt of future economic benefits becomes probable. Their recognition in the Financial Accounts takes place whenever their receipt proves virtually certain.

Contingent liabilities correspond to the potential liabilities arising as a result of past events and with their recognition dependent on the occurrence or otherwise of one or more uncertain future events not totally under the control of the Company. This may also represent present obligations as a result of past events which, either due to the payment of economic benefits not being probable or due to the value not being susceptible to reliable estimation, are not recognised in the Financial Accounts. The Company proceeds with their disclosure through notes to the accounts whenever the probability of their future reimbursements is not deemed remote. This then leads to their recognition or constitution as a provision whenever the payment of economic benefits not only becomes probable but also with the value susceptible to estimation with some degree of reliability.

2.12 Tax

Income tax for the period includes current tax and deferred tax. Income tax is recognised in the income statement, except where relating to items recognised directly in equity. Calculating the amount of current tax payable is based on the pre-tax profit, adjusted according to the taxation framework in effect.

Deferred tax is recognised according to the balance sheet liability method that considers the temporary differences between the asset and liability tax base and their carried over amounts on the financial statements. Deferred tax that arises from the initial recognition of an asset or liability in a non-merger transaction, and which has not affected either the accounting outcome or the tax outcome on the transaction date, is not recorded. Deferred tax assets are recognised whenever there is the probability that future

taxable profit will be available against which temporary differences are applicable or when the reversal of a deferred tax asset is forecast for the same time and with the same authority.

Deferred taxes are calculated based on the current rate or the rate officially in effect on the balance sheet date and expected to apply on the date on which the deferred tax assets are realised or deferred tax liabilities are paid. Any differences arising from expected changes in the rates that then reverse the temporary tax differences are detailed in the income statement.

Deferred taxes are recognised for temporary differences arising from investments in subsidiaries and associates except when AdP is able to control the timing of the reversal in the temporary difference and the temporary difference is unlikely to be reversed in the foreseeable future.

Deferred taxes are recorded either in the net profit item or in the "Other reserves", in accordance with how the original transaction or event is recorded.

2.13 Revenue

Revenue comprises the fair value of the provision of services, net of taxes and discounts.

2.13.1 Services provided

Revenue is recognised based on the services provided within the respective period.

2.13.2 Interest

Interest income is recognised based on the effective interest rate and recorded in the period earned in accordance with the principle of financial year specialisation (or the accruals principle).

Whenever a receivable is adjusted for impairment, AdP SGPS reduces its book value to its recoverable value although estimated future cash flows are still discounted at the initial effective interest rate (before impairment) with discount corrections considered interest income.

2.13.3 Dividends receivable

Dividends are recognised whenever the shareholder's right has been established, generally by decision of the subsidiary or associate General Meeting.

2.14 Expenses and losses

Expenses and losses are recorded in the period to which they relate, regardless of when paid or received, on an accruals basis (financial year specialisation).

Operational leasing – Lessee

Operational leasing payments are recognised as linear based expenditure throughout the leasing duration.

2.15 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 occurring after the balance sheet date are, whenever material, disclosed in the notes to the financial statements.

3. Financial risk management policies

3.1 Risk factors

AdP Group business operations are exposed to a number of financial risk factors: credit risk, liquidity risk and cash flow risk (associated with the interest rate). AdP Group has correspondingly developed and implemented a risk management program which, in addition to constantly monitoring 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 financial risks, in close cooperation with the AdP Group operational units. The Board of Directors drafts the principles for risk management as a whole as well as policies covering specific areas such as currency conversion risks, interest rate risks, credit risks, recourse to 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 both sets the parameters for each transaction and approves the formal documents describing the specific objectives.

3.2 Credit risk

Credit risk essentially relates to the risk of a counterparty defaulting on their contractual obligations, resulting in a Group financial loss. AdP Group is therefore exposed to credit risk within the course of its operational, investment and cash management activities.

Credit risk in operations basically stems from receivables for services rendered to customers (water, wastewater and waste services). This risk is theoretically low given the nature of the services rendered (to state entities - municipalities). However, given the specific national economic and financial situation in recent years, with direct consequences on local government, non-payments to Group companies may have direct implications for credit risks. AdP Group has warned Central Government as regards the non-sustainability of the current delays in payments by some municipalities within the scope of finding alternatives that enable the collection of the amounts outstanding to 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 sets out the maximum Group exposure to credit risk (not including customers and other debtors item balances) as at 31 December 2017, not considering any collateral held or other credit enhancements. The defined balance sheet assets exposure takes into consideration their carried over amount as reported on the main balance sheet.

Banking financial assets	2017
Current accounts (Note 11)	2 295 453
	2 295 453
Rating	2017
A3	7 106
Ba1	1 618 141
B1	38 196
Baa1	127 509
Baa2	483 743
Caa2	20 758
	2 295 453

Note: Moody's rating obtained from the financial institution's website in February 2018

3.3 Liquidity risk

Managing the liquidity risk requires holding a reasonable level of cash and cash equivalents and implies consolidating floating debt through an adequate amount of credit facilities and the ability to liquidate market positions. The AdP Group treasury department, given the dynamics of the underlying businesses, strives to secure floating debt flexibility by maintaining credit lines for that purpose. AdP manages liquidity risk by taking out and maintaining such credit lines and financing facilities with a firm underwriting commitment with domestic and international financial institutions able to provide immediate access to funds. In the last financial year, this practice has been seriously restricted by the widely known difficulties in accessing the credit markets in Portugal as well as the rising amount of outstanding client debts.

The table below details AdP Group liabilities by intervals of contracted residual maturity. The amounts shown in the table are the non-discounted contractual cash flows for future payment (thus, without the interest incurred by these liabilities).

2017	< 1 year	1 to 5 years	> 5 years
Shareholder loans (Note 14)	6 818 182	177 272 727	387 500 000
Group company loans (Note 16)	120 000 000	-	-

2016	< 1 year	1 to 5 years	> 5 years
Shareholder loans (Note 14)	3 409 091	27 272 727	544 318 182

3.4 Cash flow risks and interest rate fair value risks

The AdP interest rate risk basically stems from taking out long-term loans. Such loans with interest at floating rates expose AdP to cash flow risks whereas loans with fixed interest rates expose AdP to fair value risks linked to the interest rate. AdP manages interest rate-linked cash flow risks by taking out swaps that enable the conversion of loans with floating interest rates into fixed interest rate loans.

Analysis of sensitivity to interest rate changes

		2017	2016
Interest incurred	Real	4 376 015	4 728 255
Interest incurred	average rate +1%	11 291 924	10 478 255
Interest incurred	average rate +1%	-	-

3.5 Capital risk

The AdP goal with respect to managing capital, a broader concept than the balance sheet disclosed capital, is to maintain an optimal capital structure through prudent recourse to debt to enable it to reduce capital costs. The goal of capital risk management involves safeguarding the Group as a going concern, with a reasonable return for shareholders and the generation of benefits for all stakeholders.

The Group policy is to have the parent company, AdP, SGPS, S.A. contract loans with financial corporations (with the exception of investment loans) before, in turn, making loans to its subsidiaries. This policy aims to optimise the capital structure for greater tax efficiency while also reducing the average cost of capital.

	2017	2016
Non-current loans (shareholder loans)	564 772 727	571 590 909
Current loans (shareholder and Group company loans)	126 818 182	3 409 091
Cash assets	(2 295 884)	(115 170 252)
Debt	689 295 025	459 829 748
Total equity	751 694 385	713 988 385
Share capital	1 440 989 410	1 173 818 133
Debt/total capital	0.48	0.39

4. Estimates and judgements

The estimates and judgements impacting on AdP financial statements are assessed continuously and represent, at the date of each report, the best estimate by the Board of Directors, taking into consideration historic performance, accumulated experience and expectations regarding future events which, in the circumstances in question, are deemed reasonable. The intrinsic nature of the estimates may mean that the real reflection of situations subject to estimates may, for the purposes of financial reporting, differ from the amounts estimated. The estimates and judgements that generate a significant risk of material adjustments to the book value of assets and liabilities over the next financial year are:

4.1 Provisions

AdP regularly analyses any obligations arising from past events and which require recognition or disclosure. 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 on whether provisions should be set aside for these contingencies (note 13).

The subjectivity inherent in determining the likelihood and amount of outflows of internal resources needed to discharge such obligations may lead to significant adjustments, either due to changes in those assumptions or through the future recognition of provisions previously disclosed as contingent liabilities.

4.2 Impairment

Any number of events can trigger the calculation of impairment losses, many of which fall beyond the scope 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, estimates of future cash flows and determining the fair value of assets (or groups of assets) require 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 the accounts receivable are mainly calculated based on the age of the receivables, customer risk profiles and their respective financial situations. The estimates for adjustments to receivables differ from business to business.

Any additional situation of impairment of any reported asset on the date of publishing AdP financial statements is considered unlikely. Whenever, for the purpose of any currently ongoing assessment, any sign of impairment is found, the relevant book amount of the asset is adjusted on the balance sheet against the profit or loss for the year. In addition to the above-mentioned uncertainties, there are some areas of judgement that impact on the financial statements. Although it is deemed unlikely that they lead to material changes in the following financial year, they may nonetheless bring about a change in the assumptions or assessments made by the AdP Board of Directors.

4.3 Fair value of derivatives

The fair value of financial instruments that lack any active market is calculated based on the mark-to-market evaluations of such instruments. AdP applies its judgment to choose the evaluation techniques and assumptions best able to assess the derivatives contracted at the financial reporting date.

5. *Relevant facts impacting on comparisons between financial years*

5.1 Demerger processes

5.1.1 *Águas do Norte*

On 22 February 2017, the Portuguese state awarded the concessions for the management and operation of the Multi-municipal Water Supply Systems for Southern Greater Oporto and the Multi-municipal Wastewater Treatment System for Greater Oporto to the companies Águas do Douro e Paiva, S.A. and SIMDOURO – Saneamento do Grande Porto, S.A., respectively. The new system and their respective management companies were established under Decree-law 16/2017, 1 February, with the agreement of the participant municipalities and in accordance with the program set out by the 21st Constitutional Government.

The new multi-municipal systems and the new management entities respectively emerged out of the demerger of the multi-municipal system for the water supply and sanitation services in the North of Portugal and the company Águas do Norte, in keeping with the aggregations carried out in 2015. As a result of these demergers, the Águas do Norte company is to benefit from two new revenue components: a CTA / Added Tariff Component, which represents the specific solidarity of multi-municipal system users that are rendered autonomous in terms of the water supply; and the allocation to an Environmental Fund. This model, which combines solidarity and national cohesion, introduces incentives for efficiency, ensuring the commercial sustainability of Águas do Norte and the new companies launched while also guaranteeing access to and the quality of public water supply and sanitation services.

5.1.2 *Águas de Lisboa e Vale do Tejo*

On 17 April and 28 April 2017, the Portuguese state attributed respectively to the companies SIMARSUL - Saneamento da Península de Setúbal, S.A. and Águas do Tejo Atlântico, S.A., the management and operation concessions for the Multi-municipal Wastewater

Sanitation System for the Setúbal Peninsula and the Multi-municipal Wastewater Sanitation System for Greater Lisbon and the West. The new systems and their respective management companies were established under Decree-law 34/2017, 24 March, with the agreement of the municipalities involved and in accordance with the objectives of the program of the 21st Constitutional Government.

The new multi-municipal system and the new management entities respectively emerged out of the demerger of the multi-municipal water supply and sanitation system for Lisbon and the Tagus Valley, resulting from the aggregations carried out in 2015. As a result of these demergers, the Águas do Vale do Tejo company is to benefit from two new revenue components: a CTA / Added Tariff Component, which represents the specific solidarity of multi-municipal system users that are rendered autonomous in terms of the water supply; and the allocation to an Environmental Fund. This model, which combines solidarity and national cohesion, introduces incentives for efficiency, ensuring the commercial sustainability of Águas do Vale do Tejo and the new companies launched while also guaranteeing access to and the quality of public water supply and sanitation services.

Following the aforementioned demergers, there has been a reduction in the turnover of transactions and balances with Águas do Norte and Águas do Vale do Tejo compensated for by the transactions and balances generated with the new companies launched.

6. Financial instruments per 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 2017
Tangible fixed assets	-	-	-	-	-	-	-
Financial investments	-	-	-	-	-	706 278 395	706 278 395
Loans to Group companies	686 783 425	-	-	-	686 783 425	-	686 783 425
Other accounts receivable	1 300 221	-	-	-	1 300 221	-	1 300 221
Trade receivables	4 634 028	-	-	-	4 634 028	-	4 634 028
Group companies	59 278 000	-	-	-	59 278 000	-	59 278 000
Cash and cash equivalents	2 295 884	-	-	-	2 295 884	-	2 295 884
Total assets	754 291 558	-	-	-	754 291 558	706 278 395	1 460 569 953
Provisions	-	-	-	-	-	6 085 139	6 085 139
Shareholder loans	-	571 590 909	-	-	571 590 909	-	571 590 909
Group companies	-	120 000 000	-	-	120 000 000	-	120 000 000
Derivative financial instruments	-	-	-	3 770 757	3 770 757	-	3 770 757
Suppliers	-	1 428 497	-	-	1 428 497	-	1 428 497
Other receivables	-	2 820 531	-	-	2 820 531	-	2 820 531
Tax for the year	-	-	-	-	-	3 179 735	3 179 735
Total liabilities	-	695 839 937	-	3 770 757	699 610 694	9 264 874	708 875 568

	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 2016
Tangible fixed assets	-	-	-	-	-	21	21
Financial investments	-	-	-	-	-	694 764 405	694 764 405
Loans to Group companies	492 605 887	-	-	-	492 605 887	-	492 605 887
Other accounts receivable	2 606 454	-	-	-	2 606 454	-	2 606 454
Trade receivables	998 622	-	-	-	998 622	-	998 622
Group companies	14 099 930	-	-	-	14 099 930	-	14 099 930
Cash and cash equivalents	115 170 252	-	-	-	115 170 252	-	115 170 252
Total assets	625 481 145	-	-	-	625 481 145	694 764 426	1 320 245 571
Provisions	-	-	-	-	-	6 789 931	6 789 931
Shareholder loans	-	575 000 000	-	-	575 000 000	-	575 000 000
Derivative financial instruments	-	-	11 734 574	4 606 894	16 341 468	-	16 341 468
Suppliers	-	1 508 580	-	-	1 508 580	-	1 508 580
Other payables	-	2 390 142	-	-	2 390 142	-	2 390 142
Income for the year	-	-	-	-	-	4 227 065	4 227 065
Total liabilities	-	578 898 722	11 734 574	4 606 894	595 240 190	11 016 996	606 257 186

Fair value hierarchy

	31 December 2017			31 December 2016		
	Level 1	level 2	level 3	Level 1	level 2	level 3
Financial liabilities at fair value through profit or loss						
Derivatives		-			11 734 574	
Financial liabilities at fair value through comprehensive income						
Derivatives		3 770 757			4 606 894	

7. Financial investments

	2017	2016
Financial investment in associates	723 630 261	700 921 492
Financial investments in other companies (a)	-	3 032 576
Other financial investments (b)	6 068	4 099 115
Accumulated impairment losses (Note 13) (c)	(17 357 934)	(13 288 778)
	706 278 395	694 764 405

(a) On 31 December 2016, the balance corresponded to 5% of the financial stake held in EGF. Under the terms of DL 45/2014, this 5% is due to EGF Group members of staff in accordance with the respective Council of Ministers resolution. In 2017, AdP SGPS disposed of this financial holding (See Note 27).

(b) On 31 December 2016, this item included bonds issued by a financial institution that were disposed of in 2017 (See Note 27).

(c) On 31 December 2017, the accumulated losses for imparities broke down as follows: €14,892,654 to AdP Internacional (€10,959,483 on 31 December 2016) and €2,465,280 to AdP Energias (€2,329,295 on 31 December 2016).

7.1 Movements in the period

	2017	2016
Opening balance	700 921 492	696 588 562
Capital increase	18 775 598	3 080 400
Sale of shares	-	(175 378)
Loss apportionment	3 933 171	1 427 908
Closing balance	723 630 261	700 921 492

In the financial year ending on 31 December 2017, AdP SGPS accompanied the Capital increase taking place at the following group companies: **i)** Águas Públicas do Alentejo (€925,650), **ii)** Águas do Vale do Tejo (€595,273); and **iii)** Águas do Norte (€17,254,676). There was also the coverage of losses through the cash transfer to AdP Internacional (offsetting losses to the amount of €3,933,171).

7.2 Individual value of shareholdings

	2017	2016
EPAL	365 813 820	365 813 820
Águas do Vale do Tejo (a)	78 578 396	131 473 947
Águas do Tejo Atlântico (a)	34 623 897	-
SIMARSUL (a)	18 866 926	-
Águas do Norte (b)	107 833 244	112 310 423
Águas do Douro e Paiva (b)	10 877 643	-
SIMDOURO (b)	10 854 212	-
Águas do Centro Litoral	36 454 976	36 454 976
Águas do Algarve	25 834 640	25 834 640
AdP Internacional	14 892 654	10 959 483
AdRA - Águas da Região de Aveiro	8 925 000	8 925 000
AdP Energias	4 733 226	4 733 226
Águas de Santo André	2 298 412	2 298 412
AgdA - Águas Públicas do Alentejo	2 455 650	1 530 000
AdP Serviços	587 465	587 465
AQUASIS	100	100
Subsidiaries	723 630 261	700 921 492
Trevo Oeste	572 991	572 991
Financial investment impairment (Note 13)	(572 991)	(572 991)
Associates	-	-
Total	723 630 261	700 921 492

(a) Following the 2017 demerger of Águas do Vale do Tejo (formerly Águas de Lisboa e Vale do Tejo), the cost of the acquisition of that stake was divided between the newly founded companies (Águas do Tejo Atlântico and Simarsul), in accordance with the proportion of the AdP SGPS holding in the aggregate equity capital of those companies on 1 January 2017 (demerger accounting effects). This division of the acquisition cost did not generate any results in the individual financial accounts of AdP SGPS.

(b) Following the 2017 demerger of Águas do Norte, the cost of the acquisition of that stake was divided between the newly founded companies (Águas do Douro e Paiva and Simdouro), in accordance with the proportion of the AdP SGPS holding in the aggregate equity capital of those companies on 1 January 2017 (demerger accounting effects). This division of the acquisition cost did not generate any results in the individual financial accounts of AdP SGPS.

8. Loans to Group companies

On 31 December 2017 and 2016, the detail of the asset item “Loans to Group companies” and “Group companies” is as follows:

	2017			2016		
	Advances	Treasury support	Total	Advances	Treasury support	Total
Águas do Norte	299 999 818	7 482 000	307 481 818	249 340 000	7 744 684	257 084 684
Águas do Vale do Tejo	97 545 454	30 000 000	127 545 454	67 450 000	-	67 450 000
Águas do Centro Litoral	76 920 455	2 200 000	79 120 455	73 000 000	1 700 000	74 700 000
AgdA - Águas Públicas do Alentejo	49 999 727	923 000	50 922 727	42 000 000	-	42 000 000
AdRA - Águas da Região de Aveiro	49 545 455	1 100 000	50 645 455	23 300 000	-	23 300 000
Águas do Douro e Paiva	44 000 000	-	44 000 000	-	-	-
Águas do Algarve	30 000 000	9 750 000	39 750 000	30 000 000	-	30 000 000
SIMDOURO	36 000 000	3 100 000	39 100 000	-	-	-
AdP Internacional	2 000 000	1 650 000	3 650 000	6 000 000	770 000	6 770 000
AdP Serviços	2 000 000	1 437 000	3 437 000	4 000 000	-	4 000 000
AQUASIS	-	636 000	636 000	-	636 000	636 000
Águas do Brasil	105 800	-	105 800	105 800	-	105 800
Trevo Oeste	55 757	-	55 757	55 757	-	55 757
AdP Energias	-	-	-	1 200 000	-	1 200 000
	688 172 466	58 278 000	746 450 466	496 451 557	10 850 684	507 302 241
Accumulated impairment losses (Note 13) (a)	(1 389 041)	-	(1 389 041)	(3 845 670)	-	(3 845 670)
	686 783 425	58 278 000	745 061 425	492 605 887	10 850 684	503 456 571

(a) On 31 December 2017 and 2016, the losses for accumulated impairments refer to the advances provided to AdP Internacional

These advances correspond to loans repayable over a period of greater than one year and treasury support corresponding to loans repayable in periods of less than one year.

On 31 December 2017, the current asset item “Group companies” still included the amount of €1,000,000 relative to an advance provided for the holding AdP Energias to raise its capital.

On 31 December 2016, the current asset item “Group companies” still included the amount of €3,249,246 (Note 18) relative to the amounts receivable from holdings that were included in RETGS – the Special Regime for Corporate Group Taxation, as detailed below:

Consolidated tax	2016
AdP Serviços	(172 927)
Águas de Santo André	391 230
EPAL	3 169 077
AdP Energias	1 556
AQUASIS	130
AdP Internacional	(139 820)
	3 249 246

8.1 Movements in the period

	31.12.2016	Reinforcements	Reimbursements	Transfers	Demerger	31.12.2017
Advances						
Águas do Norte	249 340 000	44 360 000	(1 818 182)	88 118 000	(80 000 000)	299 999 818
Águas do Vale do Tejo	67 450 000	88 550 000	(40 454 546)	(18 000 000)	-	97 545 454
Águas do Centro Litoral	73 000 000	9 375 000	(3 254 545)	(2 200 000)	-	76 920 455
AgdA - Águas Públicas do Alentejo	42 000 000	-	(227 273)	8 227 000	-	49 999 727
AdRA - Águas da Região de Aveiro	23 300 000	3 550 000	(454 545)	23 150 000	-	49 545 455
Águas do Douro e Paiva	-	-	-	-	44 000 000	44 000 000
SIMDOURO	-	-	-	-	36 000 000	36 000 000
Águas do Algarve	30 000 000	10 000 000	(10 000 000)	-	-	30 000 000
AdP Internacional	6 000 000	-	(4 000 000)	-	-	2 000 000
AdP Serviços	4 000 000	-	(2 000 000)	-	-	2 000 000
Águas do Brasil	105 800	-	-	-	-	105 800
Trevo Oeste	55 757	-	-	-	-	55 757
AdP Energias	1 200 000	-	(1 200 000)	-	-	-
	496 451 557	155 835 000	(63 409 091)	99 295 000	-	688 172 466

	31.12.2016	Reinforcements	Reimbursements	Transfers	Demerger	31.12.2017
Treasury support						
Águas do Vale do Tejo	-	15 000 000	(3 000 000)	18 000 000	-	30 000 000
Águas do Algarve	-	16 750 000	(7 000 000)	-	-	9 750 000
Águas do Norte	7 744 684	113 900 000	(26 044 684)	(88 118 000)	-	7 482 000
SIMDOURO	-	3 100 000	-	-	-	3 100 000
Águas do Centro Litoral	1 700 000	-	(1 700 000)	2 200 000	-	2 200 000
AdP Internacional	770 000	1 150 000	(270 000)	-	-	1 650 000
AdP Serviços	-	1 437 000	-	-	-	1 437 000
AdRA - Águas da Região de Aveiro	-	24 500 000	(250 000)	(23 150 000)	-	1 100 000
AgdA - Águas Públicas do Alentejo	-	12 500 000	(3 350 000)	(8 227 000)	-	923 000
AQUASIS	636 000	140 000	(140 000)	-	-	636 000
AdP Energias	-	20 000	(20 000)	-	-	-
	10 850 684	188 497 000	(41 774 684)	(99 295 000)	-	58 278 000
	507 302 241	344 332 000	(105 183 775)	-	-	746 450 466

9. Clients

	2017	2016
Águas do Norte	1 095 351	611 402
Águas do Vale do Tejo	433 474	(4 459)
EPAL	235 746	11 497
Águas do Tejo Atlântico	189 709	-
SIMARSUL	140 015	-
Águas do Douro e Paiva	118 424	-
AgdA - Águas Públicas do Alentejo	117 754	28 361
AdRA - Águas da Região de Aveiro	96 591	2 754
AdP Internacional	87 898	27 501
Águas do Algarve	85 123	77 179
Águas do Centro Litoral	73 184	-
Águas de Santo André	32 655	89 986
AdP Serviços	20 285	133 542
SIMDOURO	16 525	-
Trevo Oeste	6 425	5 149
AdP Energias	1 170	6 671
AQUASIS	-	2 622
Other client balances	6 746	6 417
Additional income	1 876 953	-
	4 634 028	998 622

On 31 December 2016, the additional earnings are recorded in the item "Other accounts payable" (Note 10).

10. Other accounts receivable - current

	2017	2016
State and other public entities	807 286	807 286
Bank charges	329 634	378 899
Insurance	134 539	77 149
Other trade payables balances	28 762	27 515
Term deposits interest	-	10 099
Income to be billed (Note 9)	-	1 305 506
	1 300 221	2 606 454

11. Cash and cash equivalents

	2017	2016
Current accounts	2 295 453	7 188 977
Term deposits	-	107 800 000
Cash	431	181 275
	2 295 884	115 170 252

The amount shown as cash available in 2016 arises from cheques received towards year end but only deposited in early January.

12. Equity

Shareholders as at 31.12.2017	% 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
	100%	434 500 000	86 900 000	

12.1 Net income and comprehensive earnings per share

	2017	2016
Net financial year profit	62 939 863	37 757 936
Number of shares	86 900 000	86 900 000
Earnings per share	0.72	0.43

	2017	2016
Comprehensive income	63 776 000	37 790 200
Number of shares	86 900 000	86 900 000
Earnings per share	0.73	0.43

13. Provisions

	2017	2016
Other liabilities	5 000 000	5 000 000
Fiscal contingencies	745 000	-
Costs from the sale of EGF	340 139	389 931
Contractual responsibilities	-	1 400 000
	6 085 139	6 789 931

The provision for "Other liabilities" refers to an ongoing judicial process against the Company.

In 2017, the Company established a provision against fiscal contingencies associated with the application to the RETGS in 2015 and 2016.

The provision recognised for contractual responsibilities on 31 December 2016 interrelates with potential liabilities from the sale of the stake in EGF. Following the sale of EGF and with the non-existence of any 2016 provisions for responsibilities, this provision was annulled in 2017.

13.1 Movements in the period

The movement occurring in the imparities and provisions in the financial year closing on 31 December 2017 was as follows:

	2016	Allocation	Reversion	Utilisation	Transfers	2017
		(Nota 27)	(Nota 27)			
Financial holding imparities (Note 7)	13 861 769	1 612 528	-	-	2 456 628	17 930 925
Imparities in advances provided (Note 8)	3 845 670	-	-	-	(2 456 628)	1 389 042
Provisions	6 789 931	745 000	(1 400 000)	(49 792)	-	6 085 139
	24 497 370	2 357 528	(1 400 000)	(49 792)	-	25 405 106

14. Loans

	2017	2016
Shareholder loans	564 772 727	571 590 909
Non-current loans	564 772 727	571 590 909
Shareholder loans	6 818 182	3 409 091
Current loans	6 818 182	3 409 091
Loans – total	571 590 909	575 000 000

14.1 Loans by maturity

	2017	2016
Up to 1 year	6 818 182	3 409 091
1 to 2 year	6 818 182	6 818 182
2 to 3 years	6 818 182	6 818 182
3 to 4 years	6 818 182	6 818 182
4 to 5 years	156 818 182	6 818 182
Over 5 years	387 500 000	544 318 182
	571 590 909	575 000 000

14.2 Loans by interest rate type

Floating interest rate	2017	2016
Up to 1 year	6 818 182	3 409 091
1 to 2 years	6 818 182	6 818 182
2 to 3 years	6 818 182	6 818 182
Over 3 years	551 136 364	557 954 545
	571 590 909	575 000 000

15. Derivative financial instruments

Swap	Risk hedged	Notional	Maturity	J.V. 2017	J.V. 2016	In profit or loss 2017 (Nota 26)	In comprehensive income 2017
City Bank - int. rate	Interest rate	50 000 000	2027	-	(11 734 574)	619 024	-
BBVA – int. rate (a)	Interest rate	20 000 000	2023	(3 770 757)	(4 606 894)	-	836 137
Total				(3 770 757)	(16 341 468)	619 024	836 137

(a) AdP pays a fixed rate and receives a variable rate. Option for cancellation by the bank in 2020.

AdP SGPS makes recourse to derivatives solely to manage its exposure to financial risks. AdP SGPS does not use derivatives for speculation in accordance with its financial policies. Even though the derivatives contracted by AdP SGPS 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 fair value and any subsequent changes are recognised in profit or loss. Derivative fair value estimations incorporate listed instruments, whenever available. In the absence of such market prices, the derivative fair value 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 regularly adjusted and any gains or losses resulting from this revaluation are recorded directly in the income statement for the period, except for 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 in effect.

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. AdP SGPS carried out evaluations of the effectiveness of these instruments and with the results within the 80% to 125% range.

In 2017, the derivative contract with a notional value of €50 million was cancelled in advance by the bank in keeping with the contractually defined conditions and thereby settling the sum of €11,115,550.

16. Group companies (current liabilities)

	2017
EPAL	60 000 000
Águas do Tejo Atlântico	57 000 000
SIMARSUL	3 000 000
	120 000 000

The loans obtained by Group companies are contracted for periods of less than 12 months and are remunerated.

17. Trade payables

	2017	2016
Trade payables current account - Portugal	207 765	149 364
Trade payables current account – Group companies	1 220 732	1 359 216
	1 428 497	1 508 580

18. Taxation on earnings in the financial year

The balance of taxation on earnings payable on 31 December 2017 and 2016 holds the following composition:

	2017	2016
Estimate of tax for the financial year	5 835 498	3 418 188
Advance payments of taxation on earnings	(1 975 237)	(1 482 378)
Taxation withheld at source by third parties	(277 008)	(678 885)
Additional taxation on earnings payments	(403 518)	(344 709)
Others	-	65 603
Current taxation for the fiscal perimeter (Note 8)	-	3 249 246
Taxation payable	3 179 735	4 227 065

On 31 December 2017 and 2016, the fiscal burden contained the following composition:

	2017	2016
Estimate of financial year taxation	(5 835 498)	(3 418 188)
IRC – corrections to taxation from previous years	13 233	(362 277)
Taxation on financial year earnings	(5 822 265)	(3 780 465)
Pre-tax results	68 762 128	41 538 401
Effective taxation rate	8.47%	9.10%

On 31 December 2017 and 2016, the reconciliation of the nominal tax rate and the effective tax rate is as follows:

	2017			2016		
	Base	Rate	Taxation	Base	Rate	Taxation
Pre-tax result	68 762 128			41 538 401		
Nominal tax rate (*)	1 500 000	22.50%	337 500	1 500 000	22.50%	337 500
	6 000 000	25.50%	1 530 000	6 000 000	25.50%	1 530 000
	27 500 000	27.50%	7 562 500	27 500 000	27.50%	7 562 500
	33 762 128	29.50%	9 959 828	6 538 401	29.50%	1 928 828
Expected tax		28.20%	19 389 828		27.35%	11 358 828
Permanent differences:						
- Dividends	(49 202 008)	(20.18%)	(13 874 185)	(33 197 429)	(21.85%)	(9 077 959)
- Fines and penalties	5 113	0.00%	1 442	2 784	0.00%	761
- Unaccepted provisions	745 000	0.31%	210 078	-	0.00%	-
- Gains from the disposal of financial holdings	-	0.00%	-	(696 000)	(0.46%)	(190 324)
- Others	745	0.00%	210	(12 057)	(0.01%)	(3 297)
Provisions and imparities temporarily unaccepted, without assets for liable deferred taxation	1 612 528	0.66%	454 707	5 498 009	3.62%	1 503 451
Savings on the State Surcharge		(0.51%)	(348 115)		(0.42%)	(174 691)
Corrections to taxation paid in previous years		(0.02%)	(13 233)		0.87%	362 277
Autonomous taxation		0.00%	1 533		0.00%	1 418
Estimated IRC for the financial year		8.47%	5 822 265		9.10%	3 780 465

(*) Taxation on the earnings of Collective Entities (21%) + Municipal Surcharge (1.5%) + State Surcharge on earnings over €6,000,000 (2%) + State Surcharge on earnings over €27,500,000 (5%) + State Surcharge on taxable profits in excess of €35,000,000 (7%).

19. Other current liabilities

	2017	2016
Interest payable	1 052 037	1 035 829
Holidays and holiday pay	495 966	543 903
Sundry accrued expenses	477 517	270 949
State and other public entities	461 400	518 641
Subsidies receivable	210 712	-
Group companies – consolidated tax	117 300	-
Other creditors	5 599	20 820
	2 820 531	2 390 142

19.1 State and other public entities

	2017	2016
VAT	304 422	331 179
Social Security	79 801	93 100
Tax withheld at source (employees and other income)	73 431	90 376
Other taxation	3 746	3 986
	461 400	518 641

20. Services provided

	2017	2016
EPAL	2 151 084	2 081 202
Águas do Norte	1 340 815	2 085 583
Águas do Douro e Paiva	578 606	-
SIMDOURO	189 063	-
Águas do Vale do Tejo	1 072 054	2 236 399
Águas do Tejo Atlântico	1 186 645	-
SIMARSUL	208 455	-
AdRA - Águas da Região de Aveiro	1 017 641	982 078
Águas do Algarve	888 263	853 255
Águas do Centro Litoral	710 180	672 875
Águas de Sto André	305 613	437 481
AdP Serviços	166 750	171 654
AgdA - Águas Públicas do Alentejo	160 971	345 287
	9 976 140	9 865 814

The services provided correspond to a management fee charged to Group companies.

21. Supplies and services

	2017	2016
Specialised work – Technical assistance (AdP Serviços / AQUASIS)	2 096 848	2 564 850
Specialised work - Inspection	89 212	54 349
Specialised work – Financial counselling	141 724	112 917
Specialised work – Legal counselling	154 078	68 820
Specialised work – IT consultancy	43 029	2 424
Specialised work – Property leasing	1 049 699	1 240 461
Specialised work – Other	213 585	25 733
Advertising and public relations	184 860	200 427
Rents and leases	119 843	196 150
Travel and accommodation	62 040	47 680
Other supplies and services	404 223	245 945
	4 559 141	4 759 756

Expenditure on technical assistance essentially corresponds to the costs of financial, juridical and IT consultancy charged in their entirety to Group companies, in particular by AdP Serviços that undertakes the provision of shared services to the Águas de Portugal Group.

22. Personnel costs

	2017	2016
Governing bodies remuneration	419 510	324 930
Personnel remuneration	2 793 719	3 085 501
Compensations	279 788	32 516
Remuneration charges	754 051	799 710
Other personnel costs	268 193	270 348
	4 515 261	4 513 005

In 2017, the items "Personnel costs" includes the settlement of income totalling €42,150 relative to operating subsidiaries.

22.1 Remuneration of governing bodies

	2017	2016
Board of Directors	363 731	260 328
Supervisory Board	31 967	41 642
Chartered Accountant	23 812	22 960
	419 510	324 930

22.2 Average number of employees

Type	Average number		Year-end	
	2017	2016	2017	2016
Board of Directors	6	5	6	5
Supervisory Board	3	3	3	3
Staff members / temporaries	55	59	47	56
	64	67	56	64

23. Other operating expenses

	2017	2016
Tax and rates	2 525	22 782
Donations and members fees	40 355	28 150
Other non-usual expenses and losses	11 275	33 812
	54 155	84 744

24. Other operational income

	2017	2016
Supplementary earnings	165 325	48 542
Investment grants (innovation)	13 281	120 501
Other income and operational gains	14 268	-
	192 874	169 043

The supplementary earnings result from the debits corresponding to the remuneration for positions held by AdP SGPS members of staff on the management bodies of companies in which the Company holds capital stakes.

25. Financial expenses

	2017	2016
Interest incurred – Shareholder loans	4 223 136	4 685 756
Interest incurred – Group company loans	148 678	-
Interest incurred - Other interest	4 201	42 499
Late payment of interest	5 017	-
Fair value of financial instruments	-	1 307 440
Other financial costs and losses	84 463	661 745
Banking fees	2 628 710	2 747 679
	7 094 205	9 445 119

26. Financial income

	2017	2016
Cash support interest and group company loans	12 475 264	12 633 842
Fees	8 578 277	9 187 628
Derivative financial instruments – fair value (Note 15)	619 024	-
Term deposit interest	39 992	89 561
Other financial income	8 647	-
	21 721 204	21 911 031

27. Financial shareholdings income

	2017	2016
EPAL	39 777 840	25 925 508
Águas de Santo André	5 000 000	69 810
Águas do Algarve	3 794 830	6 719 353
AdRA - Águas da Região de Aveiro	521 032	412 379
AgdA - Águas Públicas do Alentejo	108 305	70 379
Dividends (a)	49 202 007	33 197 429
Losses per impairment of financial investments (Note 13)	(1 612 528)	(4 098 009)
Capital gains from the disposal of bonds	1 076 917	-
Capital gains from the sale of the financial stake in EGF (b)	5 173 297	(704 000)
	53 839 693	28 395 420

(a) The amounts presented correspond to the dividends declared and paid to AdP, SGPS.

(b) In 2017, this capital gain accounts for the sale of the 5% stake held in EGF, which was settled by the reversion of the provision established for the total of €1,400,000 (Note 13). In 2016, the loss stemmed from adjustments to the contractually stipulated price (receipt of €696,000 and expenditure inherent to the sale process - provision of €1,400,000).

28. Balances and transactions with related parties

28.1 Related parties

On 31 December 2017, the AdP SGPS related parties are the following:

- Shareholders (Parpública, SGPS, S.A. and Parcaixa, SGPS, S.A.)
- Entities held by AdP SGPS (Note 2.2);
- Members of the Board of Directors of AdP SGPS;
- Members of the Boards of Directors of shareholders.

28.2 Balances with related parties

On 31 December 2017, the balances (net of imparities) with the related parties are the following:

	Assets				Liabilities			
	Advances	Clients	Group companies	Total	Group company loans	Suppliers	Other payables	Total
Total item balance	686 783 425	4 634 028	59 278 000	750 695 453	120 000 000	1 428 497	2 820 531	124 249 028
Águas do Norte	299 999 818	1 979 279	7 482 000	309 461 097	-	-	4 286	4 286
Águas do Vale do Tejo	97 545 454	640 538	30 000 000	128 185 992	-	-	-	-
Águas do Centro Litoral	76 920 455	259 495	2 200 000	79 379 950	-	-	-	-
AgdA - Águas Públicas do Alentejo	49 999 727	259 482	923 000	51 182 209	-	-	-	-
AdRA - Águas da Região de Aveiro	49 545 455	268 389	1 100 000	50 913 844	-	-	-	-
Águas do Douro e Paiva	44 000 000	126 964	-	44 126 964	-	-	-	-
Águas do Algarve	30 000 000	261 657	9 750 000	40 011 657	-	-	-	-
SIMDOURO	36 000 000	20 485	3 100 000	39 120 485	-	-	-	-
AdP Internacional	610 959	97 887	1 650 000	2 358 846	-	12 362	167 793	180 155
AdP Serviços	2 000 000	20 625	1 437 000	3 457 625	-	1 208 370	64 575	1 272 945
AQUASIS	-	823	636 000	636 823	-	-	42 240	42 240
Águas do Brasil	105 800	-	-	105 800	-	-	-	-
Trevo Oeste	55 757	6 425	-	62 182	-	-	-	-
AdP Energias	-	2 321	1 000 000	1 002 321	-	-	(3 663)	(3 663)
EPAL	-	235 746	-	235 746	60 000 000	-	(43 465)	59 956 535
Águas do Tejo Atlântico	-	256 629	-	256 629	57 000 000	-	-	57 000 000
SIMARSUL	-	163 015	-	163 015	3 000 000	-	-	3 000 000
Águas de Santo André	-	22 989	-	22 989	-	-	(3 282)	(3 282)
Total of intra-group balances	686 783 425	4 622 749	59 278 000	750 684 174	120 000 000	1 220 732	228 484	121 449 216
Total of non-group balances	-	11 279	-	11 279	-	207 765	2 592 047	2 799 812

28.3 Transactions with related parties

In the financial year ending on 31 December 2017, the transactions with related parties were the following:

	Services provided	Supplies and services	Other operating income and gains	Financial expenses	Financial income	Gains on shareholdings	Total
Total balance of item	9 976 140	(4 559 141)	192 874	(7 094 205)	21 721 204	53 839 693	74 076 565
Águas do Norte	1 340 815	989	5 000	-	8 876 464	-	10 223 268
Águas do Vale do Tejo	1 072 054	-	-	-	4 311 031	-	5 383 085
Águas do Centro Litoral	710 180	-	3 000	-	2 541 474	-	3 254 654
AgdA - Águas Públicas do Alentejo	160 971	7 974	73 110	-	1 046 020	108 305	1 396 380
AdRA - Águas da Região de Aveiro	1 017 641	-	35 631	-	819 848	521 032	2 394 152
Águas do Douro e Paiva	578 606	-	-	-	138 858	-	717 464
Águas do Algarve	888 263	-	2 382	-	2 002 839	3 794 830	6 688 314
SIMDOURO	189 063	-	-	-	39 628	-	228 691
AdP Internacional	-	(18 819)	1 000	-	100 539	(1 612 528)	(1 529 808)
AdP Serviços	166 750	(3 147 765)	1 000	-	42 654	-	(2 937 361)
AQUASIS	-	(45 796)	1 000	-	13 773	-	(31 023)
AdP Energias	-	-	1 000	-	21 521	-	22 521
EPAL	2 151 084	20 201	9 000	(135 556)	-	39 777 840	41 822 569
Águas do Tejo Atlântico	1 186 645	5 654	-	(12 956)	809 305	-	1 988 648
SIMARSUL	208 455	7 804	-	(167)	288 292	-	504 384
Águas de Santo André	305 613	-	57 761	-	-	5 000 000	5 363 374
Total of intra-group transactions	9 976 140	(3 169 758)	189 884	(148 679)	21 052 246	47 589 479	75 489 312
Total of non-group transactions	-	(1 389 383)	2 990	(6 945 526)	668 958	6 250 214	(1 412 747)

29. Contingent assets and liabilities

The financial commitments and liabilities of the Company not otherwise included in the Financial Accounting Report are the following:

	Financial institutions 2017	Financial institutions 2016
Guarantees	1 382 157 615	1 534 286 508
Letters of assurance	-	5 000 000
Sureties	40 558 078	106 038 100
	1 422 715 693	1 645 324 608

30. Information required by legal diploma

Of the information legally required by other diplomas, specifically articles 66, 324, 397, 447 and 448 of the CSC – the Commercial Company Code, the legal stipulations under the auspices of Decree-law no. 328/95, 9 December, and the terms referred to in Decree-law no. 41 I/91, 17 October, we would here state that:

- a) In compliance with that stipulated by no. 2 of article 324 of the CSC, the Company does not own any of its own shares and has thus far never engaged in any dealings involving shares of this nature.
- b) In compliance with that stipulated by no. 4 of article 397 of the CSC, the Company and the members of its management bodies did not engage in any form of business over the course of 2017.
- c) In compliance with that stipulated by article 21 of Decree-law no 41 I/91 of 17 September, the Company furthermore states that it holds no overdue debt to any social security scheme with the balances accounted for on 31 December 2017 for the retention of taxation and contributions refer to the month of December with their payment having taken place in January 2018, within the legal deadlines.

Lisbon, 13 April 2018

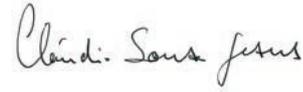
The Board of Directors



João Nuno Marques de Carvalho Mendes
(Chair)



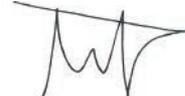
Carla da Conceição Afonso Correia
(Executive Vice-Chair)



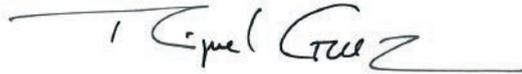
Cláudio Miguel André Sousa Jesus
(Executive Director)



José Manuel Leitão Sardinha
(Executive Director)



Juan Miguel Martín Iglesias
(Executive Director)



Miguel Jorge de Campos Cruz
(Non-Executive Director)

Chartered Accountant



Carla Isabel Costa Pinto Ribeiro

SUPERVISORY BOARD'S REPORT AND OPINION ON THE INDIVIDUAL ACCOUNTING STATEMENTS

I. FRAMEWORK

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 and relating to the 2017 financial year.
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 Article 420 of the Commercial Companies Code.
4. Under the powers invested 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 report by the non-executive director on the performance of the executive directors provides a globally positive appreciation of their performance in 2017 even while not quantifying their compliance with the annual objectives set for the current mandate.

II – Assessment of documents and accounts

6. The Annual Report and Accounts for 2017 provide information on compliance with the sustainability goals, even though the complete analysis of the group in the economic, social, environment, innovation and equality fields is described in the Sustainability Report for 2017, which shows material compliance with those goals.
7. The disclosure obligations set out in Article 44 of Decree-Law 133/2013 of 3 October have been complied with as regards the annual publication of accounts analysed herein.
8. In the field of compensation of employees and governing bodies, the remuneration guidelines in force in 2017 have been complied with.
9. The monitoring of the company carried out generally verified compliance with the legal orientations. Nevertheless, as regards compliance with the Principle of the State Treasury Unit, there was the recourse to commercial banking services made at the end of the year and for a

short period of time, justified by the management body due to the non-availability of services otherwise rendered by the IGCP.

10. This should highlight the implementation of a centralised policy for managing the financing and cash flow available to the Adp Group that resulted from an increase in the exposure of AdP, SGPS, SA to Group companies even while this remains in keeping with that approved in the Activity Plan and Budget.
11. As regards compliance with the targets set by the Activity Plan and Budget approved by the General Assembly on 29 May, the results obtained achieve the majority of the targets defined in accordance with the accounting documents with the exception of individual debt levels (including intra-group), which exceeded those forecast to result from the implementation of a centralised treasury policy.
12. It should be pointed out that the limits established by the shareholders at the General Meeting of 31 May 2016 for the 2016-2018 term were not fully complied with, which was due to professional use.
13. Within the framework of inspecting the effectiveness of the internal control and internal audit systems, AdP, S.G.P.S. undertook studies to ascertain the appropriateness of the current internal control model and embarked on revising the regulations, manuals and other documents framing the adopted policy. The Supervisory Board understands that, at the end of the holding company demerger processes, the conclusion of the aforementioned works should become a key priority.
14. As regards compliance with the legislation in effect, specifically the application of the Public Contract Code, the Supervisory Board received notification of the conclusion of a Procurement Manual in keeping with the recommendations handed down by the Court of Audit following its Audit of 07/17 -2nd Section.
15. The Corporate Governance Report presented to this 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.
16. The Supervisory Board is familiar with the report issued by the external auditors on its separate accounts, and has no objections to its content.
17. The Supervisory Board examined the Legal Certification of Accounts issued as required by law by the Statutory Auditor. This Legal Certification of Accounts includes the areas of relevance in the audit and other legal requirements, which are considered to have been reproduced herein. The Supervisory Board is in agreement with them and is familiar with the additional report of the Statutory Auditor on its respective procedures.
18. 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 2017, 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 position of AdP - Águas de Portugal, S.G.P.S., S.A. as at 31 December 2017 and the way in which both the results were formed and the business activity was performed.

AdP – Águas de Portugal, SGPS, S.A.
Rua Visconde de Seabra 3 • 1700-421 Lisboa • Portugal
Tel: 212 469 400 (10400) • Fax: 212 469 531 • email: info@adp.pt • www.adp.pt

19. 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 Individual Annual Report and Accounts for 2017;
- b) The appropriation of profits proposed by the Board of Directors in its report.

Lisbon, 23 April 2018

THE SUPERVISORY BOARD

Carla Maria Lamego Ribeiro
(Chair)

Mário José Alveirinho Carrega
(Member)

Ana Luisa Videira Gomes
(Member)

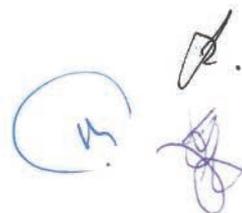
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Legal person and registration number – 530 097 746 • Lisbon Company Registry Office • Share capital EUR 64.500.000

RELATÓRIO E PARECER DO CONSELHO FISCAL SOBRE OS DOCUMENTOS DE PRESTAÇÃO DE CONTAS SEPARADAS

I. ENQUADRAMENTO

- 1 – Em cumprimento das disposições legais e estatutárias aplicáveis, o Conselho Fiscal emite o presente Relatório e Parecer sobre o Relatório de Gestão e restantes documentos de prestação de contas separadas da sociedade AdP – Águas de Portugal, S.G.P.S., S.A., apresentadas pelo Conselho de Administração, relativamente ao exercício de 2017.
- 2 – O Conselho Fiscal acompanhou a gestão da AdP – Águas de Portugal, SGPS, SA, e a evolução dos seus negócios, designadamente mediante contatos com os seus principais responsáveis, bem como através da leitura das atas das reuniões do seu Conselho de Administração e da sua Comissão Executiva. Efetuou reuniões com regularidade, nas quais, por via de regra, contou com a presença do Administrador responsável pelo pelouro financeiro e do Revisor Oficial de Contas. O Conselho Fiscal obteve todos os esclarecimentos solicitados e dispôs da documentação que considerou necessária ao desempenho das suas funções de fiscalização.
- 3 – O Conselho Fiscal procedeu ainda à análise do cumprimento das normas legais e estatutárias aplicáveis, e exerceu as suas competências em conformidade com o estabelecido no artigo 420.º do Código das Sociedades Comerciais.
- 4 – No âmbito das competências que são atribuídas pelos números 1 e 3, do artigo 33.º do Decreto-Lei n.º 133/2013, de 3 de outubro, o Conselho Fiscal verificou o cumprimento pela sociedade das obrigações aí estabelecidas, tendo emitido os Relatórios Trimestrais que foram remetidos às entidades competentes.
- 5 – O Relatório do Administrador não executivo sobre o desempenho dos Administradores executivos referencia uma apreciação globalmente positiva do desempenho destes em 2017, ainda que, não quantificada quanto ao cumprimento dos objetivos anuais fixados para o atual mandato.



II. AVALIAÇÃO DOS DOCUMENTOS DE PRESTAÇÃO DE CONTAS

- 6 – O Relatório de Gestão e Contas de 2017 apresenta informação relativa ao cumprimento de objetivos de sustentabilidade. Não obstante, a análise completa para o Grupo nos domínios económico, social, ambiental, inovação e igualdade consta do Relatório de Sustentabilidade 2017, revelando-se um cumprimento material daqueles.
- 7 – Verifica-se o cumprimento, para a parte respeitante à prestação de contas anual aqui sujeitas a análise, das obrigações de divulgação estabelecidas no artigo 44.º do Decreto-Lei n.º 133/2013, de 3 de outubro.
- 8 – No domínio das remunerações dos trabalhadores e dos órgãos sociais foi dado cumprimento às orientações remuneratórias vigentes em 2017.
- 9 – No acompanhamento efetuado à sociedade verificou-se, de forma geral, o cumprimento das orientações legais. Não obstante, no que respeita ao cumprimento do Princípio da Unidade de Tesouraria do Estado, observou-se o recurso a serviços da banca comercial no final do ano e por um curto período de tempo, justificado pelo órgão de gestão na indisponibilidade de serviços prestados pelo IGCP.
- 10 – Deverá ser destacado a implementação de uma política centralizada de gestão de financiamento e disponibilidades pelo Grupo Adp que resultou num aumento da exposição da AdP, SGPS, SA às empresas do Grupo, ainda que a mesma tenha sido prevista no Plano de Atividades e Orçamento aprovado.
- 11 – No que se refere ao cumprimento das metas estabelecidas no Plano de Atividades e Orçamento aprovado em Assembleia Geral de 29 de maio, os resultados obtidos alcançaram na generalidade as metas definidas conforme consta dos documentos de prestação de contas com exceção do endividamento individual (incluindo intra-grupo), que excedeu o previsto em resultado da implementação de uma política centralizada de tesouraria.



- 12 – Deverá ser relevado que os limites relativos aos plafonds de comunicações definidos pelos acionistas, na Assembleia Geral de 31 de maio de 2016 para o mandato 2016/2018, não foram integralmente cumpridos, decorrendo esta circunstância de utilização profissional.
- 13 – No âmbito da fiscalização da eficácia dos sistemas de controlo interno e da auditoria interna, a AdP, S.G.P.S. desencadeou os trabalhos para aferir a adequabilidade do modelo de controlo interno atual, e iniciou a revisão dos regulamentos, manuais ou outros documentos enquadradores da política seguida. O Conselho Fiscal entende que, findo processo de cisões das empresas participadas, deve a conclusão dos trabalhos acima enunciados assumir caráter prioritário.
- 14 – No que respeita ao cumprimento da legislação vigente, designadamente à aplicação do Código dos Contratos Públicos, foi o Conselho Fiscal informado da conclusão de um Manual de Compras em linha com as recomendações emitidas pelo Tribunal de Contas, na sua Auditoria 07/17 – 2.ª Secção.
- 15 – O Relatório de Governo Societário apresentado a este Conselho Fiscal inclui informação atual, completa e relevante sobre as matérias reguladas na Secção II (Práticas de Bom Governo) do Capítulo II do Decreto-Lei n.º 133/2013, de 3 de outubro.
- 16 – O Conselho Fiscal tomou conhecimento do Relatório emitido pelos Auditores Externos sobre as contas separadas, nada havendo a objetar quanto ao seu conteúdo.
- 17 – O Conselho Fiscal apreciou a Certificação Legal das Contas, emitida nos termos da legislação em vigor pelo Revisor Oficial de Contas, a qual integra as matérias relevantes de auditoria e os outros requisitos legais, que aqui se dá como reproduzidos, que mereceu o seu acordo e tomou conhecimento do respetivo relatório adicional do mesmo Revisor Oficial de Contas sobre a fiscalização efetuada.
- 18 – Em consequência do trabalho desenvolvido, o Conselho Fiscal considera que o Relatório do Conselho de Administração e as Demonstrações Financeiras separadas (as quais compreendem a Demonstração da posição financeira em 31 de dezembro de 2017, as Demonstrações dos resultados por naturezas e do rendimento integral, a Demonstração das

variações do capital próprio, a Demonstração dos fluxos de caixa do exercício findo naquela data e as Notas às Demonstrações Financeiras), são adequados à compreensão da situação patrimonial da AdP – Águas de Portugal, SGPS, SA em 31 de dezembro de 2017, e da forma como se formaram os resultados e se desenrolou a atividade.

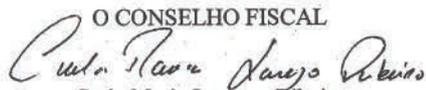
- 19– O Conselho Fiscal salienta toda a colaboração que obteve do Conselho de Administração, através do administrador responsável pelo pelouro financeiro, do Revisor Oficial de Contas e dos Serviços da AdP – Águas de Portugal, SGPS, SA.

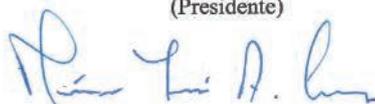
PARECER

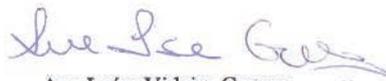
Em consequência do acima referido, o Conselho Fiscal é de parecer favorável a que sejam aprovados pela Assembleia-Geral da AdP – Águas de Portugal, S.G.P.S., S.A.:

- a) O Relatório de Gestão e as Contas separadas referentes ao exercício de 2017;
- b) A proposta de aplicação de resultados formulada pelo Conselho de Administração no seu Relatório.

Lisboa, 23 de abril de 2018

O CONSELHO FISCAL

Carla Maria Lamego Ribeiro
(Presidente)


Mário José Alveirinho Carrega
(Vogal)


Ana Luísa Videira Gomes
(Vogal)

Legal Certification of Individual Accounts



ALVES DA CUNHA, A. DIAS & ASSOCIADOS
SOCIEDADE DE REVISORES OFICIAIS DE CONTAS, Lda.

LEGAL CERTIFICATION OF ACCOUNTS

REPORT OF AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the attached financial statements of AdP - Águas de Portugal, S.G.P.S., S.A. (the Entity), which include the Consolidated Statement of Financial Position as at 31 December 2017 (showing a total of EUR 1,460,569,953 and total equity of EUR 751,694,385, including a net profit of EUR 62,939,863), the income statement of the period and the cash flow statement for the financial year ending on that date and the notes to the consolidated financial statements, including a summary of the main accounting policies.

In our opinion, the attached consolidated financial statements give a true, appropriate picture, in all material aspects, of the consolidated financial position of AdP- Águas de Portugal, S.G.P.S., S.A. as at 31 December 2017, its consolidated financial performance and cash flows during the period ended on that date, in accordance with the international financial reporting standards as adopted in the European Union.

Basis for the opinion

Our audit was carried out in accordance with the International Standards on Auditing (ISA) and other standards and technical and ethical guidelines of the Portuguese Statutory Auditors Association. Our responsibilities pursuant to these standards are described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section below. We are independent of the Company pursuant to law and we comply with other ethical requirements under the code of ethics of the Portuguese Statutory Auditors Association.

We are convinced that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Areas relevant to the audit

The areas relevant to the audit are those that, in our professional judgment, were most important in auditing the consolidated financial statements of the current year. These areas should be considered in the context of the audit of the consolidated financial statements as a whole, and also in the formation of the opinion, and we do not express a separate opinion concerning those areas.

Impairment of financial investments in subsidiaries

On 31 December 2017, financial investments in subsidiaries are measured at cost in the amount of EUR 723,630,261 and with corresponding impairments of EUR 17,357,934, hence the net amount of investments in subsidiaries accounts for approximately 48% of assets. Given the relevance of the assets to which they are associated, the recognition (or reversal) of the impairments for these investments is of significant importance in the financial statements under review.

Most significant risks of material misstatement	Summary of our response to the most significant r of material misstatement
<p>The appraisal of the adequacy of impairments for financial investments in subsidiaries involves a high degree of judgment given the need to carry out appropriate tests that always involve the establishment of estimates.</p> <p>In view of the relevance of the financial investments in subsidiaries to the Company's assets as a whole, as well as the degree of judgment associated with the appraisal of the adequacy of the corresponding impairments, it is our understanding that a significant risk is associated with their recognition and/or reversal.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • Obtaining the financial statements and relevant information on the relevant investments, namely that corresponding to the Legal Certifications of the Accounts; • Appraisal of whether or not there are signs of impairment in financial investments in subsidiaries; • Appraisal of the method adopted to test the evidence that led to the recognition of impairments; • Assessment whether the corresponding disclosures in notes 2.2, 7 and 13.1 of the financial statements are adequate.

Responsibilities of the management body and the supervisory body relative to the financial statements

The management body is responsible for:

- preparing the financial statements to give a true and appropriate picture of the financial position, the financial performance and cash flows of the Company in accordance with international accounting standards as adopted in the European Union;
- drawing up the Annual Report, pursuant to applicable law and regulations;
- establishing and maintaining an appropriate internal control system to enable the preparation of financial statements free from material misstatement due to fraud or error;
- adoption of accounting policies and criteria appropriate to the circumstances; and
- assessing the Company's ability to remain a going concern, disclosing, when applicable, matters that may give rise to significant doubts about the going concern of the business.

The supervisory body is responsible for overseeing the preparation and disclosure of the Company's financial information.

Responsibilities of the auditor for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error, and to issue a report stating our opinion. Reasonable assurance is a high level of assurance but it is not a guarantee that an audit performed in accordance with the ISA will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, separately or together, they can reasonably be expected to influence economic decisions of the users taken on the basis of those financial statements.

As part of an ISA audit, we make professional judgments and maintain professional skepticism during the audit and also:

- We identify and assess the material misstatement risk of the financial statements due to fraud or error, we c and perform audit procedures that respond to those risks, and we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is greater than the risk of not detecting material misstatement due to error, since fraud may involve collusion, falsifying, intentional omissions, false statements or overlapping of the internal control;
- We obtain an understanding of the internal control that is relevant to the audit for the purpose of designing audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Company's internal control;
- We assess the adequacy of the accounting policies used and the reasonableness of accounting estimates and respective disclosures made by the management body;
- We reach a conclusion on the appropriation of the use by the management body of the going concern assumption and, based on the audit evidence obtained, whether there is any material uncertainty related to events or conditions that could raise significant doubts about the Company's ability to continue its business activities. If we conclude that there is material uncertainty, we should draw attention in our report to the related disclosures included in the financial statements or, if these disclosures are not appropriate, we should modify our opinion. Our conclusions are based on audit evidence obtained at the date of our report. However, future events or conditions may cause the Company to discontinue its activities;
- We assess the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that ensures an appropriate presentation;
- We communicate to the persons in charge of governance the scope and planned timetable of the audit, among other aspects, as well as significant audit conclusions, including any significant internal control deficiencies identified during the audit;
- We establish, regarding the matters we have communicated to those in charge of governance, including the supervisory body, those found to be most important in the audit of the financial statements of the current year and which are the areas relevant to the audit. We state those areas in our report, except when law or regulations prohibit their public disclosure;
- We declare to the supervisory body that we comply with the relevant ethical requirements regarding independence and we report all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards in place.

Our responsibility also includes verifying whether the information contained in the annual report is consistent with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The Annual Report

It is our opinion, pursuant to Article 451(3) (e) of the Commercial Companies Code, that the annual report was prepared in accordance with applicable legal and regulatory requirements, the information contained therein is in accordance the audited financial statements and, taking into account the knowledge and appraisal of the Company, we hav found any material misstatements.

The additional elements provided for in Article 10 of Regulation (EU) No. 537/2014

In compliance with Article 10 of Regulation (EU) No. 537/2014 of the European Parliament and the Council of 16 April

2014, and in addition to the areas relevant to the audit mentioned above, we also report the following:

- We were elected as the Statutory Auditor of the Company for the first time by a unanimous written resolution in March 2009, for a term of office from 2008 to 2010. We remained in office until the subsequent election at the general shareholder meeting, held on 2 May 2012, when we were elected for a second term, from 2012 to 2014. We were elected for a third term at the general shareholder meeting, held on 16 June 2015, for the period from 2015 to 2017.
- The management body has confirmed to us that it is not aware of the occurrence of fraud or suspected fraud having a material effect on the financial statements. In the planning and performance of our audit according to the ISA, we have maintained professional scepticism and designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. We have not identified, as a result of our work, any material misstatement in the financial statements due to fraud.
- We confirm that the audit opinion we issue is consistent with the additional report we have prepared and delivered to the Company's supervisory body on this same date.
- We declare that we did not provide any services prohibited under Article 77(8) of the Statutes of the Portuguese Statutory Auditors Association and that we maintained our independence from the Company during the performance of the audit.

Lisbon, 16 April 2018

Alves da Cunha, A. Dias & Associados, SROC, Lda.
represented by José Luís Areal Alves da Cunha (Statutory Auditor no. 5 585)



CERTIFICAÇÃO LEGAL DAS CONTAS

RELATO SOBRE A AUDITORIA DAS DEMONSTRAÇÕES FINANCEIRAS

Opinião

Auditámos as demonstrações financeiras anexas da AdP – Águas de Portugal, SGPS, S.A. (a Entidade), que compreendem a demonstração da posição financeira em 31 de dezembro de 2017 (que evidencia um total de 1.460.569.953 euros e um total de capital próprio de 751.694.385 euros, incluindo um resultado líquido de 62.939.863 euros), a demonstração dos resultados do período, a demonstração do rendimento integral, a demonstração das variações do capital próprio e a demonstração dos fluxos de caixa relativas ao ano findo naquela data, bem como as notas às demonstrações financeiras que incluem um resumo das políticas contabilísticas significativas.

Em nossa opinião, as demonstrações financeiras anexas apresentam de forma verdadeira e apropriada, em todos os aspetos materiais, a posição financeira da AdP – Águas de Portugal, SGPS, S.A., em 31 de dezembro de 2017 e o seu desempenho financeiro e fluxos de caixa relativos ao ano findo naquela data de acordo com as normas internacionais de contabilidade tal como adotadas na União Europeia.

Bases para a opinião

A nossa auditoria foi efetuada de acordo com as Normas Internacionais de Auditoria (ISA) e demais normas e orientações técnicas e éticas da Ordem dos Revisores Oficiais de Contas. As nossas responsabilidades nos termos dessas normas estão descritas na secção “Responsabilidades do auditor pela auditoria das demonstrações financeiras” abaixo. Somos independentes da Entidade nos termos da lei e cumprimos os demais requisitos éticos nos termos do código de ética da Ordem dos Revisores Oficiais de Contas.

Estamos convictos de que a prova de auditoria que obtivemos é suficiente e apropriada para proporcionar uma base para a nossa opinião.

Matérias relevantes de auditoria

As matérias relevantes de auditoria são as que, no nosso julgamento profissional, tiveram maior importância na auditoria das demonstrações financeiras do ano corrente. Essas matérias foram consideradas no contexto da auditoria das demonstrações financeiras como um todo, e na formação da opinião, e não emitimos uma opinião separada sobre essas matérias.

Imparidade de investimentos financeiros em subsidiárias

Em 31 de dezembro de 2017, os investimentos financeiros em subsidiárias encontram-se mensurados ao custo pela quantia de 723.630.261 euros e as imparidades que lhe correspondem ascendem a 17.357.934 euros. Pelo que a quantia líquida dos investimentos financeiros em subsidiárias representam cerca de 48% do ativo. Dada a relevância do ativo a que estão associadas, o reconhecimento (ou reversão) das imparidades para estes investimentos assume significativa importância nas demonstrações financeiras em apreço.

Riscos de distorção material mais significativos	Síntese da resposta dada aos riscos de distorção material mais significativos
A apreciação da adequação das imparidades para investimentos financeiros em subsidiárias envolve um elevado grau de julgamento, dada a necessidade de	Os nossos procedimentos de auditoria incluíram, entre outros:

A



Ac

realizar testes apropriados que comportam sempre o estabelecimento de estimativas.

Atenta a relevância dos investimentos financeiros em subsidiárias no conjunto do ativo da Entidade, bem como o grau de julgamento associado à avaliação da adequação das correspondentes imparidades, é nosso entendimento que o risco associado ao seu reconhecimento e/ou reversão é significativo.

- Obtenção das demonstrações financeiras e informação relevante sobre os investimentos em causa, designadamente as correspondentes Certificações legais das contas;

- Apreciação da existência ou não de indícios de imparidade nos investimentos financeiros em subsidiárias;

- Apreciação da metodologia adotada para testar os indícios que conduziram ao reconhecimento de imparidades;

- Avaliação sobre se as correspondentes divulgações nas notas 2.2, 7 e 13.1 às demonstrações financeiras são adequadas.

Responsabilidades do órgão de gestão e do órgão de fiscalização pelas demonstrações financeiras

O órgão de gestão é responsável pela:

- preparação de demonstrações financeiras que apresentem de forma verdadeira e apropriada a posição financeira, o desempenho financeiro e os fluxos de caixa da Entidade de acordo com as normas internacionais de contabilidade tal como adotadas na União Europeia;
- elaboração do relatório de gestão nos termos legais e regulamentares aplicáveis;
- criação e manutenção de um sistema de controlo interno apropriado para permitir a preparação de demonstrações financeiras isentas de distorção material devido a fraude ou erro;
- adoção de políticas e critérios contabilísticos adequados nas circunstâncias; e
- avaliação da capacidade da Entidade de se manter em continuidade, divulgando, quando aplicável, as matérias que possam suscitar dúvidas significativas sobre a continuidade das atividades.

O órgão de fiscalização é responsável pela supervisão do processo de preparação e divulgação da informação financeira da Entidade.

Responsabilidades do auditor pela auditoria das demonstrações financeiras

A nossa responsabilidade consiste em obter segurança razoável sobre se as demonstrações financeiras como um todo estão isentas de distorções materiais devido a fraude ou erro, e emitir um relatório onde conste a nossa opinião. Segurança razoável é um nível elevado de segurança, mas não é uma garantia de que uma auditoria executada de acordo com as ISA detetará sempre uma distorção material quando exista. As distorções podem ter origem em fraude ou erro e são consideradas materiais se, isoladas ou conjuntamente, se possa razoavelmente esperar que influenciem decisões económicas dos utilizadores tomadas com base nessas demonstrações financeiras.

Como parte de uma auditoria de acordo com as ISA, fazemos julgamentos profissionais e mantemos ceticismo profissional durante a auditoria e também:

- identificamos e avaliamos os riscos de distorção material das demonstrações financeiras, devido a fraude ou a erro, concebemos e executamos procedimentos de auditoria que respondam a esses riscos, e obtemos prova de auditoria que seja suficiente e apropriada para proporcionar uma base para a nossa opinião. O risco de não detetar uma distorção material devido a fraude é maior do que o risco de não detetar uma distorção material devido a erro, dado que a fraude pode envolver conluio, falsificação, omissões intencionais, falsas declarações ou sobreposição ao controlo interno;



AC

- obtemos uma compreensão do controlo interno relevante para a auditoria com o objetivo de conceber procedimentos de auditoria que sejam apropriados nas circunstâncias, mas não para expressar uma opinião sobre a eficácia do controlo interno da Entidade;
- avaliamos a adequação das políticas contabilísticas usadas e a razoabilidade das estimativas contabilísticas e respetivas divulgações feitas pelo órgão de gestão;
- concluimos sobre a apropriação do uso, pelo órgão de gestão, do pressuposto da continuidade e, com base na prova de auditoria obtida, se existe qualquer incerteza material relacionada com acontecimentos ou condições que possam suscitar dúvidas significativas sobre a capacidade da Entidade para dar continuidade às suas atividades. Se concluirmos que existe uma incerteza material, devemos chamar a atenção no nosso relatório para as divulgações relacionadas incluídas nas demonstrações financeiras ou, caso essas divulgações não sejam adequadas, modificar a nossa opinião. As nossas conclusões são baseadas na prova de auditoria obtida até à data do nosso relatório. Porém, acontecimentos ou condições futuras podem levar a que a Entidade descontinue as suas atividades;
- avaliamos a apresentação, estrutura e conteúdo global das demonstrações financeiras, incluindo as divulgações, e se essas demonstrações financeiras representam as transações e acontecimentos subjacentes de forma a atingir uma apresentação apropriada;
- comunicamos com os encarregados da governação, entre outros assuntos, o âmbito e o calendário planeado da auditoria, e as conclusões significativas da auditoria incluindo qualquer deficiência significativa de controlo interno identificado durante a auditoria.
- das matérias que comunicamos aos encarregados da governação, incluindo o órgão de fiscalização, determinamos as que foram as mais importantes na auditoria das demonstrações financeiras do ano corrente e que são as matérias relevantes de auditoria. Descrevemos essas matérias no nosso relatório, exceto quando a lei ou regulamento proibir a sua divulgação pública;
- declaramos ao órgão de fiscalização que cumprimos os requisitos éticos relevantes relativos à independência e comunicamos todos os relacionamentos e outras matérias que possam ser percecionadas como ameaças à nossa independência e, quando aplicável, as respetivas salvaguardas.

A nossa responsabilidade inclui ainda a verificação da concordância da informação constante do relatório de gestão com as demonstrações financeiras.

RELATO SOBRE OUTROS REQUISITOS LEGAIS E REGULAMENTARES

Sobre o relatório de gestão

Dando cumprimento ao artigo 451.º, n.º 3, al. e) do Código das Sociedades Comerciais, somos de parecer que o relatório de gestão foi preparado de acordo com os requisitos legais e regulamentares aplicáveis em vigor, a informação nele constante é concordante com as demonstrações financeiras auditadas e, tendo em conta o conhecimento e apreciação sobre a Entidade, não identificámos incorreções materiais.

Sobre os elementos adicionais previstos no artigo 10.º do Regulamento (UE) nº 537/2014

Dando cumprimento ao artigo 10.º do Regulamento (UE) n.º 537/2014 do Parlamento Europeu e do Conselho, de 16 de abril de 2014, e para além das matérias relevantes de auditoria acima indicadas, relatamos ainda o seguinte:

- Fomos eleitos como Revisor Oficial de Contas da Entidade pela primeira vez por deliberação social unânime por escrito de 9 de março de 2009 para um mandato compreendido entre 2008 e 2010, tendo-nos mantido em funções até à nova eleição ocorrida na assembleia geral de acionistas realizada em 2 de maio de 2012 para um segundo mandato compreendido entre 2012 e 2014. Fomos eleitos na assembleia geral de acionistas realizada em 16 de junho de 2015 para um terceiro mandato compreendido entre 2015 e 2017.



- O órgão de gestão confirmou-nos que não tem conhecimento da ocorrência de qualquer fraude ou suspeita de fraude com efeito material nas demonstrações financeiras. No planeamento e execução da nossa auditoria de acordo com as ISA mantivemos o ceticismo profissional e concebemos procedimentos de auditoria para responder à possibilidade de distorção material das demonstrações financeiras devido a fraude. Em resultado do nosso trabalho não identificámos qualquer distorção material nas demonstrações financeiras devido a fraude.

- Confirmamos que a opinião de auditoria que emitimos é consistente com o relatório adicional que preparámos e entregámos ao órgão de fiscalização da Entidade nesta mesma data.

- Declaramos que não prestámos quaisquer serviços proibidos nos termos do artigo 77.º, número 8, do Estatuto da Ordem dos Revisores Oficiais de Contas e que mantivemos a nossa independência face à Entidade durante a realização da auditoria.

Lisboa, 16 de abril de 2018

Alves da Cunha, A. Dias & Associados, SROC, Lda.
representada por José Luís Areal Alves da Cunha (ROC n.º 585)



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Auditor's Report

REPORT OF AUDIT OF INDIVIDUAL FINANCIAL STATEMENTS

Opinion

We have audited the attached financial statements of AdP - Águas de Portugal, S.G.P.S., S.A. (the Company), which include the Statement of Financial Position as at 31 December 2017 (showing a total of EUR 1,460,569,953 and total equity of EUR 751,694,385, including a net profit of EUR 62,939,863), the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement for the financial year ending on that date and the Notes to the financial statements, including a summary of the main accounting policies.

In our opinion, the attached financial statements give a true, appropriate picture, in all material aspects, of the financial position of AdP- Águas de Portugal, S.G.P.S., S.A. as at 31 December 2017, its financial performance and cash flows during the period ending on that date, in accordance with the International Financial Reporting Standards as adopted in the European Union.

Basis for the opinion

Our audit was carried out in accordance with the International Standards on Auditing (ISA) and other standards and technical and ethical guidelines of the Portuguese Statutory Auditors Association. Our responsibilities pursuant to these standards are described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section below. We are independent of the Company pursuant to law and we comply with other ethical requirements under the code of ethics of the Portuguese Statutory Auditors Association.

We are convinced that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Areas relevant to the audit

The areas relevant to the audit are those that, in our professional judgment, were most important in auditing the financial statements of the current year. These areas were considered in the context of the audit of the financial statements as a whole, and also in the formation of the opinion, and we do not express a separate opinion concerning those areas.

We describe below the areas relevant to the audit of the current year:

1. **Impairment test of financial investments in subsidiaries and participated and any associated provisions**



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Audit Report
31 December 2017

Description of the most significant risks of material misstatement

The amount recorded in Financial Investments at 31 December 2017 amounts to EUR 706,278,000 (net of impairments recognised of EUR 17,358,000), representing approximately 48% of total assets of the Entity.

The possible impairment of investments in subsidiaries and holdings measured at cost, and the possible recognition of provisions to cover liabilities relative to creditors of invested companies with negative equity, was considered a relevant area since the carrying amount of these assets is significant and the process of assessing impairment is complex, including the use of estimates.

Summary of our response to the most significant risks of material misstatement

Our approach included the implementation of the following procedures:

- We assessed the assumptions used by the Management Body to evaluate the indications of impairment of financial interests;
- We analysed the Economic and Financial Feasibility Studies (EVEF) of the management companies of the multi-municipal systems, namely the projection of future cash flows and the assumptions underlying them; and
- We assessed the need to establish and/or maintain the provision to cover possible liabilities arising from the equity of some invested companies that are unable to settle their commitments.

Our approach also included the analysis of the disclosures made in notes 2.2, 4.2 and 7, to ensure that the same comply with the provisions of the applicable accounting standards.

Responsibilities of the management body and the supervisory body for the financial statements

The management body is responsible for:

- preparing the financial statements to give a true and appropriate picture of the financial position, the financial performance and cash flows of the Company in accordance with the International Financial Reporting Standards as adopted in the European Union;
- drawing up the Annual Report, including the Corporate Governance Report, pursuant to law and regulations;
- establishing and maintaining an appropriate internal control system to enable the preparation of financial statements free from material misstatement due to fraud or error; adoption of accounting policies and criteria appropriate to the circumstances; and assessing the Company's ability to remain a going concern, disclosing, when applicable, matters that may give rise to significant doubts about the going concern of the business.



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31 December 2017

The supervisory body is responsible for overseeing the preparation and disclosure of the Company's financial information.

Responsibilities of the auditor for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error, and to issue a report stating our opinion. Reasonable assurance is a high level of assurance but it is not a guarantee that an audit performed in accordance with ISA will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, separately or together, they can reasonably be expected to influence economic decisions of the users taken on the basis of those financial statements.

As part of an audit according to the ISA, we make professional judgments and maintain professional scepticism during the audit and also:

- We identify and assess the material misstatement risk of the financial statements due to fraud or error, we design and perform audit procedures that respond to those risks, and we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is greater than the risk of not detecting material misstatement due to error, since fraud may involve collusion, falsifying, intentional omissions, false statements or overlapping of the internal control;
- We obtain an understanding of the internal control that is relevant to the audit for the purpose of designing audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Company's internal control;
- We assess the adequacy of the accounting policies used and the reasonableness of accounting estimates and respective disclosures made by the management body;
- We reach a conclusion on the appropriation of the use by the management body of the going concern assumption and, based on the audit evidence obtained, whether there is any material uncertainty related to events or conditions that could raise significant doubts about the Company's ability to continue its business activities. If we conclude that there is material uncertainty, we should draw attention in our report to the related disclosures included in the financial statements or, if these disclosures are not appropriate, we should modify our opinion. Our conclusions are based on audit evidence obtained at the date of our report. However, future events or conditions may cause the Company to discontinue its activities;
- We assess the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that ensures an appropriate presentation.
- We communicate to the persons in charge of governance, including the supervisory body, the scope and planned timetable of the audit, among other aspects, as well as significant audit conclusions, including any significant internal control deficiencies identified during the audit;
- We establish, regarding the matters we have communicated to those in charge of governance, including the supervisory body, those found to be most important in the audit of the financial statements of the current year and which are the areas relevant to



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Audit Report
31 December 2017

the audit. We state those areas in our report, except when law or regulations prohibit their public disclosure; and

- We declare to the supervisory body that we comply with the relevant ethical requirements regarding independence and we report all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards in place.

Our responsibility also includes verifying whether the information contained in the Annual Report is consistent with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The Annual Report

It is our opinion, pursuant to Article 451(3) (e) of the Commercial Companies Code, that the Annual Report was prepared in accordance with the applicable legal and regulatory requirements, the information contained therein is in accordance with the audited financial statements and, taking into account the knowledge and appraisal of the Company, we have not found any material misstatements.

Lisbon, 20 April 2018

Ernst & Young Audit & Associados - SROC, S.A. Sociedade de Revisores Oficiais de Contas
Represented by: Rui Manuel da Cunha Vieira (Statutory Accountant no. 1154)
Registered in CMVM under no. 20160766



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Relatório de Auditoria

RELATO SOBRE A AUDITORIA DAS DEMONSTRAÇÕES FINANCEIRAS SEPARADAS

Opinião

Auditámos as demonstrações financeiras anexas de AdP - Águas de Portugal, S.G.P.S., S.A. (a Entidade), que compreendem a Demonstração da Posição Financeira em 31 de dezembro de 2017 (que evidencia um total de 1.460.569.953 euros e um total de capital próprio de 751.694.385 euros, incluindo um resultado líquido de 62.939.863 euros), a Demonstração dos Resultados do Período, a Demonstração do Rendimento Integral, a Demonstração das Variações do Capital Próprio e a Demonstração dos Fluxos de Caixa relativas ao ano findo naquela data, e as Notas às demonstrações financeiras que incluem um resumo das políticas contabilísticas significativas.

Em nossa opinião, as demonstrações financeiras anexas apresentam de forma verdadeira e apropriada, em todos os aspetos materiais, a posição financeira de AdP - Águas de Portugal, S.G.P.S., S.A. em 31 de dezembro de 2017, o seu desempenho financeiro e os seus fluxos de caixa relativos ao ano findo naquela data, de acordo com as Normas Internacionais de Relato Financeiro, tal como adotadas na União Europeia.

Bases para a opinião

A nossa auditoria foi efetuada de acordo com as Normas Internacionais de Auditoria (ISA) e demais normas e orientações técnicas e éticas da Ordem dos Revisores Oficiais de Contas. As nossas responsabilidades nos termos dessas normas estão descritas na secção "Responsabilidades do auditor pela auditoria das demonstrações financeiras" abaixo. Somos independentes da Entidade nos termos da lei e cumprimos os demais requisitos éticos nos termos do código de ética da Ordem dos Revisores Oficiais de Contas.

Estamos convictos de que a prova de auditoria que obtivemos é suficiente e apropriada para proporcionar uma base para a nossa opinião.

Matérias relevantes de auditoria

As matérias relevantes de auditoria são as que, no nosso julgamento profissional, tiveram maior importância na auditoria das demonstrações financeiras do ano corrente. Essas matérias foram consideradas no contexto da auditoria das demonstrações financeiras como um todo, e na formação da opinião, e não emitimos uma opinião separada sobre essas matérias.

Descrevemos de seguida as matérias relevantes de auditoria do ano corrente:

1. Teste de imparidade dos Investimentos em subsidiárias e participadas e mensuração das provisões

Descrição dos riscos de distorção material mais significativos	Síntese da nossa resposta aos riscos de distorção material mais significativos
<p>O montante escriturado nos Investimentos financeiros em subsidiárias e participadas, a 31 de dezembro de 2017, ascende a 706.278 milhares de euros (já deduzido de imparidades reconhecidas de 17.358 milhares de euros), representando cerca de 48% do total do ativo da Entidade.</p> <p>A eventual imparidade dos Investimentos em subsidiárias e participadas mensurados ao custo e o reconhecimento de provisões para fazer face a eventuais responsabilidades adicionais nas subsidiárias e participadas com capitais próprios negativos, foi considerada uma matéria relevante uma vez que o</p>	<p>A nossa abordagem incluiu a execução dos seguintes procedimentos:</p> <ul style="list-style-type: none">• Avaliámos os pressupostos utilizados pelo Conselho de Administração na avaliação dos indícios de imparidade das participações financeiras;• Analisámos os Estudos de Viabilidade Económica e Financeira (EVEF) das empresas gestoras dos sistemas multimunicipais, nomeadamente a projecção dos fluxos de caixa futuros e os pressupostos que lhes estão inerentes; e

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Contribuinte N.º 505 988 283 - C. R. Comercial de Lisboa sob o mesmo número
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Descrição dos riscos de distorção material mais significativos	Síntese da nossa resposta aos riscos de distorção material mais significativos
montante escriturado destes ativos é significativo e o processo de avaliação da imparidade é complexo, incluindo o uso de estimativas.	<ul style="list-style-type: none"> • Avaliámos a necessidade de constituir e/ou manter a provisão para fazer face a eventuais responsabilidades, decorrentes de algumas participadas não terem capacidade de solver os seus compromissos.
	<p>A nossa abordagem incluiu também a análise das divulgações efetuadas nas Notas 2.2, 4.2 e 7, de forma a garantir que as mesmas respeitam as disposições das normas contabilísticas aplicáveis.</p>

Responsabilidades do órgão de gestão e do órgão de fiscalização pelas demonstrações financeiras

O órgão de gestão é responsável pela:

- preparação de demonstrações financeiras que apresentem de forma verdadeira e apropriada a posição financeira, o desempenho financeiro e os fluxos de caixa da Entidade de acordo com as Normas Internacionais de Relato Financeiro, tal como adotadas na União Europeia;
- elaboração do Relatório de Gestão, incluindo o Relatório de Governo Societário, nos termos legais e regulamentares;
- criação e manutenção de um sistema de controlo interno apropriado para permitir a preparação de demonstrações financeiras isentas de distorções materiais devido a fraude ou erro;
- adoção de políticas e critérios contabilísticos adequados nas circunstâncias; e
- avaliação da capacidade da Entidade de se manter em continuidade, divulgando, quando aplicável, as matérias que possam suscitar dúvidas significativas sobre a continuidade das atividades.

O órgão de fiscalização é responsável pela supervisão do processo de preparação e divulgação da informação financeira da Entidade.

Responsabilidades do auditor pela auditoria das demonstrações financeiras

A nossa responsabilidade consiste em obter segurança razoável sobre se as demonstrações financeiras como um todo estão isentas de distorções materiais devido a fraude ou erro, e emitir um relatório onde conste a nossa opinião. Segurança razoável é um nível elevado de segurança mas não é uma garantia de que uma auditoria executada de acordo com as ISA detetará sempre uma distorção material quando exista. As distorções podem ter origem em fraude ou erro e são consideradas materiais se, isoladas ou conjuntamente, se possa razoavelmente esperar que influenciem decisões económicas dos utilizadores tomadas com base nessas demonstrações financeiras.

Como parte de uma auditoria de acordo com as ISA, fazemos julgamentos profissionais e mantemos ceticismo profissional durante a auditoria e também:

- identificamos e avaliamos os riscos de distorção material das demonstrações financeiras, devido a fraude ou a erro, concebemos e executamos procedimentos de auditoria que respondam a esses riscos, e obtemos prova de auditoria que seja suficiente e apropriada para proporcionar uma base para a nossa opinião. O risco de não detetar uma distorção material devido a fraude é maior do que o risco de não detetar uma distorção material devido a erro, dado que a fraude pode envolver conluio, falsificação, omissões intencionais, falsas declarações ou sobreposição ao controlo interno;
- obtemos uma compreensão do controlo interno relevante para a auditoria com o objetivo de conceber procedimentos de auditoria que sejam apropriados nas circunstâncias, mas não para expressar uma opinião sobre a eficácia do controlo interno da Entidade;



2/3

- avaliamos a adequação das políticas contabilísticas usadas e a razoabilidade das estimativas contabilísticas e respetivas divulgações feitas pelo órgão de gestão;
- concluímos sobre a apropriação do uso, pelo órgão de gestão, do pressuposto da continuidade e, com base na prova de auditoria obtida, se existe qualquer incerteza material relacionada com acontecimentos ou condições que possam suscitar dúvidas significativas sobre a capacidade da Entidade para dar continuidade às suas atividades. Se concluirmos que existe uma incerteza material, devemos chamar a atenção no nosso relatório para as divulgações relacionadas incluídas nas demonstrações financeiras ou, caso essas divulgações não sejam adequadas, modificar a nossa opinião. As nossas conclusões são baseadas na prova de auditoria obtida até à data do nosso relatório. Porém, acontecimentos ou condições futuras podem levar a que a Entidade descontinue as suas atividades;
- avaliamos a apresentação, estrutura e conteúdo global das demonstrações financeiras, incluindo as divulgações, e se essas demonstrações financeiras representam as transações e acontecimentos subjacentes de forma a atingir uma apresentação apropriada;
- comunicamos com os encarregados da governação, incluindo o órgão de fiscalização, entre outros assuntos, o âmbito e o calendário planeado da auditoria, e as conclusões significativas da auditoria incluindo qualquer deficiência significativa de controlo interno identificado durante a auditoria;
- das matérias que comunicamos aos encarregados da governação, incluindo o órgão de fiscalização, determinamos as que foram as mais importantes na auditoria das demonstrações financeiras do ano corrente e que são as matérias relevantes de auditoria. Descrevemos essas matérias no nosso relatório, exceto quando a lei ou regulamento proibir a sua divulgação pública; e
- declaramos ao órgão de fiscalização que cumprimos os requisitos éticos relevantes relativos à independência e comunicamos todos os relacionamentos e outras matérias que possam ser percecionadas como ameaças à nossa independência e, quando aplicável, as respetivas salvaguardas.

A nossa responsabilidade inclui ainda a verificação da concordância da informação constante do Relatório de Gestão com as demonstrações financeiras.

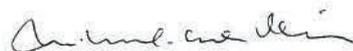
RELATÓRIO SOBRE OUTROS REQUISITOS LEGAIS E REGULAMENTARES

Sobre o Relatório de Gestão

Dando cumprimento ao artigo 451.º, n.º 3, al. e) do Código das Sociedades Comerciais, somos de parecer que o Relatório de Gestão foi preparado de acordo com os requisitos legais e regulamentares aplicáveis em vigor, a informação nele constante é concordante com as demonstrações financeiras auditadas e, tendo em conta o conhecimento e apreciação sobre a Entidade, não identificámos incorreções materiais.

Lisboa, 20 de abril de 2018

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Representada por:



Rui Manuel da Cunha Vieira (ROC nº 1154)
Registado na CMVM com o nº 20160766



Accounts

Consolidated Financial Accounts

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Consolidated statement of financial position

(EUR)

	Note	2017	2016
Non-current assets			
Intangible assets	8	3 877 240 317	3 945 452 208
Tangible fixed assets	9	720 377 935	731 483 548
Investment properties	10	13 479 013	13 559 357
Financial investments	11	51 999 562	71 271 332
Financial investments in associates	12	55 758	55 758
Deferred tax assets	13	202 324 552	181 254 165
Tariff deviation	15	684 512 107	662 591 539
Trade receivables and other non-current assets	16	82 018 712	73 865 845
Total non-current assets		5 632 007 956	5 679 533 752
Current assets			
Inventories	17	2 885 203	1 923 282
Trade receivables	18	325 497 672	313 814 575
State and other public entities	19	6 733 082	8 816 885
Other current assets	20	115 897 783	155 396 035
Cash and cash equivalents	21	66 460 256	223 266 659
Total current assets		517 473 996	703 217 436
Non-current assets held for sale	5.2	1 150 398	-
Total assets		6 150 632 350	6 382 751 188
Shareholder equity			
Equity	22	434 500 000	434 500 000
Reserves and other adjustments	23	31 695 997	28 877 600
Retained earnings	24	661 025 457	618 852 690
Net profit of financial year		88 607 748	70 751 386
		1 215 829 202	1 152 981 676
Non-controlling interest	25	301 345 371	291 997 167
Total equity		1 517 174 573	1 444 978 843
Non-current liabilities			
Provisions	26	9 862 099	10 412 467
Pensions liabilities	27	800 525	1 684 000
Loans	28	1 938 838 285	2 052 427 136
Trade payables and other non-current liabilities	29	92 890 455	101 468 410
Deferred tax liabilities	13	268 209 457	267 027 346
Accrued contractual investment expenses	30	428 587 617	393 208 115
Investment grants	31	1 600 730 064	1 636 104 671
Tariff surplus	15	18 101 492	52 597
Derivative financial instruments	14	3 770 756	16 341 468
Total non-current liabilities		4 361 790 750	4 478 726 210
Current liabilities			
Loans	28	88 834 855	282 938 148
Suppliers	32	73 553 730	60 705 609
Other current liabilities	33	76 554 454	84 512 316
Income tax for the year	34	12 106 496	13 142 125
State and other public entities	19	19 820 125	17 747 937
Total current liabilities		270 869 660	459 046 135
Non-current liabilities held for sale	5.2	797 367	-
Total liabilities		4 633 457 777	4 937 772 345
Total liabilities and equity		6 150 632 350	6 382 751 188

The Board of Directors

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Chartered Accountant
 Carla Isabel Costa Pinto Ribeiro

Consolidated income statement by type

(EUR)

	Note	2017	2016
Sales	35	371 389 675	358 254 683
Services rendered	35	255 406 907	251 639 638
Income from construction of assets for concession (IFRIC 12)	35	73 008 886	51 964 499
Cost recovery tariff deficit / surplus	15	12 488 619	36 162 708
Turnover		712 294 087	698 021 528
Sales costs/variations in inventories	36	(20 908 254)	(19 529 840)
Costs of construction of assets for concession (IFRIC 12)	36	(73 008 886)	(51 964 499)
Gross margin		618 376 947	626 527 189
Supplies and services	37	(188 626 488)	(191 972 354)
Personnel costs	38	(98 800 447)	(94 172 503)
Amortisations, depreciations and reversals in financial year	39	(207 285 161)	(213 869 856)
Provisions and reversals in financial year	40	(1 285 489)	(487 611)
Impairment losses and reversals in financial year	41	(6 444 008)	(17 941 652)
Investment grants	31.3	58 431 376	56 257 470
Other operating expenses and losses	42	(11 871 362)	(8 501 653)
Other operating income and gains	43	9 913 570	10 612 300
Operating profit		172 408 938	166 451 330
Financial expenses	44	(55 424 954)	(62 886 300)
Financial income	45	17 934 382	17 734 707
Gains/(losses) on investments	46	6 250 210	(704 000)
Financial income		(31 240 362)	(45 855 593)
Profit before tax		141 168 576	120 595 737
Income tax for the year	47	(51 417 060)	(45 194 598)
Deferred tax	47	12 849 801	8 169 183
Net profits of financial year from ongoing operations		102 601 317	83 570 322
Net profit of financial year from discontinued operations		-	-
Net profit for the period		102 601 317	83 570 322
Net profit allocable to AdP SGPS shareholders		88 607 748	70 751 386
Net profit allocable to non-controlling interests		13 993 569	12 818 936
		102 601 317	83 570 322
Earnings per share (basic and diluted)	22.2	1.02	0.81

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Consolidated statement of comprehensive income

(EUR)

	Note	2017	2016
Net profit of financial year		102 601 317	83 570 322
Foreign exchange gains/ losses		94 362	198 549
Fair value of hedging instruments	14	836 138	32 264
Settlement of deferred tax rate associated to revaluation reserves	13	(1 599 516)	
Gains/losses to be reclassified through profit or loss		(669 016)	230 813
Other gains and losses - pensions IAS 19	27	2 100 000	(776 433)
Other		35 474	
Gains/losses not to be reclassified through profit or loss		2 135 474	(776 433)
Comprehensive income		104 067 775	83 024 702
Net profit allocable to AdP SGPS shareholders		90 074 206	70 205 766
Net profit allocable to non-controlling interests		13 993 569	12 818 936
		104 067 775	83 024 702

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Consolidated statement of changes in equity

(EUR)

	Share capital	Currency conversion reserve	Legal reserve	Reserves-Fair value negative hedging instruments	Other reserves	Retained earnings	Profits for the year	Total	Non-controlling interests	Total equity
Balance as at 31.12.2015	434 500 000	504 994	20 730 230	(2 200 772)	2 431 884	507 663 627	165 968 422	1 129 598 385	298 657 252	1 428 255 637
Appropriation of profit for 2015	-	-	7 180 451	-	-	158 787 971	(165 968 422)	-	-	-
Foreign exchange	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	(46 822 475)	-	(46 822 475)	(5 042 789)	(51 865 264)
Paid-in capital	-	-	-	-	-	-	-	-	2 542 528	2 542 528
Shareholdings reduction	-	-	-	-	-	-	-	-	(16 978 760)	(16 978 760)
Other	-	-	-	-	-	-	-	-	-	-
Comprehensive income	-	198 549	-	32 264	-	(776 433)	-	(545 620)	-	(545 620)
Net profit in December 2016	-	-	-	-	-	-	70 751 386	70 751 386	12 818 936	83 570 322
Balance as at 31.12.2016	434 500 000	703 543	27 910 681	(2 168 508)	2 431 884	618 852 690	70 751 386	1 152 981 676	291 997 167	1 444 978 843
Appropriation of profit for 2016	-	-	1 887 897	-	-	68 863 489	(70 751 386)	-	-	-
Foreign exchange	-	-	-	-	-	-	-	-	-	-
Dividend payment	-	-	-	-	-	(26 070 000)	-	(26 070 000)	(3 279 623)	(29 349 623)
Paid-in capital	-	-	-	-	-	-	-	-	1 330 221	1 330 221
Demerger effect	-	-	-	-	-	(2 680 989)	-	(2 680 989)	2 680 989	-
Variation in the attributed minority holding	-	-	-	-	-	1 524 663	-	1 524 663	(1 524 663)	-
Own shares - ATA (acquired from Cascais Municipal Council)	-	-	-	-	-	-	-	-	(3 936 998)	(3 936 998)
Other	-	-	-	-	-	(354)	-	(354)	84 709	84 355
Comprehensive income	-	94 362	-	836 138	-	535 958	-	1 466 458	-	1 466 458
Net profit in December 2017	-	-	-	-	-	-	88 607 748	88 607 748	13 993 569	102 601 317
Balance as at 31.12.2017	434 500 000	797 905	29 798 578	(1 332 370)	2 431 884	661 025 457	88 607 748	1 215 829 202	301 345 371	1 517 174 573

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Carla Isabel Costa Pinto Ribeiro

Consolidated cash flow statement

(EUR)

	2017	2016
Operating activities		
Flows generated by operations		
Trade receivables	648 275 788	682 091 039
Trade payables	(209 527 487)	(238 704 438)
Payments to personnel	(76 573 767)	(68 492 346)
Flows generated by operations	362 174 534	374 894 255
Other operational flows		
Corporate income tax (Payable)/ Receivable	(41 248 909)	(35 270 093)
Other receipts/ (payments) related to operating activities	(41 846 793)	(48 973 687)
Other operational flows	(83 095 702)	(84 243 780)
Total operating activities (1)	279 078 832	290 650 475
Investing activities		
Receivables from:		
Financial investments	24 572 803	53 026 743
Tangible fixed assets	512 818	1 162 168
Intangible assets	74 150	1 487 022
Investment grants	34 644 824	15 930 963
Interest and similar income	2 167 416	5 071 548
Dividends	-	-
Sub-total	61 972 010	76 678 444
Payments for:		
Financial investments	(11 983 725)	(20 526 726)
Tangible fixed assets	(12 842 250)	(13 179 043)
Intangible assets	(81 003 882)	(64 603 782)
Sub-total	(105 829 857)	(98 309 551)
Total Investing activities (2)	(43 857 846)	(21 631 107)
Financial investments		
Receivables from:		
Loans	-	137 903 374
Paid-in capital, additional capital contributions	1 330 221	2 367 150
Sub-total	1 330 221	140 270 524
Payments for:		
Loans	(194 821 609)	(191 545 583)
Interest and similar expenses	(53 138 806)	(77 907 937)
Dividends	(28 762 782)	(51 544 884)
Acquisition of Treasury Shares (Stock)	(3 936 998)	(16 312 179)
Reduction in capital and additional capital contributions	-	(986 366)
Sub-total	(280 660 195)	(338 296 949)
Total financial investments (3)	(279 329 974)	(198 026 425)
Changes in cash and cash equivalents (1 + 2 + 3)	(44 108 989)	70 992 943
Effects of exchange rate differences	173 121	32 606
Cash and cash equivalents at the start of the period	110 120 025	39 094 476
Cash and cash equivalents at the end of the period	66 184 157	110 120 025

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Notes to the consolidated financial statements

1. General information

1.1 Introduction

AdP - Águas de Portugal, SGPS, S.A. (AdP SGPS, S.A. hereinafter also called AdP Group when intending to refer to AdP SGPS, S.A. and its subsidiaries and associates) was incorporated on 29 September 1993, with its head office at no. 3 Rua Visconde Seabra in Lisbon.

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

Shareholders as at 31 December 2017	% 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
	100%	434 500 000	86 900 000	

AdP, SGPS, S.A. 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 wastewaters and the treating and improvement of solid household waste. This latter activity was discontinued in 2015 after the privatisation process of EGF. The Company's mission was extended in 1998, 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.

1.2 Business activity

1.2.1 Regulated business activity (licensed, partnerships and delegated)

The standard concession agreement created for multi-municipal systems applies 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 sale prices (tariffs) charged are set by the concession grantor, endorsed by the regulatory authority (ERSAR) and include a return on the invested capital component, corresponding to an index (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 30 to 50 years.

Regulated activities

Water - production and purification, and "upstream" partnerships

The companies in this segment have an exclusive concession granted by the State for the provision of water supply and wastewater treatment and disposal services, or they form part of a State-Local Government partnership to deliver the same type of service. The concession agreements 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 the high levels of investment 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 - "downstream" partnerships

The companies in 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 solutions. 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 partnership. One of the features of the partnership agreement is to guarantee the return on invested capital and its infrastructures.

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 in 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.

1.2.2 Unregulated activities

International

This segment seeks the development of international businesses and comprises operations abroad. This currently spans technical assistance agreements in Angola, Cape Verde, East Timor and Guinea-Bissau.

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 Board of Directors must ensure that AdP - Águas de Portugal, SGPS, S.A. 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 within 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.
- Deploy methods that enable them to promote the continuous improvement of the quality of the service provided 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 the strict control of the costs associated, compatible with their size.
- Implement plans of action that promote equal treatment and opportunities for men and women, eliminate discrimination and ensure a 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 mission better and meet collective needs while oriented towards economic, financial, social and environmental sustainability.
- 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.

Specific strategic guidelines

The Board of Directors should also ensure that AdP - Águas de Portugal, SGPS, S.A. and the invested companies, following the significant investment efforts in infrastructure and the most recent set of amendments, in line with the policy of the sector, implement an agenda of measures aimed at consolidating and refocusing their activities, namely:

- To expand collaboration with the Municipalities through, in particular:
 - Promotion of partnerships integrating municipal systems, favouring the integral management of the water cycle;
 - Identification of collaborative alternatives that ensure the skills of state-owned companies are available to partners;
 - Adoption of measures leading to the participation of municipal partners in the main decisions, especially investments, enlargements or reductions in the scope of activities, review of tariffs and planning instruments.
- Promote regional development in line with the political option for the water sector, making it compatible with raising efficiency and its business nature, namely:
 - Implementing and leveraging the benefits of the multi-municipal systems.
 - In goods and service procurement policies that also promote the development of regional economic activities.
 - Setting up regional centres of competence, connected in networks, within an interactive, decentralized and collaborative environment and tailored to the reality on the ground.
 - In the reorganisation of corporate areas, including the redistribution of resources according to the effective needs of AdP Group companies, the establishing of committees and/or pools of specialist expertise and innovation with the regional entities, with the consequent reassessment of facilities.
- Ensure high efficiency, by strengthening the entrepreneurial nature and motivation of staff, aligning them with the challenges facing the sector, particularly:
 - Systematisation and optimisation of operational routines, contributing to better knowledge on the different resource allocations, by drawing up or revising operating plans on a comparable and consistent basis;
 - Optimisation of the management accounting system and performance indicators of comparable activities and entities, also reflecting that assigned by operating plans;
 - Performing and participating in evaluation exercises and performance comparisons;
 - Performing and implementing an energy management plan certified by the NP EN ISO 50001 standard.
- Ensure effective and participative change management, taking into account the previous circumstances and the challenges of change in the present, in particular that of a structural and cultural nature.
- Ensure the management of infrastructures, with reference to the ISO 55001 standard, reconciling an optimisation effort with the focus on preserving and responding to the challenges of climate change and safety, namely by the:
 - Definition of the infrastructure management policy;
 - Organisational integration of the design, construction and maintenance functions in operating companies;
 - Consolidation of the knowledge on infrastructures;
 - Consolidation of the information and assessment systems;
 - Integration of risk management practices and the response to climate change;
 - Consistent and coherent integration of the economic and financial planning exercises;
- Ensure the effective involvement of the AdP Group in the implementation of multisector environmental protection measures, including the measures necessary to solve the problems of agricultural and agro-industrial effluents;
- Capitalise on the skills and capabilities available in the AdP Group for the implementation of national projects and for internationalisation, in this case prioritising operations with reduced financial commitments.

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 on the fields of national cohesion, public health and the environment are universally recognised.

As the state's business tool for implementing public policy and national objectives in these areas of the environmental sector, AdP Group prioritises **(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 made available at the 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 13 April 2018. It is the opinion of the board of directors that the same accurately reflect the Group's operations as well as its financial position and performance and consolidated cash flows. It is furthermore the expectation of the board of directors that these statements will be approved by the General Assembly without any alterations.

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 2017.

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 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 that ended on 31 December 2017, with respect to those considered in the preparation of the financial information relating to the previous year and presented in the comparisons, and which may have arisen from the application of new standards issued after 31 December 2016.

2.1.2.1 Voluntary changes of accounting policies

No voluntary 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.

2.1.2.2 New standards, interpretations and amendments coming into effect on 1 January 2017

- [New standards, changes and interpretations adopted by the Group](#)

Between January 2017 and February 2018, the EU issued the following Regulations that the Company has adopted since 1 January 2017:

EU Regulation	IASB Norms or IFRIC Interpretations adopted by the EU	Issued on	Obligatory application in the financial years beginning on or after
Regulation no. 1989/2017	IAS 12 Taxation on Earnings: Recognition of Deferred Taxation On Unrealised Losses (alterations)	January 2016	1 January 2017
Regulation no. 1990/2017	IAS 7 Demonstration of Cash Flows: Information Publication Initiative (alterations)	January 2016	1 January 2017
Regulation no. 182/2018	2014-2016 Cycle of improvements to norms IFRS: IFRS 12 Publication of Interests in Other Entities (alterations)	December 2016	1 January 2017

The Company adopted the aforementioned alterations, which did not generate any significant impact on the Consolidated Financial Statements.

- [New norms, alterations and interpretations adopted by the EU but without any application in the financial year beginning on 1 January 2017 and not pre-emptively applied](#)

Between January 2016 and February 2018, the EU adopted a set of norms and alterations issued by the International Accounting Standards Board (IASB) for application in subsequent periods:

EU Regulation	IASB Norms or IFRIC Interpretations adopted by the EU	Issued on	Obligatory application in the financial years beginning on or after
Regulation no. 1905/2016	IFRS 15 Revenues from Contracts with Customers (new)	May 2014	1 January 2018
Regulation no. 2067/2016	IFRS 9 Financial Instruments (new)	July 2014	1 January 2018
Regulation no. 1986/2017	IFRS 16 Leasing (new)	January 2016	1 January 2019
Regulation no. 1987/2017	IFRS 15 Revenues from Contracts with Customers: Clarifications (alterations)	April 2016	1 January 2018
Regulation no. 1988/2017	IFRS 4 Insurance Contracts: Application of IFRS 9 Financial Instruments in conjunction with IFRS 4 Insurance Contracts (alterations)	September 2016	1 January 2018
Regulation no. 182/2018	2014-2016 Cycle of improvements to the IFRS norms: IFRS 1 Adoption for the first time of the International Norms for Financial Reporting and IAS 28 Investments in Jointly Controlled Subsidiaries and Entities (alterations)	December 2016	1 January 2018

These norms and alterations are due for full application in the financial years that begin on or after 1 January 2018, and were not applied in the preparation of the Financial Reporting on 31 December 2017. They are not expected to have any significant impact on the Company's Financial Accounts except as regards the new IFRS 16 Leasing norm, as detailed below.

[IFRS 15 Revenues from Contracts with Clients](#)

The new norm 15 Revenues from Contracts with Customers (IFRS 15) establishes a five stage model for the recognition of earnings resulting from contracts celebrated with clients. According to that stipulated by the norm, the revenue is recognised for the amount the entity expects to receive from the client in exchange for the goods and services provided.

The application of the norm is obligatory for the financial years beginning on or after 1 January 2018, with its adoption due for implementation through either the full retrospective method or the modified retrospective method.

The Company has adopted this norm since 1 January 2018 through applying the modified retrospective method, with the cumulative effect of the adoption of this norm recognised in the Company Results carried over on that date.

During 2017, the Company proceeded with analysis of the impact of its adoption and correspondingly does not expect any significant impact on its Financial Reporting but rather an increased level of disclosure associated with its "Sales and provision of services".

In preparation for the adoption of IFRS 15, the Company took the following relevant aspects into consideration:

i) Sale of goods and provision of services

In the majority of sales of goods or provisions of services carried out by the Company, there is only a performance obligation and hence revenues are immediately recognised on delivery of the goods to the customer.

The application of IFRS 15 shall not have any significant impact on the way in which the Company currently recognises the revenues from sales of goods and services to customers.

ii) Rights of return

With the application of IFRS 15, sales to customers should include estimates of the goods that may be subject to return by customers, therefore recognising: **a)** a liability for returns, represented by the obligations to deliver to the customer the amounts relating to the goods returned; and **b)** a return asset – with the adjustment to the sales cost – due to the right to receive the goods returned by customers.

The returns of goods for which liability is assumed directly by the Company, do not display any material relevance that significantly impacts upon the Financial Accounts of the Company.

IFRS 9 Financial Instruments

The new norm IFRS 9 Financial Instruments, which replaced IAS 39 Financial Instruments: Recognition and Measuring, particularly focuses on the following aspects: **i)** Classification and measuring; **ii)** Impairities; and **iii)** Accounting of Coverage.

The Company adopted this new norm on 1 January 2018, the date when its obligatory application entered into effect and hence lacking the scope for any re-expression of comparative information.

Throughout the year of 2017, the Company did analyse the impact of adopting this new norm and concluding that there is no expectation of any significant impact on the Company's Financial Accounts.

i) Classification and measuring

The Company does not foresee any significant impact on its Reporting of its Financial Position or its Equity Capital stemming from the application of the new IFRS 9 classification and measuring requirements.

ii) Impairities

IFRS 9 requires that the Company recognise impairities in the credits receivable based upon the estimated losses model (whether based on the losses expected after 12 months or the losses expected over the entire lifespan of the credits receivable), in place of the incurred losses model provided for under IAS 39. The Company is to apply the simplified approach to the credits receivable, recognising the estimates for the entire lifespan of the credits receivable.

The current accounting policy in force at the Company already provides for the recognition of generic impairities on commercial credits receivable taking into account the track record of non-recoverable debts in each business.

The Company does not expect any material impact on its Financial Reporting due to the application of this new impairment recognition model.

iii) Hedge accounting

The Company determined that all currently designated coverage relations are to continue to qualify as hedge accounting under IFRS 9.

As the norm does not alter the general principles for registering effective coverage, the application of the coverage requirements under IFRS 9 will not generate any significant impact on the Company's Financial Accounts.

IFRS 16 Leasings

The new IFRS 16 norm eliminates the classification of leasings as operational or financial leasings to the lessee as stipulated by IAS 17. In its place, this introduces a single accounting model, very similar to the treatment currently applied to financial leasings in the lessee accounts.

For the lessee, this model requires the recognition of: **i)** assets and liabilities in the Financial Reporting for all leases with a duration of greater than 12 months (while excluding assets with low levels of value, irrespective of the term of the lease); and **ii)** detailing depreciation and interest separately on the results balance sheet.

The Management is to evaluate the impacts resulting from the adoption of this new norm with this already expected to generate a significant impact on the Company's financial position resulting from the incorporation of the assets currently registered under operational leasing and the respective liabilities.

• New norms, alterations and interpretations issued by IASB and IFRIC but not yet adopted by the EU

In 2014, 2016 and 2017, the IASB issued the following norms, alterations and interpretations that are still under a process of adoption by the EU:

IASB Norm or IFRIC Interpretation	Issued on	Obligatory application in financial years beginning on or after
IFRS 14 Tariff Deviations (new)	January 2014	Date to be determined ¹
IFRS 10 Consolidated Financial Reporting and IAS 28 Investments in Jointly Controlled Subsidiaries and Entities: Sale of assets controlled between an investor and its subsidiary or joint venture (alterations)	September 2014	Date to be determined ²
IFRS 2 Share Based Payments: Classification and measuring transactions (alterations)	June 2016	1 January 2018
IFRIC 22 Transactions in foreign currencies and early payments (new)	December 2016	1 January 2018
IAS 40 Ownership of Investments: Transfers (alterations)	December 2016	1 January 2018
IFRS 17 Insurance Contracts (new)	May 2017	1 January 2021
IFRIC 23 Uncertainties as regards the treatment of taxation on earnings (new)	June 2017	1 January 2019
IFRS 9 Financial Instruments: Details on pre-payments with negative compensation (alterations)	October 2017	1 January 2019
IAS 28 Investments in Jointly Controlled Subsidiaries and Entities: Long term interests in Jointly Controlled Subsidiaries and Entities (alterations)	October 2017	1 January 2019
Cycle 2015-2017 on improvements to the norms IFRS: IFRS 3 Concentration of Business Activities; IFRS 11 Joint Agreements; IAS 12 Taxation on Earnings and IAS 23 Cost of Loans (alterations)	December 2017	1 January 2019

¹ The EU decided to suspend the approval process for this interim norm and await the definitive norm.

² The EU decided to suspend indefinitely the approval of these alterations as did the IASB.

The Management is currently evaluating the impact of the future adoption of these new norms, alterations and interpretations of the norms already in effect and with no significant impact hitherto identified for the Company's Financial Accounts.

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 its subsidiaries and the profits proportional to the shareholdings in associate companies for the financial year that ended on 31 December 2017 (and comparisons with 31 December 2016).

2.2.2 Shareholdings in subsidiaries

Subsidiaries are all those entities over which AdP SGPS holds control. The Group controls an entity whenever it is exposed to or has rights over the variable returns of its involvement with that entity and holds the capacity to affect these returns through its powers over the entity. The subsidiaries are fully consolidated as from the date when the control is transferred to the Group. This Consolidation is broken off on the date when that control comes to an end.

The Group applies the acquisition method to account for its business takeovers. The amount transferred for the acquisition of the subsidiary is the fair value for the assets acquired, the liabilities assumed towards the former owners and the capital instruments issued by the Group. The amount transferred includes the fair value of any assets and liability that results from any contingent agreements. The identifiable assets and liabilities and the contingent liabilities assumed in any business takeover are initially measured by their fair value on the date of acquisition. The costs directly attributable to the acquisition are recognised in the results whenever incurred.

In cases when the Group does not hold 100% of the capital of the subsidiaries, there is recognition of a non-controlled interest relative to the proportion of the results and the net values of the assets attributable to third parties.

When the Group loses control over a subsidiary, recognition of the assets and liabilities of that subsidiaries is withdrawn along with any non-controlling interest and other components of its equity capital. Any gain or loss resulting is recognised in the financial results. Any interest retained in the entity is measured by its fair value at the time of the loss of control.

The accounting policies applied by subsidiaries in compliance with their legal and statutory obligations, whenever so necessary, are corrected in the consolidation process by means of ensuring their consistency with the policies adopted by the Group.

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 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, the 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 considerations relating to any other transactions (e.g. payment for the provision of future services or the settlement of pre-existing relations) and the margin is recognised separately in the profit or loss item. The transferred consideration includes the fair value of any contingent considerations 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 the profit or loss item or as other comprehensive income when the respective 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 thus do not impact on calculating the goodwill/gain from the acquisition. They are recognised as expenses in the year they occur. On the date of acquisition, the classification and designation of all assets acquired and liabilities transferred are reassessed in accordance with the 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 according to the same principles and assumptions as the related liabilities. Calculating the fair value of the assets and liabilities acquired takes into account the fair value of contingent liabilities resulting from a present obligation caused by a past event (when the fair value can reliably be measured), regardless of a probable outflow being expected. The Group can choose to measure "non-controlling interests" for each acquisition at their 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 for recognition. When the business combination is undertaken in stages, the fair value at the preceding date of acquisition of the interests held is re-

measured according 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 calculating 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 are recognised on the acquisition date and/or additional assets and liabilities are recognised whenever new information is obtained about facts and circumstances existing on the acquisition date and, had they been known, this would have resulted in the recognition of these assets and liabilities at that date, and to be adjusted retrospectively for 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 re-measured 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. Subsidiary accounting policies are changed whenever necessary to ensuring 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 when having 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	% of Effective Capital	% of Paid up Capital		Social Capital	Own Capital	Fi. Yr. Net. Result
Águas do Algarve, S.A.	Faro	54.44%	54.44%	54.44%	EUR	29 825 000	39 584 658	7 306 257
Águas do Centro Litoral, S.A.	Coimbra	60.33%	62.77%	60.71%	EUR	39 974 968	94 652 655	3 898 894
Águas do Douro e Paiva, S.A.	Oporto	51.00%	51.11%	51.00%	EUR	20 902 500	33 506 599	1 437 093
Águas do Norte, S.A.	Oporto	68.73%	71.86%	70.49%	EUR	103 215 507	247 542 538	8 431 830
Águas de Santo André, S.A.	Vila Nova de Santo André	100.00%	100.00%	100.00%	EUR	1 000 000	15 668 254	428 987
AgdA - Águas Públicas Alentejo, S.A.	Beja	51.00%	51.00%	51.00%	EUR	4 815 000	5 066 874	221 663
Águas do Tejo Atlântico, S.A.	Lisbon	50.68%	53.56%	53.74%	EUR	113 527 680	113 949 026	6 879 777
Águas do Vale do Tejo S.A.	Guarda	68.35%	68.27%	68.62%	EUR	83 759 578	193 798 027	6 947 631
SIMARSUL, S.A.	Quinta do Conde	51.00%	51.43%	51.00%	EUR	25 000 000	62 716 997	2 597 643
SIMDOURO, S.A.	Vila Nova de Gaia	58.52%	58.61%	58.52%	EUR	20 046 075	29 338 123	1 449 849
AdRA - Águas da Região de Aveiro, S.A.	Aveiro	51.00%	51.00%	51.00%	EUR	17 500 000	19 075 900	1 094 745
EPAL, S.A.	Lisbon	100.00%	100.00%	100.00%	EUR	150 000 000	612 947 677	50 071 575
AdP Internacional, S.A.	Lisbon	100.00%	100.00%	100.00%	EUR	175 000	346 412	258 911
AdP Timor Leste, Lda.	East Timor	100.00%	100.00%	100.00%	USD	5 000	(945 949)	(300 920)
Águas do Brasil, S.A.	Rio de Janeiro - Brazil	100.00%	100.00%	100.00%	BRL	2 050 100	(1 331 794)	-
Aquatec, Lda	Maputo - Mozambique	100.00%	100.00%	100.00%	MZN	2 476 580	(49 979 420)	(3 334 884)
AdP Serviços, S.A.	Lisbon	100.00%	100.00%	100.00%	EUR	50 000	11 377 116	775 304
AQUASIS, S.A.	Lisbon	55.00%	55.00%	55.00%	EUR	50 000	283 368	84 654
AdP Energias, S.A.	Lisbon	100.00%	100.00%	100.00%	EUR	250 000	2 158 638	(185 407)

The “% of Effective Capital” column represents the effective participation rate in keeping with the date of paying up the effective stake at the rate of the effective holding determined in accordance with the date of raising the capital, with this the rate applied in the Financial Consolidation process for the AdP Group for the financial year ending on 31 December 2017.

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 in 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 those liabilities already taken on. Any surplus of the acquisition cost of a financial investment over the Group's shareholding in the fair value of the assets, liabilities and contingent liabilities identified at the date of acquisition of the shareholding in the associate is recognised as goodwill, and it is included in the value of the shareholding and its recovery is annually assessed as an integral part of the investment. If the cost of acquisition is lower than the fair value of the net value of the assets of the acquired associate, the difference is registered directly in the income statement.

The entities qualifying as associates are listed below.

Company	Head office	% Share Capital held	Share Capital
Trevo Oeste, S.A. (a)	Alcobaça	43%	1 336 085
Miese, Lda. (a)	Lisbon	40%	200 000

(a) Non-operating companies

2.2.4 Investment in subsidiaries resident abroad

See note 2.4.3.

2.2.5 Balances and transactions

Intragroup transactions, dividends distributed among Group companies, balances and gains not realised in the transactions among Group companies are eliminated.

2.2.6 Non-controlling interest

Non-controlling interest corresponds to the proportion of the fair value of the assets, liabilities and contingent liabilities of the subsidiaries acquired that are not directly or indirectly attributable to AdP SGPS.

Transactions with non-controlling interests that do not result in a loss of control are accounted for as capital transactions – thus, as transactions with the owners in their quality as owners. The difference between the fair value of any amount paid and the relevant proportion acquired of the accounting value of the net assets of the subsidiary is recorded under the own capital item. The gains or losses from sales to non-controlling interests are also registered as own capital.

2.2.7 Loss of control or significant influence

Whenever the Group no longer has control or significant influence, any residual participation in the own capital is re-measured for its market value with any alteration duly recognised in the results reported. The fair value is the initial accounting value for the purposes of the subsequent accounting treatment of this holding as a financial asset.

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 “contracted for fixed terms” (concessions and partnerships)

a. Water and wastewater treatment

II – Regulated activities “delegated for indefinite terms”

b. EPAL – production and distribution of water;

III – International activities

c. International – includes operations outside Portugal.

IV – Corporate activities

d. Corporate – includes AdP SGPS, AdP Serviços and AdP Energias operations.

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 EUR, unless otherwise stated.

2.4.2 Transactions and balances in foreign currency

Transactions in currencies other than the EUR 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 nonmonetary 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 hyper inflated 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 EUR or to update balances denominated in foreign currencies were as follows:

Source: Bank of Portugal

Country	Currency	31.12.2017		31.12.2016	
		average	closing	average	closing
Angola	Kwanza	184.70	185.40	182.32	184.48
Brazil	Reais	3.90	3.97	3.54	3.43
Cape Verde	Escudo C.V.	110.27	110.27	110.27	110.27
Mozambique	Meticais	71.47	70.57	69.82	74.54
Japan	Yen	n.a.	n.a.	122.40	123.40
U.S.A.	USD	1.18	1.20	1.05	1.05

2.5 Regulated activities

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 stipulated by Law 67/2013 of 28 August). The main effect of regulation on company activities is 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, the 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 endows the regulator with the power to determine the costs recoverable by means of tariffs.

The MMS management companies are also subject to intervention by the regulator on matters of quality of service, measured by a set of annually assessed indicators and matters of drinking water quality, under the powers of the ERSAR as the national drinking water authority.

2.5.2 Framework – concession activities

IFRIC 12 defines the rules on accounting for concession contracts, given the services provided and the power of control over the concession assets. In keeping with this standard, group concession holding companies provide two kinds of services: construction, modernisation and renewal of the system infrastructure and the operation and management (operate and maintain) of the systems composed by the infrastructures, necessary for service delivery 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. When the company provides more than one service under one single concession contract (i.e. service and operation construction and modernisation), the value (prices or tariffs) receivable should be distributed according to the fair values, when these are individually (separately) identifiable. The nature of the prices and the tariffs determines how they are accounted for. The company recognises revenues and costs related to the construction or modernisation of infrastructures in accordance with IAS 11. The company recognises revenues and costs arising from operations in accordance with IAS 18.

Moreover, this establishes that infrastructure under IFRIC 12 must not be recognised as operator (or concession holder) owned tangible assets because the concession contract does not attribute rights of control. 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 interpretations 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.

When 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 whenever 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 public service users and another specific amount even when the payment is contingent on the operator (or concession holder) ensuring the infrastructure meets 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 public service users does not amount to an unconditional right to collection because the amounts remain dependent on the extent users actually use the service.

Up to December 2016:

Water and wastewater treatment	Concession/ Partnership	Term	Period	Addenda under analysis by the grantor	Shareholder remuneration - rate	Applying to ⁽ⁱ⁾
Águas do Algarve	Concession	AA 21 years AR 30years	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

(i) Also applying to undistributed dividends (10-year Treasury Bonds).

After 30 December 2016 as a result of the disaggregation 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 ⁽ⁱ⁾
Águas do Algarve AA	Concession	30 years	1995-2025	37 years (*)	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas do Algarve AR	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 Norte	Partnership	50 years	2013-2063	-	10-year Treasury Bond + 3%	Share capital + legal reserve
Águas do Douro e Paiva	Concession	20 years	2017-2036	-	10-year Treasury Bond + 3%	Share capital + legal reserve
SIMDOURO	Concession	50 years	2017-2066	-	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 do 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
Águas do Tejo Atlântico	Concession	30 years	2017-2046	-	10-year Treasury Bond + 3%	Share capital + legal reserve
SIMARSUL	Concession	30 years	2017-2046	-	10-year Treasury Bond + 3%	Share capital + legal reserve

(*) Ongoing process of merger or extension of duration to 37 years as requested in 2010. In 2018, a new request will be submitted to the Grantor and to ERSAR to merge these two concession contracts and draft a new concession contract with a duration of up to 30 years.

2.5.3 Infrastructure classification

In view of the type and legal framework (right to charge users for a public service inherent to the fact of consumption) of the MMS management company concession contracts, it was decided that the intangible model is that best suited to company realities. MMS management companies as concession holders thus classify the system infrastructures 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 eligible for capitalisation 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, that is, when 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 tariff calculation (i.e. their recovery is implicit in the approval of the amortisation by the regulator). They are therefore reported in the accounts as fixed assets and amortised on the same terms as other fixed assets. Current upkeep and maintenance costs are recognised in the results of the financial year in which they occur.

2.5.4 Amortisation

The intangible assets, rights to use infrastructures, are 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 tariff calculation undertaken by the regulator.

Amortisation in water and wastewater treatment concession companies and partnerships is calculated by the sum of units method, i.e. by the amortisation of the contracted investments established in the economic and financial feasibility study. This 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, there is the annual sharing of the estimated costs needed to cover contractual investments (regulated) or investments in expansion (regulated) of the concession or partnership. These accruals are calculated according to the economic benefits standard associated with the contractual investment defined in the supporting concession contract economic model. 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 accountability for reimbursement at future tariffs, allowing for 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 as 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 closure date of abolished system concession companies between the company's net profits from the operation and management of the system and the amount to which the company is contractually entitled by way of remuneration of the capital invested, and **(ii)** the annually identified difference up to the end of the second five-year period of the concession between the company's net profits from system operation and management and the amount to which the company is entitled under the rules stipulated for determining 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 the annually occurring cost recovery deviations in their accounts until the end of the second five-year period. Simultaneous to the concession contract terminating, the cost recovery deviations determined on the date of concession companies closing the systems aggregated under the auspices of this decree-law are recorded, including outstanding shareholder remuneration, capitalised at the rate of Portuguese 10-year Treasury Bonds plus three percentage points from the date the concession contract comes into effect, based on the separate accounts of the companies closed.

The cost recovery deviations to be debited and credited existing on the date of closure of the concession companies, corresponding to 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 according to the terms of the concession contract, must be recovered via tariffs or reflected in the tariffs, such 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 the balance in keeping with 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 activities is that required to comply with contractual provisions relating to the 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 infrastructures 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 (the constructor) and so the revenue and costs associated with construction are the same. In spite of the above, any income from construction and associated costs are recorded in the income statement for the year in accordance with IFRIC 12.

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 costs can be reliably measured. Asset depreciation takes place during their remaining useful life or until the next repair, whichever happens first. Replaced asset components are identified and recognised in the income statement.

All other expenditure on repairs and maintenance is recognised as expenses in the period when incurred.

Tangible fixed assets assigned to operations are depreciated based on their estimated useful life spans measured from when 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 asset value and registering an impairment loss whenever necessary. The recoverable value is determined as the higher of the net sale price and the asset value in use. 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 span of each asset to ensure that the consumption trend of the benefits from assets in the years used by AdP gets 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 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 asset ownership 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. Liability is recognised for 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 except in the case of leasing where the Group expects to purchase the leased good.

All other leases are classified as operating leases. Lease arrangement payments are recognised as an expense on a linear basis over the lease term.

2.7 Intangible assets

2.7.1 Rights to use the 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 programs beyond their original specifications are added to the original cost of the software. The costs of implementing software recognised as assets are amortised according to 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 2.6).

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 an impairment loss.

2.9 Financial assets and liabilities

2.9.1 Classification of financial assets

The AdP Group financial assets are classified in the categories detailed below. The classification depends on the purpose for acquiring the investment and determined at the time of initial investment recognition (its trade date) and revalued on each subsequent reporting date. The Board of Directors decides on the classification of its investments on the acquisition date and regularly reviews this classification. The AdP Group classifies its financial assets according to the categories defined in IAS 39 and only the category “Loans and receivables” applies to the AdP Group.

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; and **(ii)** investments in companies holding multi-municipal concessions which, according to the special terms and conditions of the underlying concession agreements, qualify as loans granted, remunerated at an agreed rate.

Loans and receivables are initially recorded at fair value and afterwards at an amortised cost based on the effective interest rate, less any impairment losses. Impairment losses are recorded by estimating and evaluating losses associated with bad debts, at the balance sheet date so that they duly reflect their net realisable value.

Impairment losses are recorded whenever 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 over six months; debtor financial difficulties; and likelihood of debtor bankruptcy.

When the sums receivable from trade receivables or other debtors are due and their terms are under renegotiation, they are no longer regarded as overdue and are treated as new credits.

2.9.2 Classification of financial liabilities

Financial liabilities are classified according to their 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.

Bank loans

Loans (bank loans and bond loans) are initially recognised at fair value net of transaction costs incurred and are subsequently measured at their 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 when the AdP Group expects to settle the liability within twelve 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 Derivative financial instruments and hedge accounting

The Group uses derivatives solely to manage its exposure to financial risks. The Group does not contract derivatives for speculation in accordance with its financial policies. Even though the derivatives contracted by AdP Group are effective instruments for the hedging of risks they do not all qualify as hedge accounting instruments under IAS 39 rules and requirements. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes recognised in the profit or loss item. 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 applied.

2.10.1 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.

2.11 Fair value hierarchy

The Group assets and liabilities, measured at fair value, are classified according to the following levels of fair value hierarchy and as established in IFRS 13: **Level 1**, the fair value of financial instruments based on the active net market prices on the balance sheet reference date. 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 does not derive from active market prices but rather on the application of valuation models. The main model inputs are market observable and this level thus includes, for example, over-the-counter derivatives and **Level 3**, the fair value of financial instruments is not determined by active market prices but rather by valuation models with their main inputs not market observable. Note 7.2 presents the table with the level classified fair value assets and financial liabilities.

2.12 Trade and other accounts receivable

The balances of trade receivables and other accounts receivable are those 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, less any impairment losses, by the effective interest method.

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.

Trade receivables, debtors and other financial assets

Adjustments for impairment losses are recorded whenever AdP SGPS holds impartial indicators that it will not collect all of the amounts owed according to the original contractual terms. The various indicators serving to identify situations of impairment include: (i) analysis of breach; (ii) breach for more than 6 months; (iii) financial difficulties of the debtor and (iv) likelihood of debtor bankruptcy.

Impairment losses are determined by the difference between the recoverable amount and the financial asset value carried over and recognised against the profit or loss of the financial year. The carried over asset value is reduced to the recoverable value through the application of an adjustments account. Whenever an amount receivable from customers and debtors is considered irrecoverable, this is written off in the adjustments account for accrued impairment losses. Subsequent recoveries of amounts that may have been written off are then recognised in the profit or loss item. When the sums receivable from trade receivables or other debtors are due and their terms renegotiated, they are no longer accounted for as overdue and treated as new credits.

Generically, the Group does not recognise losses due to impairment by public entities on the grounds that on this date the risk of their insolvency remains remote.

2.15.2 Impairment of non financial assets

The Group assets are reviewed on the date of each balance sheet in order to detect any indications of possible impairment losses. Whenever such indication exists, the recoverable asset amount is subject to evaluation. 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 AdP SGPS assets is ascertained. Whenever the book value of an asset, or the cash-generating unit to which it belongs, exceeds the amount recoverable, the value is reduced to the amount recoverable with this impairment loss recognised in the respective income statement.

For cash-generating units that only began business operations within a certain period of previous time (two to three years), the Group performs analysis of the impairment. However, since the respective businesses have not yet reached sufficient maturity, impairment losses are only recognised when there are unequivocal indicators that recoverability is a remote likelihood.

Determining the recoverable amount of assets

The recoverable amount of receivables in the medium and long run corresponds to the present value of expected future receipts, applying the effective interest rate of the original operation as the discount factor. The recoverable amount of other types of asset incorporates whichever is the highest between their net sale price and their value in use. In calculating the value in use of an asset, the estimated future cash flows are discounted by a pre-tax discount rate reflecting the current market assessments of the term value of money and the specific risks to the asset in question. The recoverable amount of assets that do not themselves generate independent cash flows is determined within the scope of their respective cash generating unit.

Reversal of impairment losses

Impairment losses recognised in medium and long-term receivables are only reversible when the reason for increasing the recoverable amount stems from an event occurring after the date of impairment loss recognition. Impairment losses relative to other assets are reversible whenever there are changes in the estimates calculating the respective recoverable amount. Impairment losses are reversed up to the amount, net of amortisations, that the asset would have had were the impairment loss not recognised.

2.16 Share capital

Ordinary shares are classified as equity. Costs incurred directly from issuing 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 in the liabilities item following their declaration.

2.18 Government grants

Grants (related to assets) for investment are recognised when there is reasonable certainty both that the grant is receivable and that the AdP Group shall meet all the obligations inherent to its receipt. Investment grants for the acquisition and/or construction of tangible and/or intangible assets fall under non-current liabilities and credited to the income statement in accordance with the same amortisation method as that for underlying assets.

Other grants are deferred and recognised in the income statement for the same period as the expenses they offset and are discounted directly depending on the nature of the cost.

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 of a reasonably estimated amount. 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 discloses this as a contingent liability apart from whenever the evaluation of the requirement to pay funds for its settlement is deemed unlikely. When there are a large number of similar obligations, the probability of generating an outflow of internal resources is determined for the group as a whole. This provision is recognised even when the likelihood of an outflow of internal resources due to an item in the same obligation class may only 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 deriving from the same. The provisions are measured at the present value, on the balance sheet date, according to the best estimate by the Board of Directors regarding the expenditure required to discharge the obligation. The discount rate in effect for calculating the present value reflects the then prevailing market expectation both 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 notes attached. When the likelihood of an outflow of resources incorporating economic benefits is still remote or when it remains unlikely that there is to be any inflow of economic benefits, the relevant contingent liabilities or contingent assets are not disclosed.

Contingent liabilities correspond to the potential obligations resulting from past events and with their recognition depending on the occurrence or non-occurrence of one or more future events that are both uncertain and not totally within Group control. As they furthermore represent present obligations resulting from past events that are not recognised in the Financial Statements due to the lack of probability of any paying out of economic benefits or the impossibility of estimating their amount with an acceptable degree of reliability. The Group undertakes their reporting in the notes to the accounts whenever the probability of a future payment is not deemed remote while proceeding with their recognition or establishing a provision whenever the payment of economic benefits becomes probable and the amount is susceptible to estimation with some degree of reliability.

2.20 Employee benefits

EPAL is the only company in the Group with 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 contributions and with defined benefits.

Defined contributions plan

This is a pension plan in which the company's only monetary obligation is to make fixed contributions to a separate entity (a fund). These contributions are recognised as an expense in the period they refer to.

Defined benefits plan

A defined benefits plan is a pension plan that stipulates 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 liabilities of the defined benefits plan are calculated annually/ half-yearly by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the future payments of benefits, using the interest rate of 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 benefits 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.

The actuarial gains and losses are determined annually in accordance with (i) the difference between the actuarial and the financial assumptions applied and the amounts effectively reported (the gains and losses experienced) and (ii) any alterations to the actuarial assumptions, and are then recognised against own capital in the other comprehensive income item.

In each period, as a cost in the reporting of results, the Group recognises the total net value that includes (i) the cost of the current service, (ii) the cost of interest, (iii) the expected earnings from fund assets, (iv) the effect of early retirement, and (v) the effects of any settlement or cut experienced in the period. The costs incurred by early retirement correspond to an increase in the liabilities resulting from retirement taking place prior to reaching the age of retirement stipulated in the agreed benefits system.

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 incurred 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 21% 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 profits 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 2017 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) when the book value is recoverable primarily from a sales transaction rather than continued use and in keeping with the following conditions:

- 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 probable.
- its sale is highly probable. In other words:
 - the appropriate management hierarchy is committed to selling the asset (or group for divestment);
 - the tender for finding a buyer and concluding the sale is under way;
 - the asset (or group for divestment) has been widely publicised as for sale at a reasonable price in relation to its fair value;
 - the sale is due to 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 whenever the delay is caused by events or circumstances beyond the entity's control and there is sufficient proof that the entity remains 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 value 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 value 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. When the sale is not expected to take place within the forthcoming year, 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 the fair value less sales costs of an asset is recognised but not beyond the loss by previously recognised cumulative impairments. Interest and other costs attributable to the liabilities of any group for divestment classified as held for sales continue to be recognised.

2.23 Revenue

Revenues comprise 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 revenues resulting from charging the tariffs approved by the Grantor or partnership commission and examined by the regulator. Revenues are recognised as follows:

2.23.1 Services provided

Regulated activities - Upstream services - Sewerage and partnerships

Revenues are recognised based on (i) minimum guaranteed amounts, or (ii) consumption, i.e. revenue recorded as the product of the approved tariff and consumption measured and/or estimated.

Unregulated activities

The availability tariff is based on a contract established with the customer, at a defined rental price. The contractual amount is recognised monthly in the month to which service delivery refers.

2.23.2 Sale of goods

Regulated activities - Upstream services - Water supply

Revenues are recognised based on (i) minimum guaranteed amounts, or (ii) consumption, i.e. revenue recorded as the product of the approved tariff and consumption measured and/or estimated.

Regulated activities - Downstream services - Partnerships

Revenues comprise two components, one fixed and the other variable. Revenues are recorded as the product of the approved tariff for each bracket and the respective consumption measured and/or estimated (variable component). The fixed component corresponds to service availability and pegged to the meter's debit capacity. Recognition takes place according to fractions of twelve.

Regulated activities - Downstream services – delegated management

Water supply – end consumer: the sale of water to end consumers is based on m³ consumed. The respective tariffs of each concession and non-concession (EPAL) apply. In some cases consumption estimates are made before correction when the individual customer meters 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 (CTA) Additional tariff component

Under the terms of Decree-law no. 16/2017, of 1 February and Decree-law no. 34/2017, of 24 March, the AdP Group companies - Águas do Douro e Paiva, S.A. (AdDP), EPAL – Empresa Portuguesa das Águas Livres, S.A. and Águas do Tejo Atlântico, S.A. (AdTA), issue monthly client invoices on behalf of the companies Águas do Norte and Águas do Vale do Tejo, respectively, including a proportion entitled the CTA – the Additional Tariff Component. The CTA is recognised as a revenue under the items “Sales” or “Services provided”, in turn corresponding to the supply of water or sanitation services.

2.23.5 Environmental fund

Under the auspices of both the Program of the 21st Constitutional Government and Decree-law no. 72/2016, of 4 November, the State decided to demerge the companies aggregated in 2015 (through Decree-law no. 92/2015, no. 93/2015 and no. 94/2015, all of 29 May) as well as interrupting the trajectory in the tariff rises then established (see note 5.1).

This decision was supported by a study of the neutrality in the effects on the demerged company revenues with the State having decided to compensate the latter entities for the loss of revenues by establishing corrective tariffs among the companies – extending the application of the CTA – the Additional Tariff Component to AdDP and to AdTA – and by the transfer of a sum from the Environment Fund.

Furthermore, under the auspices of the Management Contracts agreed between the management of AdP SGPS, Águas do Norte, S.A. (AdN) and Águas do Vale do Tejo, S.A. (AdVT), the State understands that revenues generated by the Environment Fund should be taken into consideration for the purposes of operationally balancing AdN and AdVT.

Hence, the extraordinary additional revenue in the form of support from the Environment Fund, received annually, holds the objective of compensating for the turnover that would have been charged annually by the tariff and that was set on a rising trajectory for the demerged companies. Thus, the extraordinary revenue provided in support from the Environment Fund is annually registered as revenue under the “Services provided” item.

2.23.6 Interest

Interest income is recognised based on the effective interest rate and recorded in the period earned in accordance with the accruals principle.

When a receivable is adjusted for impairment, the Group reduces its book value to its recoverable value even though estimated future cash flows are still discounted at the initial effective interest rate (before impairment) and the correction of the discount is recognised as interest income.

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 and, when concluded, they are then recoverable through the realisation of those assets. Capitalised financial expenses as well as some personnel expenditure are particularly important. These are measured at their cost based on internal information especially prepared for this purpose (internal costs) or at the respective purchase costs plus other expenses inherent therein, therefore meaning they are recognised without any profit margin. Capitalised expenses are carried over directly on the balance sheet without any impact on the income statement and 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 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 occurring after the balance sheet date are, whenever material, disclosed in the notes to the financial statements.

3. Financial risk management policies

3.1 Risk factors

AdP Group business operations are exposed to a number of financial risk factors: credit risk, liquidity risk and cash flow risk associated with the interest rate. AdP Group has correspondingly developed and implemented a risk management program which, in addition to constantly monitoring 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 financial risks, in close cooperation with the AdP Group operational units. The Board of Directors drafts the principles for risk management as a whole as well as policies covering specific areas such as currency conversion risks, interest rate risks, credit risks, recourse to 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 both sets the parameters for each transaction and approves the formal documents describing the specific objectives.

3.2 Market risk

3.2.1 Interest rate risk

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 interest rate linked fair value risk. 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 into fixed interest rate loans. Likewise, the guaranteed remuneration of concession contracts, and consequently the tariff deviation, interlinks with the volatility of interest rates. The table below provides an approximate sensitivity analysis of the AdP Group financial costs.

	31.12.2017	Average rate +1%	Average rate -1%
Interest incurred – floating rate	6 008 458	12 659 262	4 986 675
	6 008 458	12 659 262	4 986 675

3.2.2 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 operating currency. The AdP Group central treasury manages net Group exposure to each currency, contracting swaps centrally so as to minimise commercial risks to recognised assets and liabilities. The AdP Group holds investments denominated in foreign currencies with net assets exposed to exchange rate risk through conversion, and funding in foreign currencies exposed to exchange rate risk. The exchange rate risk inherent to the net assets in foreign currencies is managed by taking out loans in the same currency, and loans with hedging exchange rate swaps.

3.2.3 Raw materials price risks (energy and fuel)

The annual Águas de Portugal Group expenses on energy and fuel represent approximately 38% of total external supplies and services (EUR 192 million). The Group through AdP Servicos negotiates and centrally contracts the acquisition of these raw materials for the entire Group. In the case of electricity (EUR 68.8 million), the price is set for the contract horizon.

3.3 Liquidity risk and capital 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 treasury

department, given the dynamics of the underlying businesses, intends to secure floating debt flexibility and keeping 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. The table below displays AdP Group liabilities by intervals of contracted residual maturity. The amounts shown in the table are the non-discounted contractual cash flows for future payment (thus without the interest which these liabilities incur).

	< 1 year	1 to 5 years	> 5 years
Loans (note 28)	88 834 855	491 435 426	1 447 402 859
Trade payables and other liabilities	150 108 186	74 793 199	18 097 256

AdP Group does not foresee any difficulties in complying with its short-term liabilities. AdP Group considers it is positioned to ensure the renewal of its main credit facilities, particularly short-term bank loans. Their immediate repayment is not therefore expected.

Contracted short-term credit lines

On 31 December 2017, the AdP Group had contracted lines of short term credit amounting to EUR 252.2 million of which EUR 578,000 had been drawn down as of that date.

The AdP Group objective with respect to managing capital, which is a broader concept than the capital disclosed on the balance sheet, involves maintaining an optimal capital structure through the prudent use of debt to enable it to reduce capital costs. 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 AdP Group policy is to authorise the parent company, AdP, SGPS, S.A. to contract loans with financial corporations (except for EPAL and investment loans - EIB), which in turn issues loans to subsidiaries. This policy strives not only to optimise the capital structure for greater efficiency but also to reduce the average cost of capital.

	31.12.2017	31.12.2016
Non-current loans	1 938 838 285	2 052 427 136
Current loans	88 834 855	282 938 148
BES bonds	-	(4 095 200)
Capital replenishment fund	(51 767 695)	(63 494 841)
Financing available	(66 460 256)	(223 266 659)
Net indebtedness	1 909 445 189	2 044 508 584
Investment grants	1 600 730 064	1 636 104 671
Total equity	1 517 174 573	1 444 978 843
Capital and grants	3 117 904 637	3 081 083 514
Debt/total equity	0.61	0.66

The AdP Group financing model is fundamentally based on two major categories that ensure equilibrium in the capital structure, bank loans, particularly loans contracted from the EIB, and equity and non-repayable investment grants.

3.4 Credit risk

Credit risk essentially relates to the risk of a counterparty defaulting on their contractual obligations, resulting in a Group financial loss. AdP Group is therefore exposed to credit risk within the course of its operational, investment and cash management activities

3.4.1 Operating counterparty

Credit risk in operations basically stems from receivables for services rendered to customers (water, wastewater and waste services). This risk is theoretically low given the nature of the services rendered (to state entities - municipalities). However, given the specific national economic and financial situation in recent years, with direct consequences on local government, the amount of customer debts has remained at significant levels (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. AdP Group has been warning the Central Government of the unsustainability of the arrears currently owed by some municipalities within the objective of attempting to identify alternative ways of

collecting the overdue amounts. The AdP SGPS Board of Directors constantly assesses the adoption of measures designed to ensure the recovery of the balances receivable from municipalities, which include the PAEL programme, activating the mechanism associated with preferential claims (which focuses on current debts) and establishing payment agreements and issuing injunctions or lawsuits.

It still remains the understanding of the AdP SGPS Board of Directors that there are no indicators to date that may lead, in relation to such balances, to the recognition of impairment losses despite the uncertainty existing regarding the time period necessary for municipal customers to comply with their obligations. Notes 16 and 18 detail the amounts for expired debt and the respective impairments registered.

3.4.2 Deposits counterparty

The following table sets out the maximum Group exposure to credit risk (not including customers and other debtors item balances) as at 31 December 2017, not considering any collateral held or other credit enhancements. The defined balance sheet assets exposure takes into consideration their carried over amount as reported on the main balance sheet.

Banking financial assets	Note	31.12.2017	31.12.2016
Current Accounts	21	46 674 403	40 700 933
Term Deposits	21	18 869 149	182 169 149
Other Securities		94 235	4 187 992
Capital replenishment fund	11	51 767 695	63 494 841
		117 405 482	290 552 915

Rating	31.12.2017
A-	112 540
A1	1 000
B1	66 994
B3	132 648
Ba1	5 990 483
Baa1	380 121
BB-	6 160 904
BBB-	100 867 218
Caa2	3 099 909
No known rating	593 665
	117 405 482

Note: Rating obtained from financial institution websites in February 2018

3.4.3 Derivatives counterparty

AdP, SGPS, S.A. manages interest rate-linked cash flow risks by taking out swaps that convert loans with floating interest rates into fixed interest rate loans. AdP, SGPS, S.A. contracts derivatives solely to manage its exposure to financial risks. AdP, SGPS, S.A. does not use derivatives for speculation in accordance with its financial policies. Even though the derivatives contracted by AdP, SGPS, S.A. are effective in hedging risks, they do not all qualify as hedge accounting instruments under the IAS 39 rules and requirements. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any subsequent changes are recognised in profit or loss. The fair value of derivatives is estimated according to listed instruments, whenever available. In the absence of market prices, the fair value of derivatives gets 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 recorded directly in the income statement for the period except for those referring to hedge derivatives. The recognition of changes in the fair value of hedge derivatives stems from the nature of the hedged risk and the respective hedging model.

3.5 Operational risk

3.5.1 Catastrophe risk

Águas de Portugal Group companies are exposed to risks of disasters and natural phenomena, which may jeopardise the operability of infrastructures and result in revenue losses. Group companies have taken out insurance to offset these risks.

3.5.2 Regulatory risk

Law 10/2014 of 6 March approved the new ERSAR statutes, which now operates as an independent administrative body with greater autonomy in terms of organisation, functions and financial matters and equivalent to other independent regulators.

Regulation represents the most significant restriction on the profit of Group economic activities. The regulator can take measures that result in a negative impact on cash flow due to the contractual possibility of defining a productive efficiency scenario establishing that the expenses to be recovered by the tariff differ from the expenses actually incurred. These expenses include financial expenses.

4. Estimates and judgements

Estimates and judgements impacting on AdP Group consolidated financial statements are assessed continuously and they represent, at the date of each report, the best estimate of the Board of Directors taking into account the historic performance, accumulated experience and expectations with respect to future events which, in the circumstances in question, are deemed reasonable. The intrinsic nature of estimates may mean that the real reflection of situations subject to estimates may, for the purposes of financial reporting, differ from the amounts estimated. The estimates and judgements generating 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

AdP Group companies 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 whether provisions should be set aside for these contingencies (Notes 26 and 50.2).

The subjectivity inherent in determining the likelihood and amount of internal resource outflows needed to discharge such obligations may lead to significant adjustments either due to changes in those assumptions or through the future recognition of provisions previously disclosed as contingent liabilities.

4.2 Tangible and intangible assets

Determining the useful asset life spans and the depreciation/amortisation method are both essential to calculating the amount of depreciation and amortisation for recognition in the consolidated income statement.

These two parameters are defined in accordance with the best Board of Directors estimates for the assets and business in question.

However, since this is mostly a concession and regulated activity, the useful life span of assets is also associated with the pattern of economic benefits obtained, themselves determined by economic regulation (for the concession flows and term). Estimates of flows treated or supplied are subject to periodic revisions based on new information, which is now under analysis as part of the sector restructuring.

When determining a contractual investment, the Group applies, as the basis for depreciations, the value of contractual investments stipulated in the concession contracts and/or EVEFs (the economic and financial feasibility studies) subsequently submitted to the grantor, which may be subject to revision and approval with a resulting impact on Group financial statements.

4.3 Impairment of receivables

The calculation of impairment losses is triggered by a number of events, many of which are beyond the control of the AdP Group, such as the future availability of funding, the cost of capital and the maintenance of the present market regulatory structure not to mention any other internal or external changes to the AdP Group. The identification of impairment indicators, estimates of future cash flows and determinations of the fair value of assets (or groups 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 AdP Group case, impairment indicators change with expansion in the infrastructure network, the expected tariff changes and/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 situations. The estimates reflecting evaluations of receivable impairments differ from business to business.

Impairments to any of the reported assets at the issue date of the AdP Group consolidated financial statements is not considered likely beyond those 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 is adjusted against the profit or loss for the year. In addition to the above mentioned uncertainties, there are some areas of judgement with impacts reflecting on the financial statements. Although deemed unlikely that they will lead to a material change in the next financial year, these may nonetheless bring about a change in the assumptions or assessments by the AdP Group Boards of Directors.

4.4 Fair value of derivatives

The fair value of financial instruments that do not have an active market is calculated according to evaluations that reflect the mark-to-market of such instruments. The Group deploys its judgement to choose the evaluation techniques and assumptions applied 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

Determining liabilities for retirement pensions and other employee benefits requires recourse to 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 serving to calculate retirement benefit liabilities are described in Note 27.1.

4.6 Tax and deferred tax estimation

The AdP Group believes that any review of tax return statements will not result either in material corrections to the consolidated financial statements or in the establishing 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 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 determining the amount of deferred tax assets susceptible for recognition 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 time of preparing the consolidated financial statements. However, situations may occur in subsequent periods that were not foreseeable at that time and thus not considered in these estimates. In accordance with IAS 8, changes to estimates occurring after the consolidated financial statements date are corrected prospectively in the income statement.

4.7 Cost recovery deviations

The Cost Recovery Deviation (CRD) is calculated in accordance with Decree-Laws 92, 93 and 94/2015 of 29 May (Aggregations DL) and the concession agreements stipulating, for the current regulatory period, that the CRD results from the annual difference between net company income arising from system operation and management and the net income that would result from applying the rules for determining the necessary tariffs, based on recovery of the operating costs, the investment and remuneration of shareholder equity and legal reserves, corresponding to the average daily profitability of 10-year Treasury bonds + 3% and owed shareholder remuneration, and the average daily profitability of 10-year Treasury bonds. This is not to incorporate any differences between the costs actually incurred and the costs permitted in a production efficiency scenario in accordance with criteria previously defined by ERSAR – the Water and Waste Services Regulatory Body (Productivity Efficiency Criteria).

Under the terms of the respective Concession Agreements, the concessionaires must send to ERSAR, by 31 January of the following year, the calculation for the CRD amount so that the latter may, within its powers, approve the respective amount by the end of February. The estimated CRD is, in each annual period, calculated according to the best information available at the time of preparing the financial statements. However, situations may occur in subsequent periods that were not foreseeable at the time and thus not considered in that CRD estimate. In accordance with IAS 8, changes to estimates occurring after the date of the consolidated financial statements are corrected prospectively in the income statement.

5. Relevant facts affecting profit and loss for the year

The AdP Group profit and financial position were influenced by some relevant events in 2016 and 2017, described in the notes below:

5.1 Geographical reorganisation (demerger processes)

5.1.1 Águas do Norte

On 22 February 2017, the Portuguese state awarded the concessions for the management and operation of the Multi-municipal Water Supply Systems for Southern Greater Oporto and the Multi-municipal Wastewater Treatment System for Greater Oporto to the companies Águas do Douro e Paiva, S.A. and SIMDOURO – Saneamento do Grande Porto, S.A., respectively. The new system and their respective management companies were established under Decree-law 16/2017, 1 February, with the agreement of the participant municipalities and in accordance with the program set out by the 21st Constitutional Government.

The new multi-municipal systems and the new management entities respectively emerged out of the demerger of the multi-municipal system for the water supply and sanitation services in the North of Portugal and the company Águas do Norte, in keeping with the aggregations carried out in 2015. As a result of these demergers, the Águas do Norte company is to benefit from two new revenue components: a CTA / Added Tariff Component, which represents the specific solidarity of multi-municipal system users that are rendered autonomous in terms of the water supply; and the allocation to an Environmental Fund. This model, which combines solidarity and national cohesion, introduces incentives for efficiency, ensuring the commercial sustainability of Águas do Norte and the new companies launched while also guaranteeing access to and the quality of public water supply and sanitation services.

5.1.2 Águas de Lisboa e Vale do Tejo

On 17 April and 28 April 2017, the Portuguese state attributed respectively to the companies SIMARSUL - Saneamento da Península de Setúbal, S.A. and Águas do Tejo Atlântico, S.A., the management and operation concessions for the Multi-municipal Wastewater Sanitation System for the Setúbal Peninsula and the Multi-municipal Wastewater Sanitation System for Greater Lisbon and the West. The new systems and their respective management companies were established under Decree-law 34/2017, 24 March, with the agreement of the municipalities involved and in accordance with the objectives of the program of the 21st Constitutional Government.

The new multi-municipal system and the new management entities respectively emerged out of the demerger of the multi-municipal water supply and sanitation system for Lisbon and the Tagus Valley, resulting from the aggregations carried out in 2015. As a result of these demergers, the Águas do Vale do Tejo company is to benefit from two new revenue components: a CTA / Added Tariff Component, which represents the specific solidarity of multi-municipal system users that are rendered autonomous in terms of the water supply; and the allocation to an Environmental Fund. This model, which combines solidarity and national cohesion, introduces incentives for efficiency, ensuring the commercial sustainability of Águas do Vale do Tejo and the new companies launched while also guaranteeing access to and the quality of public water supply and sanitation services.

Following the aforementioned demergers, there has been a reduction in the turnover of transactions and balances with Águas do Norte and Águas do Vale do Tejo compensated for by the transactions and balances generated with the new companies launched.

5.2 Classification of the subsidiary AQUASIS as held for sale

As at 31 December 2017, AdP SGPS directly and indirectly held 55% of the equity in the entity AQUASIS, Sistemas de Informação, S.A. ("AQUASIS"), which was classified as a non-current Asset for sale in December 2017 to the extent that the following conditions were met:

- AQUASIS is available for immediate sale; and
- AdP SGPS is in negotiations with a purchaser for the sale of AQUASIS.

The sale contract of AQUASIS was signed on 16 March 2018 dependent on approval by the Sector and Financial Regulators and the Competition Authority.

On 31 December 2017, the assets and liabilities of AQUASIS contributing towards the consolidated financial reporting of the AdP Group are measured at the lower value between the registered amount and the fair value net of sale costs. The recorded values of the assets and liabilities of AQUASIS were measured according to the applicable IFRS prior to their classification as held for sale.

The current financial accounts present the balances of AQUASIS as held for sale. The transactions generated by AQUASIS are reflected in the various items accounting for the results in accordance with IFRS 5.

The composition of the balances classified as “Non-current assets held for sale” and “Non-current liabilities held for sale” on 31 December 2017 is the following:

	Note	AQUASIS
Intangible and tangible assets	8.1 and 9.1	92 330
Goodwill	8.1	209 965
Inventories		31 451
Trade receivables		342 155
Other current assets		337 255
Cash and cash equivalents		137 242
Non-current assets held for sale		1 150 398
Loans		385 000
Suppliers		138 293
Other current liabilities		157 036
Income tax for the year		7 377
State and other public entities		109 661
Non-current liabilities held for sale		797 367

The contribution of AQUASIS in the transactions accounted for in the statements of the consolidated results for the financial year ending on 31 December 2017 is the following:

	31.12.2017
Services rendered	909 130
Turnover	909 130
COSC's	(749 828)
Personnel costs	(908 440)
Other operating expenses and losses	7 544
Operating profit	(741 594)
Financial expenses	(20 438)
Profit before tax	(762 032)
Income tax for the year	(26 624)
Net profit of financial year	(788 657)
IG Transactions	771 078
Net profit of financial year	(17 579)
Allocable to AdP SGPS shareholders	(9 669)
Allocable to non-controlling interests	(7 910)
Net profit of financial year	(17 579)

6. Information by business segment

31.12.2017	Regulated activity Production, Treatment Transport	Unregulated activities EPAL	Unregulated activities International	Unregulated activities Corporate	Adjustments	Consolidated Total
External sales	492 083 154	141 978 663	3 604 596	1 618 788	-	639 285 201
Income from construction of assets for concession (IFRIC 12)	73 008 886					73 008 886
Intersegment sales	13 210 308	14 602 929	-	16 489 215	(44 302 452)	-
Total revenue	578 302 348	156 581 592	3 604 596	18 108 003	(44 302 452)	712 294 087
Cost of sales/variation of inventories	(19 124 741)	(1 783 513)	-	-	-	(20 908 254)
Costs of construction of assets for concession (IFRIC 12)	(73 008 886)					(73 008 886)
Supplies and services	(155 096 980)	(26 816 036)	(1 845 351)	(4 868 121)	-	(188 626 488)
Personnel costs	(55 251 748)	(32 547 498)	(1 176 483)	(9 824 718)	-	(98 800 447)
Amortisations, depreciations and reversals in financial year	(180 637 504)	(25 272 945)	329 165	(1 703 877)	-	(207 285 161)
Provisions and reversals in financial year	(562 506)	22 017	-	(745 000)	-	(1 285 489)
Impairment losses and reversals	(5 261 822)	(1 073 295)	-	(108 891)	-	(6 444 008)
Fair value gains and losses	-	-	-	-	-	-
Investment grants	57 363 519	1 062 643	-	5 214	-	58 431 376
Other operating expenses and losses	(7 295 627)	(4 357 265)	(81 834)	(136 636)	-	(11 871 362)
Other operating income and gains	5 580 795	3 558 622	369 146	405 007	-	9 913 570
Operating profit inter - segments	(48 572 189)	4 429 657	(402 959)	(183 195)	44 728 686	-
Operating profit totals	96 434 659	73 803 979	796 280	947 786	426 234	172 408 938
External financial income	(28 002 596)	(2 816 708)	(330 937)	(90 121)	-	(31 240 362)
Inter-segment financial income	(20 551 170)	245 054	(94 566)	20 826 916	(426 234)	-
Profit before tax	47 880 893	71 232 325	370 777	21 684 581	-	141 168 576
Income tax for the year	(10 599 752)	(21 883 670)	(2 127)	(6 081 710)	-	(38 567 259)
Net profit of financial year of continued operations	37 281 141	49 348 655	368 650	15 602 871	-	102 601 317
Net profit from discontinued operations						-
Net profit for the period	37 281 141	49 348 655	368 650	15 602 871	-	102 601 317
Allocable to a non-controlling interest	14 001 479	-	-	(7 910)	-	13 993 569
Allocable to AdP, SGPS, S.A. shareholders	23 279 662	49 348 655	368 650	15 610 781	-	88 607 748
	37 281 141	49 348 655	368 650	15 602 871	-	102 601 317

Note: Total revenue includes cost recovery deviations for the period

31.12.2016	Regulated activity Production, Treatment Transport	Regulated activities EPAL	Unregulated activities International	Unregulated activities Corporate	Adjustments	Consolidated Total
External sales	505 077 373	137 387 174	2 103 863	1 488 619	-	646 057 029
Income from construction of assets for concession (IFRIC 12)	51 964 499					51 964 499
Intersegment sales	15 177 153	13 631 692	-	16 081 281	(44 890 126)	-
Total revenue	572 219 025	151 018 866	2 103 863	17 569 900	(44 890 126)	698 021 528
Cost of sales/variation of inventories	(17 847 262)	(1 649 739)	-	(32 839)	-	(19 529 840)
Costs of construction of assets for concession (IFRIC 12)	(51 964 499)					(51 964 499)
Supplies and services	(158 325 113)	(27 981 250)	(1 728 412)	(3 937 579)	-	(191 972 354)
Personnel costs	(38 257 073)	(44 725 041)	(1 416 487)	(9 773 902)	-	(94 172 503)
Amortisations, depreciations and reversals in financial year	(186 708 180)	(25 386 435)	(84 991)	(1 690 250)	-	(213 869 856)
Provisions and reversals in financial year	(1 309 453)	694 082	(27 000)	154 760	-	(487 611)
Impairment losses and reversals	(14 637 927)	(489 588)	(2 345 565)	(468 572)	-	(17 941 652)
Fair value gains and losses	-	-	-	-	-	-
Investment grants	55 194 827	1 062 643	-	-	-	56 257 470
Other operating expenses and losses	(6 193 970)	(1 552 365)	(574 623)	(180 695)	-	(8 501 653)
Other operating income and gains	5 825 263	3 767 104	745 605	274 328	-	10 612 300
Inter-segment operating profit	(60 416 133)	15 580 431	(48 979)	(4 101)	44 888 782	-
Total operating profit	97 579 505	70 338 708	(3 376 589)	1 911 050	(1 344)	166 451 330
External financial income	(33 967 907)	(1 828 577)	(57 941)	(10 001 168)	-	(45 855 593)
Inter-segment financial income	(21 626 827)	121 236	(166 689)	21 670 936	1 344	-
Profit before tax	41 984 771	68 631 367	(3 601 219)	13 580 818	-	120 595 737
Income tax for the year	(13 911 628)	(18 921 067)	(17 334)	(4 175 386)	-	(37 025 415)
Net profit of financial year of continued operations	28 073 143	49 710 300	(3 618 553)	9 405 432	-	83 570 322
Net profit from discontinued operations						-
Net profit for the period	28 073 143	49 710 300	(3 618 553)	9 405 432	-	83 570 322
Allocable to a non-controlling interest	13 004 332	-	-	(185 396)	-	12 818 936
Allocable to AdP, SGPS, S.A. shareholders	15 068 811	49 710 300	(3 618 553)	9 590 828	-	70 751 386
	28 073 143	49 710 300	(3 618 553)	9 405 432	-	83 570 322

Transactions between segments are carried out under normal market conditions according to the same accounting policies adopted by the Group when handling transactions with non-related entities.

31.12.2017	Regulated and concessioned activities	Regulated and non-concessioned activities	Unregulated activities International	Unregulated activities Corporate	Adjustments	Consolidated Total
Segment assets	5 040 934 336	614 518 960	(829 628)	496 008 681	-	6 150 632 350
Inter-segment assets	(66 718 142)	(73 843 882)	(19 159)	(749 227 805)	889 808 988	-
Total assets	4 974 216 194	540 675 078	(848 786)	(253 219 124)	889 808 988	6 150 632 350
Segment liabilities	4 493 683 918	169 453 871	4 694 226	(34 374 238)	-	4 633 457 776
Inter-segment liabilities	(66 718 142)	(73 843 882)	(19 159)	(749 227 805)	889 808 988	-
Total liabilities	4 426 965 776	95 609 989	4 675 067	(783 602 043)	889 808 988	4 633 457 776

31.12.2016	Regulated and concessioned activities	Regulated and non-concessioned activities	Unregulated activities International	Unregulated activities Corporate	Adjustments	Consolidated Total
Segment assets	5 083 588 492	469 823 802	1 751 288	834 359 680	-	6 389 523 261
Inter-segment assets	(1 807 499)	(14 473 238)	(12 851)	(509 555 510)	525 849 098	-
Total assets	5 081 780 993	455 350 564	1 738 437	324 804 170	525 849 098	6 389 523 261
Segment liabilities	4 582 110 496	239 631 329	10 410 760	108 403 575	-	4 940 556 160
Inter-segment liabilities	(1 807 499)	(14 473 238)	(12 851)	(509 555 510)	525 849 098	-
Total liabilities	4 580 302 996	225 158 091	10 397 910	(401 151 935)	525 849 098	4 940 556 160

7. Financial instruments by IAS 39 category

7.1 Classification of financial assets and liabilities according to IAS 39

31.12.2017	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	51 999 562	-	-	51 999 562
Trade receivables and other assets	407 516 384	-	-	407 516 384
Other current assets	122 630 865	-	-	122 630 865
Cash and cash equivalents	66 460 256	-	-	66 460 256
	648 607 067	-	-	648 607 067
Loans	-	-	2 027 673 140	2 027 673 140
Trade payables and other liabilities	-	-	166 444 185	166 444 185
Derivative financial instruments	-	3 770 756	-	3 770 756
Other current liabilities	-	-	108 481 075	108 481 075
	-	3 770 756	2 302 598 400	2 306 369 156

31.12.2016	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 fair value through profit or loss	Financial liabilities at amortised cost	Total financial instruments
Financial investments	4 095 201	67 176 131	-	-	-	71 271 332
Trade receivables and other assets	-	387 680 420	-	-	-	387 680 420
Other current assets	-	164 212 920	-	-	-	164 212 920
Cash and cash equivalents	-	223 266 659	-	-	-	223 266 659
	4 095 201	842 336 130	-	-	-	846 431 331
Loans	-	-	-	-	2 335 365 284	2 335 365 284
Trade payables and other liabilities	-	-	-	-	162 174 019	162 174 019
Derivative financial instruments	-	-	14 172 960	2 168 508	-	16 341 468
Other current liabilities	-	-	-	-	115 402 378	115 402 378
	-	-	14 172 960	2 168 508	2 612 941 681	2 629 283 149

7.2 Fair value hierarchy

All financial instruments at fair value are classified by one of three hierarchy levels, as follows:

	31.12.2017			31.12.2016		
	level 1	level 2	level 3	level 1	level 2	level 3
Financial assets at fair value through profit or loss						
Investments in bonds					4 095 200	
Financial liabilities at fair value through profit or loss						
Derivatives					14 172 960	
Financial liabilities at fair value through profit or loss						
Derivatives		3 770 756			2 168 508	

8. Intangible assets

	31.12.2017	31.12.2016
Right to use infrastructure - IFRIC 12	3 726 579 024	3 807 093 906
Goodwill and lease transfers	-	209 965
Development costs	2 444 203	2 535 393
Industrial property and other rights	1 366 482	1 902 100
Computer programs	28 244	26 261
Other intangible assets	16 028 086	15 612 956
Intangible assets in progress	130 794 278	118 071 627
Debt/ Total equity	3 877 240 317	3 945 452 208

The Group does not recognise internally generated intangible assets

8.1 Movements in the period

Gross value	31.12.2016	Increases	Currency conversion	Decreases/ disposals	Reclassification	Transfers	Held for sale (note 5.2)	31.12.2017
Right to use infrastructure	5 409 590 653	10 451 288	-	(22 722)	-	53 799 990	-	5 473 819 209
Goodwill	209 965	-	-	-	-	-	(209 965)	-
Development projects	6 370 164	34 032	389	-	-	-	(270 470)	6 134 115
Industrial property	11 647 184	-	-	-	-	-	(237 628)	11 409 556
Computer software	35 635	3 117	-	-	-	-	-	38 752
Other intangible assets	26 323 984	-	(312)	-	-	42 022	-	26 365 694
Intangible assets in progress	118 071 627	66 682 876	-	(42 458)	-	(53 837 999)	(79 768)	130 794 278
	5 572 249 212	77 171 313	77	(65 180)	-	4 013	(797 831)	5 648 561 604

Accumulated amortisation	31.12.2016	Increases (note 39)	Currency conversion	Decreases/ disposals	Reclassification (note 30.1)	Transfers	Held for sale (note 5.2)	31.12.2017
Right to use infrastructure	(1 602 496 747)	(131 650 439)	-	6 878	(12 515 444)	(584 433)	-	(1 747 240 185)
Development projects	(3 834 771)	(125 156)	(389)	-	-	(66)	270 470	(3 689 912)
Industrial property	(9 745 084)	(543 858)	-	-	-	8 240	237 628	(10 043 074)
Computer software	(9 374)	(1 131)	-	-	-	(3)	-	(10 508)
Other intangible assets	(10 711 028)	(196 729)	311	-	(6 424)	576 262	-	(10 337 608)
	(1 626 797 004)	(132 517 313)	(78)	6 878	(12 521 868)	-	508 098	(1 771 321 287)
Net value	3 945 452 208	(55 346 000)	(1)	(58 302)	(12 521 868)	4 013	(289 733)	3 877 240 317

In the 2017 financial year, the transfer of the amount of EUR 53,799,990 to the "Right to use infrastructure" item essentially stems from various Group Company infrastructures entering operation or completing construction (new infrastructures or investments in the rehabilitation of water and wastewater treatment transport and treatment infrastructures). Following either the entrance into

operation or the completion of construction of these infrastructures, the "Accrued contractual investment expenses" item was reclassified to include the accumulated amortisation of the right to use infrastructure for the total amount of EUR 12,515,444.

As at 31 December 2017, the "Intangible assets in progress" item corresponds to ongoing works on Group Company infrastructures (new infrastructures or investments in the rehabilitation of water and wastewater treatment transport and treatment infrastructures).

8.2 Right to use infrastructure and intangible assets in progress

Gross value	31.12.2016	Increases	Currency conversion	Decreases/disposals	Reclassification	Transfers	Held for sale (note 5.2)	31.12.2017
Right to use infrastructure	5 409 590 653	10 451 288	-	(22 722)	-	53 799 990	-	5 473 819 209
Intangible assets in progress	1 18 071 627	66 682 876	-	(42 458)	-	(53 837 999)	(79 768)	130 794 278
	5 527 662 280	77 134 164	-	(65 180)	-	(38 009)	(79 768)	5 604 613 487

Accumulated amortisation	31.12.2016	Increases	Currency conversion	Decreases/disposals	Reclassification (note 30.1)	Transfers	Held for sale (note 5.2)	31.12.2017
Right to use infrastructure	(1 602 496 747)	(131 650 439)	-	6 878	(12 515 444)	(584 433)	-	(1 747 240 185)
	(1 602 496 747)	(131 650 439)	-	6 878	(12 515 444)	(584 433)	-	(1 747 240 185)
Net value	3 925 165 533	(54 516 275)	-	(58 302)	(12 515 444)	(622 442)	(79 768)	3 857 373 302

8.3 Leasing

Net book value of intangible assets acquired by leasing:

	31.12.2017	31.12.2016
DUI - Land and natural resources	842 379	870 164
DUI - Buildings and other constructions	2 527 969	2 613 414
	3 370 348	3 483 578

9. Tangible fixed assets

	31.12.2017	31.12.2016
Land and natural resources	122 816 373	122 809 604
Buildings and other constructions	103 077 794	108 080 945
Basic equipment	469 019 274	481 368 629
Transport equipment	306 182	337 883
Office equipment	2 920 683	2 847 404
Other	2 383 842	2 482 512
Investments in progress	19 853 787	13 556 571
	720 377 935	731 483 548

9.1 Movements in the period

Gross value	31.12.2016	Increases	Currency conversion	Decreases/disposals	Reclassification	Transfers	Held for sale (note 5.2)	31.12.2017
Land and natural resources	122 809 604	-	-	(10 120)	-	16 889	-	122 816 373
Buildings and other constructions	228 294 551	6 658	-	-	-	129 071	-	228 430 280
Basic equipment	1 061 148 993	1 444 614	-	(577 099)	87 987	6 162 927	-	1 068 267 422
Transport equipment	2 683 280	99 166	(4 874)	-	-	-	-	2 777 572
Office equipment	32 220 501	603 480	(5 349)	(2 524)	-	460 962	(82 024)	33 195 046
Other	25 823 140	164 065	1 104	(13 991)	-	231 558	-	26 205 876
Investments in progress	13 556 571	14 977 327	-	(1 444 925)	(229 766)	(7 005 420)	-	19 853 787
	1 486 536 640	17 295 310	(9 119)	(2 048 659)	(141 779)	(4 013)	(82 024)	1 501 546 356

Accumulated amortisation	31.12.2016	Increases (note 39)	Currency conversion	Decreases/ disposals	Reclassification	Transfers	Held for sale (note 5.2)	31.12.2017
Land and natural resources	-	-	-	-	-	-	-	-
Buildings and other constructions	(119 843 606)	(5 138 880)	-	-	-	-	-	(124 982 486)
Basic equipment	(579 780 364)	(20 044 883)	-	577 099	-	-	-	(599 248 148)
Transport equipment	(2 345 397)	(130 172)	4 179	-	-	-	-	(2 471 390)
Office equipment	(29 373 097)	(976 212)	3 016	2 469	-	-	69 461	(30 274 363)
Other	(23 340 628)	(494 291)	(1 106)	13 991	-	-	-	(23 822 034)
	(754 683 092)	(26 784 438)	6 089	593 559	-	-	69 461	(780 798 421)

Impairment losses	31.12.2016	Increases	Currency conversion	Decreases/ disposals	Reclassification	Transfers	Held for sale	31.12.2017
Buildings and other constructions	(370 000)	-	-	-	-	-	-	(370 000)
Other tangible fixed assets	-	-	-	-	-	-	-	-
	(370 000)	-	-	-	-	-	-	(370 000)
Net value	731 483 548	(9 489 128)	(3 030)	(1 455 100)	(141 779)	(4 013)	(12 563)	720 377 935

The “Basic equipment” item essentially includes the distribution network, pipes, reservoirs, water and electricity installations, hydraulic works and meters (“downstream” supply through EPAL). As at 31 December 2017, the “Basic equipment” item furthermore includes fixed assets in the keeping of third parties, specifically the water meters placed in the upstream distribution network with a value of approximately EUR 3.2 million.

The acquisitions that took place in the 2017 financial year correspond essentially to works on EPAL water supply infrastructures. As at 31 December 2017, the “Investments in progress” item essentially corresponds to works ongoing to EPAL infrastructures (new infrastructures or investments in the rehabilitation of water treatment and transport infrastructures).

The decrease in the “Investments in progress” item, totalling EUR 1,444,925 stems from (i) the transfer to warehouse storage of pipes available for utilisation in future construction projects, and (ii) the regularisation of a project that, as it is no longer due for implementation, was recognised as a cost in the results reported.

9.2 Leasing

Net book value of tangible fixed assets acquired through leasing:

	31.12.2017	31.12.2016
Land and natural resources	5 050 000	5 050 000
Buildings and other constructions	11 892 388	12 689 721
	16 942 388	17 739 721

10. Investment properties

	31.12.2017	31.12.2016
Land	12 883 737	12 883 737
Buildings	2 537 817	2 537 817
Accumulated depreciation (note 39)	(1 942 541)	(1 862 197)
	13 479 013	13 559 357

As a result of an agreement with Lisbon Municipal Council, EPAL incorporated into its assets a plot of land recorded as an investment property with a value of approximately EUR 12.8 million as its use was not defined. Pursuant to the said agreement, concluded in 1992, Lisbon Municipal Council undertook to transfer building land to EPAL. Developments in 2014 culminated in the effective transfer of the land on 31 December by public deed between Lisbon Municipal Council and EPAL.

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 2015, performed by a duly qualified, specialised and independent entity.

The Group Board of Directors does not consider it to have changed significantly and the carried over value is guaranteed under the contract signed with Lisbon Municipal Council.

11. Financial investments

		31.12.2017	31.12.2016
Capital replenishment fund	(i)	51 767 695	63 494 841
Shareholding in EGF	(ii)	-	3 032 577
BES bonds	(iii)	-	4 095 200
Other financial investments		231 867	648 714
		51 999 562	71 271 332

(i) The concessionary and regulated companies are obliged, in accordance with their concession contracts, to establish a capital replenishment fund, with an institution authorised by the Bank of Portugal, for an amount corresponding to the annual sum of capital amortization (at the end of the concession the amount held in the Fund is to equal the value of the equity of the concessionary companies), which are under the management of the concessionary and that this holds rights to under the terms of the contract. This thereby safeguards the interests of users given that a margin for the remuneration of the invested capital is incorporated into the tariff with the earnings of the fund annually deducted from expenditure and costs. Since 2010, these funds have been deposited with IGCP – the state treasury and public debt management agency. For Group Companies that has seen their term of concession extended, there was no further strengthening of the capital replenishment fund for this having taken place at a date later than that contractually necessary. However, in these cases, there was no recourse, that is, there were no reductions, maintaining the amounts already established, duly securitised, with the IGCP. The Decree-laws that established the new companies in 2015 within the scope of the aggregation process, Águas do Norte, Águas do Centro Litoral and Águas do Vale do Tejo, dispensed with the establishing of a capital replenishment fund while enabling these companies to make these amounts available for the paying down of debt. Additionally, the new companies, founded in 2017 within this framework, Águas do Tejo Atlântico, Simarsul, Águas do Douro e Paiva and Simdouro, are also dispensed from any need to maintain a capital replenishment fund.

The map below details the value of these funds by Group company:

	31.12.2017	31.12.2016
Águas do Algarve	13 705 956	12 897 297
Águas do Centro Litoral	6 303 686	10 478 028
Águas do Douro e Paiva	12 010 557	-
Águas do Norte	-	13 081 615
Águas de Santo André	448 485	388 970
Águas do Tejo Atlântico	11 288 108	-
Águas do Vale do Tejo	4 664 847	26 648 931
SIMARSUL	2 274 998	-
SIMDOURO	1 071 058	-
	51 767 695	63 494 841

(ii) On 31 December 2016, the AdP Group held 5% of the capital of EGF. This stake was disposed of in 2017 for the amount of EUR 6,805,871. Additionally, on 31 December 2016, the AdP Group had set aside a provision for the amount of EUR 1,400,000 (note 26) in order to offset any eventual losses from this sale, a situation that did not occur. This sale generated a gain in the financial results reported for the year ending on 31 December 2017 totalling EUR 5,173,294 (note 46).

(iii) On 31 December 2016, the AdP Group held a set of bonds issued by Novo Banco, S.A. (formerly Banco Espírito Santo, S.A.) or issued by companies belonging to the Novo Banco group, for a total value of EUR 10,600,000, which were recorded on that date with a fair value of EUR 4,095,200. Following the proposal, made by Novo Banco in July 2017, to acquire these bonds, extended to all holders of such bonds, the AdP Group disposed of those bonds for the amount of EUR 5,172,118, resulting in a gain in the financial results reported for the year ending on 31 December 2017 totalling EUR 1,096,718 (note 46).

12. Investments in associates

	nota	31.12.2017	31.12.2016
Miese	(i)	326 966	326 966
Trevo Oeste	(i)	572 990	572 990
Trevo Oeste (loans)		55 758	55 758
Impairment losses	(i)	(899 956)	(899 956)
		55 758	55 758

(i) An impairment was recognised on the value of Miese's financial shareholding, taking into account current uncertainties about the future development of its activity.

13. Deferred tax

	31.12.2017	31.12.2016
Deferred tax assets	202 324 552	181 254 165
	202 324 552	181 254 165
Deferred tax liabilities	268 209 457	267 027 346
	268 209 457	267 027 346

13.1 Movements in the period

	Opening balance	Allocation/ Utilisation (note 47)	Adjustment to the rate (in the results) (note 47)	Adjustment to the rate (in the reserves)	Reclassification	Other regularisations	Closing balance
Deferred tax assets							
Reportable losses	1 500 342	(363 184)	-	-	-	-	1 137 158
Tariff deviation	52 597	17 764 166	-	-	284 727	-	18 101 490
IFRIC 12 impact	-	-	-	-	-	-	-
IFRIC 12 impact (Transition) - definitive investment for depreciation	48 640 910	(174 344)	-	-	-	(27 688 922)	20 777 644
IFRIC 12 impact (Transition) - definitive investment for grants	17 666 911	-	-	-	-	-	17 666 911
IFRIC 12 impact (Transition) - future investment for depreciation	210 336 870	(6 168 628)	-	-	-	82 987 601	287 155 843
IFRIC 12 impact (Transition) - future investment for grants	14 127 027	(484 172)	-	-	-	-	13 642 855
IFRIC 12 impact annual period - depreciation IFRC 12 VS fiscal	27 408 634	5 482 384	-	-	-	57 924 500	90 815 518
IFRIC 12 impact annual period - future investment	355 422 353	39 558 045	-	-	(191)	(115 164 121)	279 816 086
IFRIC 12 impact annual period - grants IFRC 12 VS fiscal	6 929 256	1 863 844	-	-	(1 418 235)	1 307 970	8 682 835
Depreciation differences - book values Vs. fiscal	4 261 034	385 240	-	-	-	-	4 646 274
IFRIC 12 impact other	-	2 845 144	-	-	-	30 732 116	33 577 260
Provisions	-	-	-	-	-	-	-
Impairment losses	6 112 327	398 201	-	-	-	(763 704)	5 746 824
Risks and charges	15 031 038	(14 284 189)	-	-	-	796 007	1 542 856
Pensions	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Outros:	-	-	-	-	-	-	-
Reinstatement of taxable income (Tax returns of 97/98/99) (EPAL)	1 549 908	(616 757)	-	-	1 102	615 655	1 549 908
ADO and Sintra update - conversion to IFRS - opening balance 01/01/2010	1 590 790	(174 115)	-	-	-	(1 102)	1 415 573
Other adjustments	-	5 063 863	-	-	-	-	5 063 863
Assessment base	710 629 997	51 095 497	-	-	(1 132 597)	30 746 000	791 338 898
Recognised deferred tax assets	181 254 165	12 174 640	1 143 083	-	(234 613)	7 987 277	202 324 552
	25.51%	23.83%	0.06%	0.00%	20.71%	25.98%	25.57%
Deferred tax liabilities							
Update for Amortised Cost	-	-	-	-	-	-	-
Tariff deviation	662 591 539	30 252 782	-	-	284 727	(8 616 942)	684 512 107
IFRIC 12 impact	-	-	-	-	-	-	-
IFRIC 12 impact (Transition) - definitive investment for depreciation	7 263 054	(751 416)	-	-	-	7 765 270	14 276 908
IFRIC 12 impact (Transition) - definitive investment for grants	99 774 207	(306 384)	-	-	-	(94 613 276)	4 854 547
IFRIC 12 impact (Transition) - future investment for depreciation	114 427 559	(4 935 419)	-	-	-	11 764 336	121 256 476
IFRIC 12 impact (Transition) - future investment for grants	2 898 205	(2 242 474)	-	-	-	66 730 804	67 386 535
IFRIC 12 impact annual period - grants IFRC 12 VS fiscal	20 031 772	523 427	-	-	(1 418 239)	(1 013 601)	18 123 359
IFRIC 12 impact annual period - future grants	1 581 608	1 333 331	-	-	-	8 680 201	11 595 140
Revaluation reserves	125 417 182	(4 488 328)	-	-	-	(436 607)	120 492 247
Capital gains reinvested	159 897	(4 877)	-	-	-	(9 754)	145 266
Other adjustments	-	(3 629 515)	-	-	-	3 837 688	208 173
Reinstatement of taxable income (IRC 97/98/99)	1 748 000	2 927 475	-	-	-	-	4 675 475
Assessment base	1 035 893 023	18 678 602	-	-	(1 133 512)	(5 911 881)	1 047 526 232
Recognised deferred tax liabilities	267 027 345	3 409 323	(2 941 402)	1 599 516	(234 828)	(650 497)	268 209 457
	25.78%	18.25%	(0.17%)	(0.17%)	20.72%	11.00%	25.60%
Net assessment base	(325 263 026)	32 416 896	-	-	915	36 657 881	(256 187 334)
Net deferred tax	(85 773 180)	8 765 317	4 084 486	(1 599 516)	215	8 637 774	(65 884 904)
	26.37%	27.04%			23.50%	23.56%	25.72%

The sum of EUR 8,637,774 for the reduction in the net deferred tax liability corresponds to a regularisation offset against the balance sheet tariff deviation (note 15).

A number of Group companies have expected tax results in the future that will not allow for the recovery of the deferred tax assets generated by the losses reported and so these deferred tax assets were not calculated.

Year generated	Year reported	Total of reportable fiscal losses
2015	2027	2 141 867
2016	2028	987 965
2017	2022	11 481 720
		14 611 552

14. Derivative financial instruments

Swap	Risk hedged	National	Maturity	J.V. 2017	J.V. 2016	In profit or loss 2017 (note 45)	In comprehensive income 2017
Citi Bank – interest rate (a)	Interest rate	50 000 000	2027	-	(11 734 574)	619 024	-
BBVA – interest rate (b)	Interest rate	20 000 000	2023	(3 770 756)	(4 606 894)	-	836 138
Total				(3 770 756)	(16 341 468)	619 024	836 138

(a) In 2017, the derivative with a notional value of EUR 50 million was pre-emptively cancelled by the bank in accordance with the contractually defined conditions and settling the amount of EUR 11,115,550.

(b) AdP pays a fixed rate and receives a variable rate. Option for cancellation by the bank in 2020.

AdP makes recourse to derivatives solely to manage its exposure to financial risks. 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 their fair value has been recorded directly in equity since 2012. Evaluations of the effectiveness of these instruments were made and with the results within the 80% to 125% range.

15. Tariff deviation

	31.12.2017	31.12.2016
Regulatory assets - gross tariff deviation	684 512 107	662 591 539
Regulatory liabilities - gross tariff deviation	(18 101 492)	(52 597)
	666 410 615	662 538 942

Conciliation of gross tariff deviation:

	31.12.2016	Demerger	Financial year (note 35)	ERSAR 2017 (in profit or loss before tax)	Other adjustments (note 13.1)	31.12.2017
Águas do Algarve	697 973		(6 628 110)	-	-	(5 930 137)
Águas do Centro Litoral	64 333 994		(90 397)	(390 734)		63 852 863
Águas do Douro e Paiva	-	(982 699)	(10 512 897)	(286 709)		(11 782 305)
Águas do Norte	254 101 046	(16 362 465)	20 124 751	(798 794)		257 064 538
AgdA - Águas Públicas Alentejo	(52 597)		(336 451)	-		(389 048)
Águas do Tejo Atlântico	-	43 519 976	(2 544 063)	(3 143 411)		37 832 502
Águas do Vale do Tejo	303 919 992	(98 755 564)	13 759 783	(731 926)		218 192 285
SIMARSUL	-	55 235 588	4 535 627	-	20 832	59 792 047
SIMDOURO	-	17 345 164	1 221 281	(96 995)		18 469 450
AdRA - Águas Região de Aveiro	168 642		(4 437 480)	-		(4 268 838)
AdRA - Águas da Região de Aveiro (Ajustamento)	39 369 890		2 845 144	-	(8 637 775)	33 577 259
	662 538 940	-	17 937 188	(5 448 569)	(8 616 943)	666 410 616
Asset deviation	662 591 539	982 699	34 716 673	(5 161 860)	(8 616 943)	684 512 107
Liabilities deviation	(52 597)	(982 699)	(16 779 487)	(286 709)		(18 101 492)
	662 538 942	-	17 937 186	(5 448 569)	(8 616 943)	666 410 615

In accordance with Decree-Laws 92/2015, 93/2015 and 94/2015 of 29 May, on 30 March 2017, ERSAR communicated the decision not to accept the arguments presented by the Águas do Norte, S.A., Águas do Centro Litoral, S.A. and Águas de Lisboa e Vale do Tejo, S.A. companies in response to the valuation of cost recovery deviations recorded in the accounts of the aforementioned companies in 2017.

The consolidated financial accounts for 2016 registered an estimate for the correction of cost recovery deviations for the gross tax amount of EUR 5,671,444 euros, with a new tax impacting on the AdP Group minority interests of EUR 2,373,150 (estimate for Águas do Norte, Águas do Centro Litoral and Águas de Lisboa e Vale do Tejo). That correction was subsequently accepted by ERSAR and registered by the holding companies in the 2017 results and did not result in any impact on the consolidated financial accounts for the year ending on 31 December 2017.

In view of this decision by the sector Regulator, and despite the fact that the accounts for 2017 are already closed and approved at the general meetings of the respective companies, the AdP - Águas de Portugal, SGPS, S.A. Executive Board decided to recognise, for prudential purposes, the accounting impact of the regulatory authority decision on the AdP Group consolidated financial statements.

Hence, the gross cost recovery deviation for the year of 2017 recorded in the AdP Group consolidated financial statements is impacted by the following negative effects:

- Águas do Norte, S.A., 798 794 EUR
- Águas do Centro Litoral, S.A., 390 734 EUR
- Águas do Vale do Tejo, S.A., 731 926 EUR
- Águas do Douro e Paiva, S.A., 286 709 EUR
- Águas do Tejo Atlântico, S.A., 3 143 411 EUR
- SIMDOURO, S.A., 96 996 EUR

These entries adversely affect the net AdP Group profit by EUR 2 367 463.

Accounting for these impacts is carried out on the basis of financial prudence and transparency standards and cannot be considered as agreement with the regulator's analyses and the consequent decisions communicated to the Águas do Norte, S.A., Águas do Centro Litoral, S.A. and Águas do Vale do Tejo, S.A., Águas do Douro e Paiva S.A., Águas do Tejo Atlântico, S.A. and Simdour S.A. companies.

During 2018, ERSAR is to make its best efforts to reach a consensus on the differences established in the 2017 annual period, between net company profits resulting from the system operation and management and the net profit that would result from applying these

rules for setting the rates, and which should not incorporate the differences between the costs actually incurred and the costs allowable in a production efficiency scenario in accordance with previously defined ERSAR criteria.

16. Trade receivables and other non-current assets

	note	31.12.2017	31.12.2016
Trade receivables	16.1	40 065 290	37 351 940
Investment grants – cohesion fund and other	20.1.1	5 700 910	4 290 981
Concession charges – accrued investment		22 817	25 826
Residual value	16.2	13 835 735	13 109 300
Other	16.3	23 749 511	20 443 349
		83 374 263	75 221 396
Impairment losses	16.4	(1 355 551)	(1 355 551)
		82 018 712	73 865 845

16.1 Trade receivables

	note	31.12.2017	31.12.2016
General		87 127	272 967
Municipalities	18.3	39 978 163	37 078 973
		40 065 290	37 351 940

The following table presents the main municipalities with debts under non-current trade receivables, i.e. resulting from agreements signed with customers:

	31.12.2017	31.12.2016
Reguengos de Monsaraz Municipality	6 899 123	-
Águas de Alenquer S.A.	4 728 381	5 574 644
Caminha Municipality	4 374 646	-
Évora Municipality	3 338 844	-
Alcobaça Municipality	2 547 885	3 421 445
Portalegre Municipality	2 480 020	3 120 381
Montijo Municipality	-	101 452
Palmela Municipality	-	1 077 809
Santiago do Cacém Municipality	-	314 943
Seia Municipality	-	121 756
Other	15 609 264	23 346 543
	39 978 163	37 078 973

The net variation in this accounting item results from some cases of non-compliance with debt settlement agreements. These are thus reclassified to short term (current), see note 18.

16.2 Residual value

Significant changes in the investment amount 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 following balances

	31.12.2017	31.12.2016
Águas do Algarve, S.A.	13 835 735	13 109 300
Total	13 835 735	13 109 300

16.3 Other non-current assets

	note	31.12.2017	31.12.2016
Águas do Centro Litoral	(i)	17 106 654	15 676 020
EPAL	(ii)	5 487 735	4 173 729
Other		1 155 122	593 600
Total		23 749 511	20 443 349

(i) SIMRIA (a company now extinct) signed a payment agreement in a concession contract with the municipalities, involving the future distribution of dividends that the municipalities thereby renounced to the amount of EUR 14 million. The trade receivables item was duly reclassified.

(ii) The amount recorded by EPAL also includes EUR 5 467 000 (EUR 3 431 000 in 2016) of surplus pension plan hedging, as disclosed in note 27.2.

16.4 Accumulated impairment losses on other non-current assets

	31.12.2017
Opening balance	(1 355 551)
Movement in financial period	-
Closing balance	(1 355 551)

17. Inventories

	31.12.2017	31.12.2016
Goods	-	31 451
Raw materials and consumables	2 885 203	1 891 831
Accumulated impairment losses on inventories	-	-
Total	2 885 203	1 923 282

18. General trade receivables

	note	31.12.2017	31.12.2016
Trade receivables - current account		282 595 938	285 565 268
Trade receivables - late-payment interest	18.2	17 611 728	20 195 493
Doubtful debtors		61 457 840	55 019 694
Estimate of services for billing		27 556 106	12 236 381
		389 221 612	373 016 836
Impairment losses on trade receivables		(63 723 940)	(59 202 261)
		325 497 672	313 814 575

	note	31.12.2017	31.12.2016
General	18.1	55 970 344	53 429 223
Municipalities	18.3	305 695 161	307 351 233
Estimate of services for billing		27 556 107	12 236 380
		389 221 612	373 016 836
Impairment losses from customers	18.4	(63 723 940)	(59 202 261)
		325 497 672	313 814 575

On 31 December 2016, the estimate of services for billing was recorded under the item "Other current assets" (note 20).

18.1 General trade receivables

General trade receivables result from the downstream water distribution activity (EPAL, Águas de Santo André, Águas do Norte, AdRA - Águas da Região de Aveiro) and from unregulated activities.

	31.12.2017	31.12.2016
EPAL	19 352 763	17 720 048
Águas de Santo André	15 506 988	15 403 969
Águas do Norte	6 445 666	6 927 405
AdRA - Águas Região de Aveiro	5 795 733	4 906 526
AdP Internacional	5 592 419	4 793 153
Águas do Tejo Atlântico	2 328 344	-
Águas do Vale do Tejo		1 366 438
Other group companies	948 431	2 311 684
Total	55 970 344	53 429 223

18.2 Late-payment interest

The debit of late-payment interest arises from non-compliance with the payment of services within the terms of the contract.

	31.12.2017	31.12.2016
General	560 336	409 677
Municipalities	17 051 392	19 785 816
Total	17 611 728	20 195 493

18.3 Trade receivables – Municipalities

Reconciling the debts of current and non-current trade receivables within the framework of debts owed by municipalities:

	note	31.12.2017	31.12.2016
Non-current municipal customers			
WRF		-	-
Agreements	16.1	39 978 163	37 078 973
Current account		-	-
Total non-current municipal customers		39 978 163	37 078 973
Current municipal customers			
WRH		2 150 849	2 084 835
Agreements		17 129 316	32 524 800
Injunctions		173 835 506	149 487 858
Current account		63 771 283	73 908 827
Doubtful debtors		31 756 814	29 559 095
Late-payment interest		17 051 393	19 785 818
		305 695 161	307 351 233
Impairment		(32 706 334)	(28 792 490)
Total current municipal trade receivables		272 988 827	278 558 743
Total municipal trade receivables (gross)		345 673 324	344 430 206
Total municipal trade receivables (nominal values)		312 966 990	315 637 716

Debts of municipal entities over EUR 1,000,000:

	Outstanding at N-2	Outstanding at N-1	Outstanding at N	Total outstanding	Total not yet due	Total debt 31.12.2017	31.12.2016
Guarda Municipality	21 689 246	3 504 146	3 591 948	28 785 340	442 231	29 227 571	25 785 757
Fundão Municipality	21 610 059	2 328 922	1 750 023	25 689 004	237 353	25 926 357	23 929 456
VRSA SGU EM, S.A.	16 560 768	2 403 874	1 870 925	20 835 567	439 756	21 275 324	19 550 722
Chaves Municipality	7 466 920	142 638	598 142	8 207 701	435 376	8 643 077	8 111 478
EMAR - Água e Resisuos de Vila Real, E.M.	6 061 628	284 979	1 777 563	8 124 170	274 112	8 398 282	2 281 027
Vila Real Municipality	-	-	-	-	-	-	4 298 809
Reguengos de Monsaraz Municipality	-	-	449 629	449 629	7 896 835	8 346 464	7 235 606
Évora Municipality	3 072 027	230 491	827 380	4 129 898	4 082 153	8 212 050	7 371 918
Gouveia Municipality	5 225 660	1 399 615	903 964	7 529 239	121 682	7 650 921	7 044 274
Bragança Municipality	3 028 148	16 752	710 768	3 755 668	2 855 827	6 611 495	3 933 715
Pinhel Municipality	4 730 633	844 961	798 825	6 374 419	88 581	6 463 000	5 936 592
Coimbra Municipality	680 989	-	2 603 209	3 284 198	2 764 885	6 049 082	3 820 184
Sabugal Municipality	5 665 796	187 819	66 229	5 919 844	95 675	6 015 519	6 081 640
Águas de ALENQUER, S.A.	-	-	122 019	122 019	5 787 945	5 909 963	-
Alenquer Municipality	-	-	-	-	292 974	292 974	6 576 543
SMAS Torres Vedras	-	-	1 913 591	1 913 591	3 651 782	5 565 373	-
Torres Vedras Municipality	297 900	-	-	297 900	486 459	784 359	5 697 644
Sines Municipality	4 438 987	520 856	404 885	5 364 727	132 263	5 496 990	4 981 173
Caminha Municipality	-	-	-	-	5 480 123	5 480 123	2 799 622
Lisboa Municipality	-	-	-	-	5 476 994	5 476 994	3 485 909
Castelo Branco Municipality	-	2 176 693	2 640 938	4 817 631	650 914	5 468 545	3 082 446
Peso da Régua Municipality	4 020 353	-	1 186 972	5 207 325	224 518	5 431 842	5 121 901
Santiago do Cacém Municipality	3 978 777	430 337	325 588	4 734 702	596 811	5 331 513	5 211 958
Belmonte Municipality	3 152 971	814 651	829 527	4 797 149	367 223	5 164 372	4 470 563
Alcochete Municipality	708 170	1 515 878	2 740 316	4 964 363	60 755	5 025 118	4 709 739
Lamego Municipality	4 268 254	-	396 264	4 664 518	296 388	4 960 905	4 442 145
Mirandela Municipality	2 420 224	67 636	1 553 513	4 041 373	357 590	4 398 963	3 464 239
Ambiolhã, E.M.	-	-	29 868	29 868	4 263 638	4 293 506	5 799 396
Tavira, E.M.	3 316 724	10 454	(221 086)	3 106 092	950 344	4 056.436	4 124 914
SMAS de Oeiras e Amadora	-	-	1 984 931	1 984 931	1 996 798	3 981 729	1 166 912
Alcobaça Municipality	-	-	7 432	7 432	3 879 511	3 886 943	4 623 282
S. João da Pesqueira Municipality	1 414 236	-	1 000 627	2 414 863	1 095 621	3 510 484	2 870 158
Valpaços Municipality	3 248 806	-	266	3 249 072	1	3 249 073	3 285 830
Nazaré Municipality	-	-	405 218	405 218	2 836 772	3 241 990	3 026 245
Portalegre Municipality	-	-	7 325	7 325	3 120 381	3 127 706	3 489 429
SMAS de Sintra	-	337 118	1 845 277	2 182 396	845 760	3 028 156	62 655
Sintra Municipality	-	-	-	-	-	-	4 961 764
Mogadouro Municipality	2 083 514	-	876 174	2 959 687	9 904	2 969 591	2 083 513
TROFÁGUAS - Serviços Ambientais, E.E.M.	-	507 883	-	507 884	2 249 258	2 757 142	(1 117)
Resende Municipality	2 194 248	-	472 731	2 666 979	65 030	2 732 009	2 376 925
Almeida Municipality	2 373 167	38 144	126 516	2 537 827	101 246	2 639 073	4 243 988
Celorico da Beira Municipality	758 088	918	10 380	769 386	1 850 778	2 620 164	1 165 382
Tarouca Municipality	1 159 468	274 472	312 084	1 746 024	852 227	2 598 252	2 223 468
Macedo de Cavaleiros Municipality	1 195 032	8 809	1 040 765	2 244 606	288 181	2 532 788	7 285 280
Miranda do Corvo Municipality	1 437 274	536 363	345 827	2 319 465	113 031	2 432 495	2 042 885
Óbidos Municipality	1 007 446	582 262	410 212	1 999 920	294 034	2 293 954	2 210 474
Tabuaço Municipality	1 576 066	-	153 762	1 729 828	356 759	2 086 586	3 062 781
Montalegre Municipality	1 463 714	156	527 894	1 991 765	5 967	1 997 732	1 463 870
Fornos de Algodres Municipality	1 110 242	432 519	414 849	1 957 610	35 770	1 993 380	1 601 043
Beja Municipality	-	229 572	1 384 905	1 614 478	369 202	1 983 680	923 414
Loures Municipality	-	-	-	-	1 910 312	1 910 312	1 906 279
Figueira de Castelo Rodrigo Municipality	15 558	-	277 547	293 105	1 612 247	1 905 352	2 047 534
Boticas Municipality	1 255 457	-	597 500	1 852 958	6 754	1 859 712	1 255 457
Grândola Municipality	118 958	150 942	332 814	602 714	1 236 435	1 839 150	2 077 486
Moura Municipality	-	-	-	-	1 722 514	1 722 514	1 554 865
FAGAR, E.M.	-	-	-	-	1 545 391	1 545 391	2 031 858
ÁGUAS DE GAIA, E.M., S.A.	-	-	-	-	1 472 212	1 472 212	-
Águas e Parque Biológico de Gaia, E.E.M.	-	-	-	-	-	-	1 492 518
Azambuja Municipality	1 464 265	-	-	1 464 265	-	1 464 265	2 134 646
Sousel Municipality	939 640	-	474 148	1 413 788	21 701	1 435 489	1 439 377
Sobral de Monte Agraço Municipality	-	-	252 747	252 747	1 141 823	1 394 570	1 622 130
Ponte de Sôr Municipality	881 754	-	362 419	1 244 173	141 644	1 385 817	1 144 299

(cont.)

	Outstanding at N-2	Outstanding at N-1	Outstanding at N	Total outstanding	Total not yet due	Total debt 31.12.2017	31.12.2016
Palmela Municipality	-	-	2 312	2 312	1 351 106	1 353 418	2 471 238
Tomar Municipality	1 004 486	312	-	1 004 798	339 746	1 344 544	1 397 600
Aljustrel Municipality	-	226 193	481 274	707 467	564 197	1 271 663	1 228 762
Oeiras Municipality	-	-	-	-	1 245 438	1 245 438	1 098 483
Águas de Cascais, S.A.	-	-	-	-	1 167 680	1 167 680	-
Cascais Municipality	-	-	-	-	-	-	1 150 567
Vila Pouca de Aguiar Municipality	971 128	17 943	157 273	1 146 344	18 794	1 165 137	1 183 875
Seixal Municipality	-	-	410 336	410 336	748 899	1 159 235	7 569 551
Mourão Municipality	26 737	18 736	176 119	221 592	913 253	1 134 845	1 274 857
EMARP, E.M.	-	-	-	-	1 126 621	1 126 621	1 042 541
Vila do Bispo Municipality	-	96 296	914 496	1 010 792	114 244	1 125 036	1 448 610
SMAS Viana do Castelo	490	49 402	-	49 892	1 043 250	1 093 142	-
Viana do Castelo Municipality	-	-	-	-	-	-	980 295
Vidigueira Municipality	-	-	147 931	147 931	938 564	1 086 495	1 159 628
Albufeira Municipality	-	-	-	-	1 070 289	1 070 289	462 594
Serpa Municipality	-	213 664	606 888	820 552	234 104	1 054 656	2 159 842
Rio Maior Municipality	522 502	28 987	154 747	706 237	273 543	979 779	837 920
Other Municipalities	5 910 832	2 752 321	8 401 239	17 064 387	21 676 123	38 740 517	56 739 843
	156 527 342	23 383 714	52 947 965	232 859 021	112 814 302	345 673 324	344 430 206

Note: whenever applicable, the balances also include the figures for municipal companies.

18.4 Impairment losses on trade receivables

	Note	31.12.2017
Opening balance		(59 202 261)
Increase	41	(6 719 403)
Reversals	41	1 184 457
Utilisation		406 247
Transfer from provisions account	26.1	(340 378)
Conversion differences		635
Reclassification to non-current assets held for sale		946 763
Closing balance		(63 723 940)

Recognition of the impairment balances for current trade receivables in 2017 relates mainly to the following Group companies:

	31.12.2017
Increase	
Águas do Algarve	(823 167)
Águas do Norte	(709 286)
AdRA - Águas Região de Aveiro	(25 933)
Águas de Santo André	(668 179)
Águas do Tejo Atlântico	(3 143 411)
EPAL	(1 240 537)
AdP Energias	(108 890)
	(6 719 403)
Reversals	
Águas de Santo André	1 072 912
Águas do Tejo Atlântico	2 537
EPAL	106 969
SIMARSUL	2 039
	1 184 457

19. State and other public entities

	31.12.2017	31.12.2016
Income tax withheld by third parties	-	16 101
VAT receivable	5 899 273	7 974 831
Other	833 809	825 953
State and other public entities assets	6 733 082	8 816 885
Income tax withheld on behalf of third parties	(1 264 885)	(680 322)
Vat payable	(812 601)	(505 441)
Social security contributions	(1 760 897)	(1 803 228)
Local government tax	-	-
TRH / TGR	(15 728 641)	(13 904 444)
Other taxes and charges	(253 101)	(854 502)
State and other public entities liabilities	(19 820 125)	(17 747 937)
Net value of state and other public entities balances	(13 087 043)	(8 931 052)

20. Other current assets

	note	31.12.2017	31.12.2016
Advances to suppliers	(i)	8 384 109	5 235 309
Personnel		651 047	73 485
Accrued interest and other	(ii)	30 178 107	32 135 917
Investment grants – Cohesion fund and other	20.1	38 261 386	48 768 296
Advances to investment suppliers		1 580 510	1 966 645
Deferrals	(iii)	14 988 907	11 638 346
Billing of charges to Lisbon Municipality		12 238 380	10 788 197
The item change stems from the deferral in billing the write-offs from Águas do Norte		-	24 312 013
Other trade receivables		14 203 437	24 209 906
		120 485 883	159 128 114
Accumulated impairment losses	20.2	(4 588 100)	(3 732 079)
		115 897 783	155 396 035

(i) Including EUR 3 943 848 in advances to municipalities for the retribution of integrated assets. Taking into consideration that as a result of the addendum to the management contract for Águas Públicas do Alentejo (AgdA), which defined a maximum amount for retribution and that in 2017, AgdA began the process of evaluation of its integrated assets, due for conclusion in the first quarter of 2018, this considers that AgdA will be in a position in 2018 to propose to municipalities the retributions per entity and consequently undertake the regularisation of the advances offset against liabilities.

(ii) Including the amount of EUR 28 159 532 as an estimate for the late-payment interest due for billing to municipalities.

(iii) Including deferred insurance costs (EUR 3 417 010) and materials due for utilisation in maintenance operations (EUR 5 941 332).

20.1 Investment grants

20.1.1 Cohesion fund receivables

	note	31.12.2017	31.12.2016
Investment grants – cohesion fund MLP	16	5 700 910	4 290 981
Investment grants – cohesion fund CP		38 261 386	48 768 296
		43 962 296	53 059 277
Advance payment investment grants – cohesion fund (liabilities) (Norte)	33	-	(1 764 782)
		43 962 296	51 294 495

	31.12.2017	31.12.2016
Águas do Algarve	18 727 750	27 508 455
Águas do Norte	9 386 284	11 007 727
AdRA - Águas Região de Aveiro	7 189 526	2 771 281
Águas do Vale do Tejo	7 800 285	11 202 143
SIMARSUL	-	-
Águas do Centro Litoral	711 568	-
AgdA - Águas Públicas Alentejo	146 883	569 671
	43 962 296	53 059 277

20.1.2 Reconciliation of the cohesion fund

	Note	31.12.2017
Amounts receivable from the cohesion fund opening balance		51 294 495
Recognition of fund entitlement	31.2	20 338 472
Receivables in the period	20.1.3	(33 260 049)
Opening balance correction		5 224 675
Other corrections		364 703
Amounts receivable from the Cohesion Fund opening balance		43 962 296

20.1.3 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:

	31.12.2017
Reconciliation of receivables	
Amounts receivable from the cohesion fund	33 260 049
	33 260 049
Receivables from other grants	1 384 775
Cash flow receivables	34 644 824

20.2 Impairment losses on other current assets

	Note	31.12.2017
Opening balance		(3 732 079)
Increases	41	(975 975)
Reversals	41	66 913
Direct utilisation		53 041
Closing balance		(4 588 100)

21. Cash and cash equivalents

	31.12.2017	31.12.2016
Cash	916 704	396 577
Current accounts	46 674 403	40 700 933
Term deposits	18 869 149	182 169 149
	66 460 256	223 266 659

The 2017 reduction in cash and cash equivalents stems from the Group having settled short term bank loans in 2017.

22. Equity

The share capital of EUR 434 500 000 is composed of 86 900 000 shares of EUR 5 each and is fully paid up.

22.1 Shareholders

	31.12.2017		31.12.2016	
	Value	%	Value	%
Parpública, SGPS, S.A.	351 945 000	81%	351 945 000	81%
Parcaixa, SGPS, S.A.	82 555 000	19%	82 555 000	19%
	434 500 000	100%	434 500 000	100%

22.2 Net earnings per share

	31.12.2017	31.12.2016
Net profit of financial year	88 607 748	70 751 386
Average number of shares	86 900 000	86 900 000
Earnings per share (basic and diluted)	1.02	0.81

23. Reserves and other adjustments

	31.12.2017	31.12.2016
Legal reserves	29 798 578	27 910 681
Free reserves	2 431 884	2 431 884
Reserves - Fair value negative hedging instruments	(1 332 370)	(2 168 508)
Currency exchange reserve	797 905	703 543
	31 695 997	28 877 600

	Note	31.12.2016	Increases/ Decreases	Dividends	Allocation of net income	31.12.2017
Legal reserves		27 910 681			1 887 897	29 798 578
Free reserves		2 431 884				2 431 884
Reserves - Fair value negative hedging instruments	14	(2 168 508)	836 138			(1 332 370)
Currency exchange reserve	23.1	703 543	94 362			797 905
		28 877 600	930 500	-	1 887 897	31 695 997
Retained earnings		618 852 690	(620 722)	(26 070 000)	68 863 489	661 025 457
Net income		70 751 386	88 607 748		(70 751 386)	88 607 748
		689 604 076	87 987 026	(26 070 000)	(1 887 897)	749 633 205
		718 481 676	88 917 526	(26 070 000)	-	781 329 202

23.1 Variation of currency conversion reserve

	31.12.2017	31.12.2016
Opening balance	703 543	504 994
Águas do Brasil	52 954	(79 307)
Águas de Timor	77 189	(9 949)
Aquatec	(35 781)	287 805
Closing balance	797 905	703 543

24. Retained earnings

	31.12.2017
Opening balance	618 852 690
Appropriation of net profit of 2016	68 863 489
Dividends paid out	(26 070 000)
Pensions (EPAL)	2 100 000
Gains/losses to be reclassified through profit or loss (note 13)	(1 599 516)
Demerger effect	(2 680 989)
Change in minority shareholdings	1 524 663
Other variations	35 120
Closing balance	661 025 457

25. Non-controlling interests

	31.12.2017
Opening balance	291 997 167
Dividend distributed (AdA, AdRA, AgdA)	(3 279 623)
Net income	13 993 569
Demerger effect (AdN and AdVT)	2 680 989
Change in minority shareholdings (AdCL)	(1 524 663)
Paying in capital - AdN and AgdA	1 330 221
Own shares - AdTA (acquisition from Cascais Municipality)	(3 936 998)
Other changes	84 709
Closing balance	301 345 371

26. Provisions

	31.12.2017	31.12.2016
Legal proceedings	1 507 900	1 249 226
Occupational accidents	18 456	32 635
Other	8 335 743	9 130 606
	9 862 099	10 412 467

26.1 Movements in the period

	31.12.2016	Increase (note 40)	Decrease	Reclassification (note 18.4)	Reversals (note 40)	Foreign exchange differences	31.12.2017
Legal proceedings	1 249 226	399 060	-	-	(141 041)	655	1 507 900
Occupational accidents	32 635	-	-	-	(14 179)	-	18 456
Other	9 130 606	1 027 470	(1 481 955)	(340 378)	-	-	8 335 743
	10 412 467	1 426 530	(1 481 955)	(340 378)	(155 220)	655	9 862 099

The provisions recognised in other liabilities relate to potential contractual liabilities from movements in the period per Group company are:

Provisions - other	31.12.2016	Demerger	Increase	Decrease	Reclassification	31.12.2017
Águas do Algarve	598 339	-	-	-	-	598 339
Águas do Centro Litoral	51 783	-	-	(32 163)	-	19 620
AdP SGPS	6 789 932	-	745 000	(1 449 792)	-	6 085 140
AdP Internacional	27 000	-	-	-	-	27 000
AdP Serviços	-	-	-	-	-	-
AdRA - Águas Região de Aveiro	576 326	-	-	-	-	576 326
Águas de Santo André	296 848	-	-	-	-	296 848
Águas do Tejo Atlântico	-	340 378	-	-	(340 378)	-
Águas do Vale do Tejo	340 378	(340 378)	282 470	-	-	282 470
EPAL	450 000	-	-	-	-	450 000
	9 130 606	-	1 027 470	(1 481 955)	(340 378)	8 335 743

In 2017, the AdP Group established a provision for fiscal contingencies associated with the application of RETGS in the years of 2015 and 2016 (EUR 745 000).

The reversion of the amount of EUR 1 449 792, includes EUR 1 400 000, which had been established in order to deal with potential losses associated with the sale of the 5% capital stake held in EGF. Following the sale of EGF, and without any liability provisions in 2016, this provision was terminated in 2017 (notes 11 and 46).

27. Post-employment benefits

	31.12.2017	31.12.2016
EPAL pension fund	800 525	1 684 000
	800 525	1 684 000

EPAL runs a system of social benefits for its employees as demonstrated by the two levels of pension plans, a defined benefits plan and another with defined contributions, which both inherently reflect the commitment to the payment of a complement to the retirement pension (due to age or invalidity) paid out by Social Security. Additionally, this also meets any liabilities arising from pre-retirement situations.

The liabilities stemming from the Pensions Plan are financed through the EPAL Pensions Fund set up in November 1990, with pre-retirement costs met directly by EPAL.

In 2008, EPAL proceeded with the restructuring of the Company Agreement with its workers and trade unions, especially as regards the pensions plan. This reformulation essentially focused on transferring a proportion of active EPAL employees to a defined contribution plan in place of the former defined benefits plan. The cut off in the previous plan and the entrance into effect of the new plan, for its respective participants, took place on 22 March 2008.

27.1 Actuarial assumptions

	31.12.2017	31.12.2016
Standard retirement age	66 years and 3 months	66 years and 3 months
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80
Discount rate	1.20%	1.30%
Wage growth rate	2.00%	2.00%
Pension growth rate	1.00%	1.00%
Pre-retirement contributions growth rate	1.00%	1.00%

27.2 Fund summary

	31.12.2017	31.12.2016
Liabilities at the end of the period	32 140 025	35 042 000
Value of assets at the end of the period	(36 815 500)	(36 789 000)
Provision for liabilities	(4 675 475)	(1.747.000)
	31.12.2017	31.12.2016
Other assets (note 16.3)	5 476 000	3 431 000
Pension liabilities	(800 525)	(1 684 000)
	4 675 475	1 747 000

27.3 Change in liabilities

	31.12.2017	31.12.2016
Liabilities at start of the period	35 042 000	37 574 000
Cost of current services	77 000	120 000
Interest costs	436 000	717 000
Actuarial (Gains) /Losses	(544 500)	(333 000)
(Gains) /Losses change to financial assumptions	281 500	714 000
Benefits paid	(3 151 975)	(3 750 000)
Liabilities at the end of the period	32 140 025	35 042 000

The liability sensitivity for defined benefits against variations in the main assumptions is as follows:

	Change in assumptions	Defined benefit liabilities
Fund return	+ 0.55%	decrease of 4.8%

An increase of 0.55% in the discount rate decreases the liabilities by 4.8%, thus generating an impact of around EUR 1.5 million.

The sensitivity analysis displayed was calculated according to varying assumptions (discount rate) and maintaining the other variables constant. In practice, this scenario is unlikely as the changes in some assumptions may be correlated.

27.4 Change in fund assets

	31.12.2017	31.12.2016
Fund at start of the period	36 789 000	38 527 000
Fund return	465 000	749 000
(Actuarial) gains and losses	1 837 000	(244 000)
Contributions from the company	756 500	-
Benefits paid	(3 032 000)	(2 243 000)
Fund at the end of the period	36 815 500	36 789 000

27.5 Cost of period

	31.12.2017	31.12.2016
Cost of current services	77 000	120 000
Interest cost (net)	(29 000)	(33 000)
Total (note 38)	48 000	87 000

27.6 Composition of fund assets

	31.12.2017	31.12.2016
Equity instruments	12 897 063	13 122 320
Debt instruments	21 835 024	21 336 856
Other	2 083 413	2 329 824
Total	36 815 500	36 789 000

Investment policy

The Pension Fund investment policy 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 in the liabilities to the pension fund participants and beneficiaries), the level of Pension Fund hedging and its management structure. The investment policy is subject to review at least every three years or when a change in the assumptions listed above so justifies. The Pension Fund investment policy aims to maximise the potential returns from fund investments over the medium and long term, based on rules and procedures founded on prudence and in-depth market knowledge in order to avoid inappropriate risk 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 investments in transferable securities (UCITS) that meet the requirements of legislation adopted under the auspices of Council Directive No. 85/611/EEC of 20 December, amended by Directive No. 2001/108/EC of 21 January 2002.
- In principle, the fund contracts foreign exchange risk hedging for shares denominated in currencies other than the EUR and correspondingly avoiding any significant currency risk in these investments.
- Direct investment in bonds opts for securities denominated in EUR or other currencies 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 EUR that are not direct investments in bonds or shares and correspondingly avoiding any significant currency risk in these investments.
- For the purposes of compliance with the allocation to non-EUR bonds, the security classification criterion is the bond currency of issuance and without any exposure to foreign exchange risk. Hence, a bond issued in USD is considered a non-EUR bond regardless of the management entity currency hedging policy.
- Exposure to the bond class is limited to rated bonds.
- Fixed rate EUR 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 for Portuguese sovereign debt, are classified in the high yield class and their proportion may rise up to 7.5% of the entire asset value. Portuguese (private and public) debt bonds are classified according to the EUR fixed rate class and are not subject to the minimum 'BBB' rating. They may represent up to 15% of the bond component.
- Whenever the downgrading of a bond occurs that involves non-compliance with the rating limits, and when the Management entity wants to retain the security in the portfolio, then the situation is reported to the Member and the respective approval obtained.
- Any change to the classification for purposes of the Investment Policy limits requires 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 EUR) are not included. Portuguese government debt issues are included.
- The limit on securities not traded on stock exchanges or other regulated markets in European Union member states, or similar OECD country markets, is 5%.
- Assets denominated in non-EUR 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 ensures the sectoral management (public debt/ private debt), the country management and the bond component duration 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 portfolio profitability. Operations with derivatives and lending operations are mandatorily carried out: **i)** in regulated markets; or **ii)** with financial institutions

legally authorised to do so in a European Economic Area member state or in another OECD country provided that the institution's rating is qualitatively equal to or greater than "BBB"/"Baa2" in accordance with ratings universally accepted or other classifications proven equivalent. The pension fund portfolio risk is monitored in terms of the 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

	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Liabilities at end of period	32 140 025	35 042 000	37 574 000	39 814 000	41 368 042
Value of assets at end of period	36 815 500	36 789 000	38 527 000	39 474 000	37 810 000
Unrecognised actuarial gains and losses					-
Hedging excess	(5 476 000)	(3 431 000)	(3 865 000)	(4 200 000)	(702 037)
Provision for liabilities	800 525	1 684 000	2 912 000	4 540 000	4 260 079

27.8 Defined contribution plan - contributions to the fund

EPAL took on the commitment to make monthly contributions to a defined contribution pensions fund. The only EPAL obligation consists of making the aforementioned contributions and having also informed the participant members of staff of the opportunity to make their own contributions on a voluntary basis.

In the 2017 financial year, under the defined contribution plan, the company paid in a total of EUR 448 000 (note 38) and with employees contributing EUR 22 000.

28. Loans

Non-current	31.12.2017	31.12.2016
Bank loans – BEI	1 363 431 791	1 440 503 774
Bond loans	564 772 909	575 000 000
Other bank loans and private placement of debt	-	24 869 778
Loans obtained - adjustment for amortised cost	492 899	244 122
Other loans	-	-
Bank loans	1 928 697 599	2 040 617 674
Debts to leasing companies	10 140 686	11 809 462
Total non-current loans	1 938 838 285	2 052 427 136

Current	31.12.2017	31.12.2016
Bank overdrafts	276 099	113 146 634
Bank loans	86 838 709	168 041 345
Other loans	56 221	88 820
Bank loans	87 171 029	281 276 799
Debts to leasing companies	1 663 826	1 661 349
Total current loans	88 834 855	282 938 148
Total bank loans	2 015 868 628	2 321 894 473
Total loans	2 027 673 140	2 335 365 284

Bond loans are subject to ownership clauses which state that any changes to the company shareholder structure may result in the immediate repayment of outstanding debts. In relation to loan agreements with the European Investment Bank, the AdP Group, besides the usual constraints (payment default, compliance with general and environmental laws, cross default, pari passu, negative pledge, false statements, bankruptcy, insolvency, settlement, material changes), also takes into consideration:

- Changes in the shareholder structure of AdP Group companies;
- Changes due to spin-offs, mergers or company sales;
- Changes to company assets;
- Changes/termination of businesses
- Changes in the AdP, SGPS, S.A. shareholder structure;
- Operations performed with an AdP, SGPS, S.A. guarantee/collateral;
- Compliance with obligations defined in the concession/management agreements;
- Changes in company turnover.

Moreover, and under the auspices of 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 Maturity loans

	31.12.2017	31.12.2016
Non-current		
Bank loans– BEI	1 363 431 791	1 440 503 774
Bond loans	564 772 909	575 000 000
Other bank loans and private placement of debt	-	24 869 778
Current		
Bank loans	86 838 709	168 041 345
	2 015 043 409	2 208 414 897
By maturity	31.12.2017	31.12.2016
Up to 1 year	86 838 709	168 041 345
1 to 2 years	80 462 321	86 182 129
2 to 3 years	79 746 699	79 843 115
3 to 4 years	81 969 986	76 568 242
4 to 5 years	238 622 834	76 074 169
Over 5 years	1 447 402 860	1 721 705 897
	2 015 043 409	2 208 414 897

28.2 Loans by interest rate type

Floating interest rate	31.12.2017	31.12.2016
Up to 1 year	19 470 799	34 835 252
1 to 2 years	16 701 114	12 908 242
2 to 3 years	13 968 548	11 575 534
Over 3 years	580 673 551	563 327 744
	630 814 012	622 646 772
Fixed interest rate	31.12.2017	31.12.2016
Up to 1 year	67 367 910	133 206 093
1 to 2 years	63 761 207	73 273 887
2 to 3 years	65 778 151	68 267 581
Over 3 years	1 187 322 129	1 311 020 564
	1 384 229 397	1 585 768 125
	2 015 043 409	2 208 414 897

28.3 Leasing

Leasing	31.12.2017	31.12.2016
Current	1 663 826	1 661 350
Non-current	10 140 686	11 809 462
	11 804 512	13 470 812

Outstanding principal by type of asset acquired	31.12.2017	31.12.2016
Buildings and other constructions	11 795 957	13 457 999
Basic equipment	-	-
Transport equipment	8 555	12 813
Office equipment	-	-
	11 804 512	13 470 812

Future minimum payments	31.12.2017	31.12.2016
Up to 1 year	1 678 738	1 777 220
1 to 5 years	8 409 802	10 166 694
Over 5 years	1 798 665	1 973 914
	11 887 205	13 917 828

Interest	31.12.2017	31.12.2016
Up to 1 year	14 912	115 870
1 to 5 years	44 092	301 085
Over 5 years	23 689	30 062
	82 693	447 017

Present value of minimum payments	31.12.2017	31.12.2016
Up to 1 year	1 663 826	1 661 350
1 to 5 years	8 365 710	9 865 609
Over 5 years	1 774 976	1 943 853
	11 804 512	13 470 812

29. Trade payables and other non-current liabilities

	31.12.2017	31.12.2016
Investment suppliers through additions to infrastructure assets	88 855 232	96 653 805
Other trade payables	4 035 223	4 814 605
	92 890 455	101 468 410

29.1 Detail by group company

	31.12.2017	31.12.2016
AdRA - Águas Região de Aveiro	47 730 228	45 680 743
Águas do Vale do Tejo	13 671 362	20 035 916
Águas do Norte	8 979 185	17 950 208
Águas de Santo André	4 930 233	5 237 585
Águas do Centro Litoral	1 626 980	1 547 560
Águas do Algarve	3 937 685	3 999 045
SIMDOURO	2 445 253	-
SIMARSUL	4 392 087	-
AgdA - Águas Públicas Alentejo	1 142 219	2 202 748
	88 855 232	96 653 805
Other suppliers of investment and other natures	4 035 223	4 814 605
	92 890 455	101 468 410

30. Accrued contractual investment expenses

The companies, as stated in note 2.5.5 and based on the partnership concession and management agreement provisions, 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:

	31.12.2017	31.12.2016
Águas do Norte	73 306 702	95 069 462
Águas do Douro e Paiva	23 988 700	-
SIMDOURO	7 371 466	-
	104 666 868	95 069 462
Águas do Vale do Tejo	34 820 698	157 262 463
Águas do Tejo Atlântico	122 423 180	-
SIMARSUL	11 058 566	-
	168 302 444	157 262 463
Águas do Algarve	60 424 651	59 394 402
Águas do Centro Litoral	32 378 429	27 854 441
Águas de Santo André	11 138 646	10 402 271
AgdA - Águas Públicas Alentejo	3 447 957	1 986 736
AdRA - Águas Região de Aveiro	48 228 622	41 238 340
	428 587 617	393 208 115

30.1 Movements in the period

	note	31.12.2017	31.12.2016
Amortisation contractual investment opening balance		393 208 115	358 113 220
Amortisation in financial year	39	47 903 066	58 203 123
Definitive transfer	8.2	(12 515 444)	(23 712 948)
Other		(8 120)	604 720
Amortisation contractual investment closing balance		428 587 617	393 208 115

31. Investment grants

	note	31.12.2017	31.12.2016
Investment grants – Cohesion fund	31.1	1 389 309 395	1 398 125 565
Investment grants - other		23 552 221	23 403 645
Additions to infrastructure assets		187 868 448	214 575 461
		1 600 730 064	1 636 104 671

31.1 Movements in the period

	Note	31.12.2017
Investment grants opening balance		1 398 125 565
Recognition of fund entitlement	20.1.2	20 338 472
Recognition of income	31.3	(49 857 048)
Corrections to recognition of income and requests		20 702 406
Investment grants closing balance		1 389 309 395

	31.12.2017
Corrections to recognition of income and requests	
Águas do Vale do Tejo	22 552 591
SIMDOURO	(3 791 944)
Águas do Tejo Atlântico	2 420 878
Other holdings	(479 119)
	20 702 406

The correction made in 2017 for the sum of EUR 20 702 406 corresponds to a reclassification of the "Investment grants – Integration of assets" item.

31.2 Recognition of fund entitlement

	31.12.2017
Águas do Norte	1 987 077
AdRA - Águas Região de Aveiro	9 130 142
AgdA - Águas Públicas Alentejo	8 509 685
Águas do Centro Litoral	711 568
	20 338 472

31.3 Amounts recognised in profit or loss for the period

	note	31.12.2017	31.12.2016
Investment grants – Cohesion fund	31.1	49 857 048	47 650 227
Investment grants – other		522 458	357 886
Addition to infrastructure assets		8 051 870	8 249 357
		58 431 376	56 257 470

32. (Current) trade payables

	note	31.12.2017	31.12.2016
Trade payables current account - general		36 999 493	35 460 983
Investment suppliers	32.1	30 121 533	21 121 551
Trade payables – invoices being checked and reconciled		1 438 269	1 305 338
Other trade payable balances		4 994 435	2 817 737
		73 553 730	60 705 609

32.1 Investment suppliers

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:

	31.12.2017	31.12.2016
Águas do Norte	11 436 301	12 130 489
SIMDOURO	3 495 120	-
Águas do Douro e Paiva	394 920	
	15 326 341	12 130 489
Águas do Vale do Tejo	2 603 086	3 049 819
Águas do Tejo Atlântico	1 582 389	-
SIMARSUL	50 675	-
	4 236 150	3 049 819
AgdA - Águas Públicas Alentejo	4 352 400	3 202 163
EPAL	2 993 230	757 482
AdRA - Águas Região de Aveiro	1 323 232	115 952
Other group companies	1 890 180	1 865 646
	30 121 533	21 121 551

33. Other current liabilities

	note	31.12.2017	31.12.2016
Advances to trade receivables		497 170	67 529
Accrued personnel costs		11 514 832	11 900 943
		-	
Accrued expense creditors (interest, electricity, other)		23 714 146	26 795 247
Deposits with suppliers		4 954 563	4 630 337
Municipal sanitation charges and solid household waste	(i)	22 894 048	19 948 045
Advance on investment grants – cohesion fund	20.1.1	-	1 764 782
Other creditors		5 190 930	9 152 225
Deferrals		7 788 765	10 253 208
		76 554 454	84 512 316

(i) This item includes an EPAL subsoil charge payable to Lisbon Municipal Council for the amount of EUR 1 828 000 and a solid household waste charge to the AdRA subsidiary for the amount of EUR 1 665 000.

34. Income tax payable

	31.12.2017	31.12.2016
Income tax - liabilities	12 106 496	13 142 125
	12 106 496	13 142 125

The balance represents the value of income tax for the period. There are no payments in arrears to the tax authorities.

35. Sales and services provided

	31.12.2017	31.12.2016
Sales		
Water – Production, Treatment and Transport	231 130 080	222 181 733
EPAL	140 259 595	135 980 691
Corporate	-	92 259
	371 389 675	358 254 683
Services rendered		
Water - Production, Treatment and Transport	248 464 453	246 732 932
EPAL	1 719 069	1 406 483
International	3 604 596	2 103 863
Corporate	1 618 789	1 396 360
	255 406 907	251 639 638
	626 796 582	609 894 321
Income from construction of assets for concession (IFRIC 12)	73 008 886	51 964 499
	73 008 886	51 964 499
Tariff deviations		
Water - Production, Treatment and Transport (note 15)	12 488 619	36 162 708
	12 488 619	36 162 708
	712 294 087	698 021 528

For the financial year ending on 31 December 2017, the “Sales” and “Services rendered” items include the following amounts:

- CTA: EUR 4,447,753 at Águas do Norte and EUR 10,351,918 at Águas do Vale do Tejo (see note 2.23.4);
- Environment Fund: EUR 2,500,000 at Águas do Norte, EUR 2,500,000 at Águas do Vale do Tejo (see note 2.23.5).

36. Cost of sales

	31.12.2017	31.12.2016
Goods	224 847	32 839
Raw materials	7 552 946	9 857 679
Subsidiary materials	12 547 175	9 589 668
Sundry materials	-	49 654
Correction regarding previous financial years	583 286	-
	20 908 254	19 529 840
Capitalisation of sale costs	-	-
	20 908 254	19 529 840
Costs of construction of assets for concession (IFRIC 12)	73 008 886	51 964 499
	93 917 140	71 494 339

37. Supplies and services

	note	31.12.2017	31.12.2016
Sub-contracts		24 461 151	28 622 002
Maintenance and repairs		31 393 916	32 089 438
Rents and leases		8 442 416	8 420 002
Electricity	(i)	67 631 235	68 846 707
Insurance		4 199 298	5 002 131
Waste and waste water treatment		11 231 975	9 653 552
Analysis		2 149 125	1 823 895
Studies / Consulting / Auditing		4 494 653	5 145 585
IT		2 759 623	2 856 589
Surveillance and security		2 207 697	2 310 669
Communications		4 368 471	4 646 561
Fuel / Waters		5 293 181	4 968 541
Travel and stays		1 411 166	1 281 118
Advertising / Promotion		1 147 720	1 218 974
Drought-related costs	(ii)	440 284	-
External services – Other items		19 126 657	18 623 639
		190 758 568	195 509 403
Capitalised external services		(2 132 080)	(3 537 049)
		188 626 488	191 972 354

(i) The reduction in electricity costs reported in 2017 results from the renegotiation of the electricity supply contract.

(ii) As regards the costs due to the drought, this amount needs to account for the additional EUR 648,258, which was funded by the Environment Fund. This Environment Fund financing is registered as a deduction against drought incurred costs.

38. Personnel costs

	note	31.12.2017	31.12.2016
Remunerations	(i)	75 636 801	73 861 265
Payroll expenses		17 065 468	16 692 309
Insurance		5 721 080	4 581 596
Compensation for contract termination		2 299 195	731 443
Other personnel costs	(ii)	2 274 299	2 373 778
Corrections regarding previous financial years		57 250	115 192
		103 054 093	98 355 583
Capitalised personnel costs		(4 253 646)	(4 183 080)
		98 800 447	94 172 503

(i) For the financial year ending on 31 December 2017, this includes EUR 3 267 512 of remuneration for the management bodies. The increase registered in this item is essentially due to the increase of EUR 674 000 paid out to new management bodies due to the company restructuring that took place in 2017; the increase of EUR 551 000 in staff remuneration; the increase of EUR 470 000 in the costs of relocation subsidies and overtime payments.

(ii) Includes: EUR 48,000 for costs incurred by the defined benefits plan (note 27.5) and EUR 447 460 euros of costs with the defined contribution plan (note 27.8).

38.1 Remunerations of AdP SGPS governing bodies

	31.12.2017	31.12.2016
Board of Directors	363 731	260 328
Supervisory Board	31 967	41 642
Chartered Accountant	23 812	22 960
	419 510	324 930

38.2 Average number of employees

	31.12.2017	31.12.2016
Governing bodies	108	67
Permanent employees and others	3 138	3 183
	3 246	3 250

39. Financial year amortisations, depreciations and reversals

	note	31.12.2017	31.12.2016
Amortisation – investment properties	10	80 344	91 537
Amortisation – tangible assets	9.1	26 784 438	26 933 879
Amortisation - intangible assets	8.1	866 874	1 209 423
Amortisation – DUI	8.1	131 650 439	127 432 294
Depreciation of contractual investment	30.1	47 903 066	58 203 123
		207 285 161	213 870 256
Reversals, depreciations and amortisation		-	(400)
		207 285 161	213 869 856
Corrections regarding previous financial years			
		207 285 161	213 869 856

40. Provisions and reversals in financial year

	note	31.12.2017	31.12.2016
Provisions in financial year – ongoing legal proceedings	26.1	399 060	1 132 265
Provisions in financial year – others	26.1	1 027 470	603 327
		1 426 530	1 735 592
Reversal of provisions – ongoing legal proceedings	26.1	(141 041)	(1 016 303)
Reversal of provisions – other		-	(231 678)
		(141 041)	(1 247 981)
Corrections regarding previous year		-	-
		1 285 489	487 611

Consult in conjunction with 26.

41. Impairment losses and reversals in financial year

	note	31.12.2017	31.12.2016
Impairment losses – trade receivables	18.4	6 719 403	20 684 389
Impairment losses - other trade receivables	20.2	975 975	56 969
		7 695 378	20 741 358
Reversals of impairment losses – trade receivables	18.4	(1 184 457)	(2 248 934)
Reversals of impairment losses - other trade receivables	20.2	(66 913)	(7 821)
Reversals of impairment losses – inventories		-	(542 951)
		(1 251 370)	(2 799 706)
		6 444 008	17 941 652

42. Other operating expenses

	note	31.12.2017	31.12.2016
Direct and indirect tax	42.1	10 000 098	5 739 155
Losses on inventories		16 359	113 350
Losses on non-financial inventories		17 686	40 546
Donations		343 513	172 889
Exchange rate differences in non-financial operations		1 406	196 091
Other expenses and losses		1 411 322	2 177 550
Prior-year corrections		80 978	62 072
		11 871 362	8 501 653
Capitalised expenses		-	-
		11 871 362	8 501 653

42.1 Direct and indirect tax

	note	31.12.2017	31.12.2016
Stamp duty		352 523	536 048
ERSAR duties		4 281 293	4 162 588
Water resources levy		121 502	26 044
Charges	(i)	2 860 502	494 697
Other	(ii)	2 384 278	519 778
		10 000 098	5 739 155

(i) Includes the subsoil tax that up until 2016 was accounted for under the "Supplies and services" item and that rose to EUR 2.5 million in 2017.

(ii) In 2017, this includes the subsoil tax of EUR 1 963 472 (EUR 812 058 in 2016). This increase arises from the conclusion of legal cases that were lodged by the municipalities involved in the concession and partnership area of Águas do Norte.

43. Other operating income

	note	31.12.2017	31.12.2016
Additional income	43.1	6 447 667	6 905 194
Exploration grants		18 302	571 895
Other income and gains	(i)	3 276 558	2 975 555
Prior-year corrections		171 043	159 656
		9 913 570	10 612 300
Capitalised income and gains		-	-
		9 913 570	10 612 300

(i) Corresponding essentially to the amortization of the subsidy associated with the integration of assets based upon the depletion rate.

43.1 Additional income

	note	31.12.2017	31.12.2016
Sale of energy		1 020 407	1 186 926
Social services		9 337	9 575
Other	(i)	5 417 923	5 708 693
		6 447 667	6 905 194

(i) The Other item refers essentially to technical assistance for the Aquamatrix IT system with a value of EUR 1,205,569 (EUR 1,393,701 in 2016), and EUR 1,262,979 for the commercial services provided to Lisbon Municipal Council (EUR 1,172,868 in 2016).

44. Financial expenses

	note	31.12.2017	31.12.2016
Interest incurred	44.1	52 439 669	57 967 870
Unfavourable foreign exchange differences		300 614	5 086
Other financial expenses	44.2	3 985 645	6 581 930
Prior-year corrections		(191 916)	(72 828)
		56 534 012	64 482 058
Financial expenses capitalised		(1 109 058)	(1 595 758)
		55 424 954	62 886 300

The decrease in financial expenses (capitalised and non-capitalised) directly relates to the decrease in investment volumes (reduction of around EUR 307 million) and interest rates.

44.1 Interest incurred

	31.12.2017	31.12.2016
Interest incurred EIB	39 663 891	43 072 295
Interest incurred leasing operations	99 989	140 428
Interest incurred bond loans	4 223 136	4 685 756
Interest incurred late payment	956 963	201 753
Interest incurred financing bank loans	2 535 918	5 923 551
Interest incurred integration of assets	4 959 772	3 901 751
Interest incurred other	-	42 336
	52 439 669	57 967 870

44.2 Other financial expenses

	note	31.12.2017	31.12.2016
Borrowings – Commissions /guarantees	(i)	3 354 791	4 335 081
Losses on financial instruments at fair value	(ii)	-	1 307 440
Other		630 854	939 409
		3 985 645	6 581 930

(i) Costs from commissioning the guarantee provided by the Portuguese state for the loans granted by the EIB (0.2% of the capital owed).

(ii) In 2016, this includes the loss in the fair value of traded derivatives (EUR 648,621 – note 14) and includes the loss in the fair value of the loans held and issued by Novo Banco (formerly BES) and that were sold in 2017 (EUR 658,819 – see note 11).

45. Financial income

	note	31.12.2017	31.12.2016
Interest earned	45.1	17 352 613	16 887 747
Other financial income and gains		675 525	838 177
Income financial instruments – fair value	14	619 024	-
Prior-year corrections		(712 780)	8 783
		17 934 382	17 734 707

45.1 Interest earned

Interest earned	note	31.12.2017	31.12.2016
Deposits		10 819	28 488
Financial investments		3 268 724	4 084 242
Late payment interest	45.1.1	12 925 817	10 991 266
Other interest		1 147 253	1 783 751
		17 352 613	16 887 747

45.1.1 Late payment interest by Group companies

	31.12.2017	31.12.2016
Águas do Vale do Tejo	6 364 858	6 834 387
Águas do Norte	4 427 500	2 499 427
Águas do Algarve	1 050 991	836 322
Águas de Santo André	430 231	396 294
Águas do Tejo Atlântico	295 955	-
AgdA - Águas Públicas Alentejo	215 638	251 372
AdRA - Águas Região de Aveiro	103 032	54 153
Águas do Centro Litoral	37 612	119 311
	12 925 817	10 991 266

46. Income from shareholdings

	note	31.12.2017	31.12.2016
Expenses and losses - other	26	-	(1 400 000)
Income and gains - other	(i)	6 250 210	696 000
		6 250 210	(704 000)

(i) In 2017 corresponding to: (a) capital gains from the sale of the 5% stake held in EGF (EUR 5,173,296 – note 11), which is net of any reversion in the provision for a total of EUR 1,400,000 (Note 26); and (b) capital gains from the disposal of the BES bonds (EUR 1,076,917 – note 11).

47. Income tax for the year

	31.12.2017	31.12.2016
Income tax for the year	(50 609 574)	(45 804 701)
Other adjustments tax provision	(1 000 000)	-
Excess income tax estimate	307 232	885 954
Underestimated income	(114 718)	(275 851)
	(51 417 060)	(45 194 598)
Deferred tax (note 13.1)	12 849 801	8 169 183
	12 849 801	8 169 183
	(38 567 259)	(37 025 415)

The reconciliation between the nominal rate and the effective rate of taxation for the financial year ending on 31 December 2017 is as follows:

	Base	Rate	Tax
Consolidated profit before tax	1 500 000	22,50%	337 500
	6 000 000	25,50%	1 530 000
	27 500 000	27,50%	7 562 500
	106 168 576	29,50%	31 319 730
Anticipated tax	141 168 576	28,87%	40 749 730
Permanent differences:			
- Provisions	1 212 502	0,25%	350 001
- Prior-year corrections	790 539	0,16%	228 197
- Fines, fees and compensatory interest	271 147	0,06%	78 269
- Fiscal benefits	(743 627)	(0,15%)	(214 655)
- Other	2 250 322	0,46%	649 579
Changes in the deferred tax rate		(2,89%)	(4 084 486)
Recognition of assets through prior-year deferred tax		(0,94%)	(1 320 471)
Reportable fiscal losses without assets due to recorded deferred tax		1,68%	2 369 333
Difference between the expected tax rate and the rate used for deferred tax		(1,06%)	(1 494 483)
Autonomous taxation		0,35%	500 922
Correction of tax (CFEI fiscal benefit)		0,71%	1 000 000
Prior-year tax estimation excess		(0,17%)	(244 677)
Tax burden		27,33%	38 567 259

48. Balances and transactions with related parties

48.1 Related parties

On 31 December 2017, AdP related parties are the following:

- Shareholders (Parpública, SGPS, S.A. and Parcaixa, SGPS, S.A.)
- Members of the board of directors of AdP SGPS;
- Members of the board of directors of shareholders;
- Municipalities, as minority shareholders of subsidiaries.

48.2 Balances with related parties

2017	Parent company	Other shareholders	Executive committee of AdP SGPS	Other related parties
Assets				
Municipalities			-	355 968 591
Liabilities				
Municipalities			-	96 382 751
Income				
Sales and services to municipalities			-	354 736 150
Other income from municipalities			-	9 396 096
Expenses				
Cost of non-executive directors			-	
Cost of executive directors			395 698	
Other expenses municipalities			-	7 923 865
Dividends	21 116 700	4 953 300		-
	21 116 700	4 953 300	395 698	824 407 453

2016	Parent company	Other shareholders	Executive committee of AdP SGPS	Other related parties
Assets				
Municipalities			-	364 239 783
Liabilities				
Municipalities			-	70 393 973
Income				
Sales and services to municipalities			-	374 222 106
Other income municipalities			-	8 771 537
Expenses				
Cost of non-executive directors			-	
Cost of executive directors			301 970	
Other expenses municipalities			-	8 449 823
Dividends	37 926 205	8 896 270		-
	37 926 205	8 896 270	301 970	826 077 222

49. Contractual investment

The estimated off-balance sheet financial commitments made by the AdP Group, deriving from the awarding of concession contracts relative to initial investments, replacement, renovation and expansion occurring during the remaining concession terms, are 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)
December 2017	7 528 383 237	5 330 166 754	131 082 447	219 295 563	439 999 963	1 407 838 780
	7 528 383 237	5 330 166 754	131 082 447	219 295 563	439 999 963	1 407 838 780

50. Contingent assets and liabilities

50.1 Injunctions

Several municipalities disagreed with the strategy defined for the water sector, as set forth in Decree-Law 92/2013 of 11 July, and so various lawsuits were filed. These lawsuits named, as defendants, respondents or opponents, the companies of the Águas de Portugal Group, i.e. AdP - Águas de Portugal, SGPS, S.A., Águas do Norte, S.A. as well as the companies that were wound up and which the Group took over, Águas do Centro Litoral, S.A. and Águas de Lisboa e Vale do Tejo, S.A.

Of the fifteen lawsuits lodged, which break down into eight injunctions and seven legal actions, there are now only two cases ongoing and under the consideration of the Supreme Administrative Court, lodged against the Council of Ministers, with the remaining processes having their judicial decision handed down through deferral or the terminating of the instance due to supervisory annulment by contesting or desistance.

50.2 Ongoing legal proceedings

The AdP Group makes an evaluation of its risks and contingencies and subsequently establishes provisions against the risks thereby identified and the probability of their realisation as liabilities and considers them appropriately recognised. From the evaluation made and beyond the provisions recorded, no other liabilities were identified as requiring reporting as contingent liabilities.

50.3 Guarantees

Liabilities for bank guarantees provided by the business units of the companies included in the consolidation perimeter are as follows:

	Courts	Financial Institutions	Concession grantors	Other	31.12.2017
AdP Serviços	-	500 000 (*)	-	16 472	516 472
AQUASIS	-	-	-	-	-
AdP Energias	-	-	-	-	-
AdP Internacional	-	-	-	807 030	807 030
EPAL	3 318	-	-	5 569 841	5 573 159
Águas do Norte	45 285	-	-	3 326 373	3 371 658
Águas do Centro Litoral	91 067	-	-	652 169	743 236
Águas do Vale do Tejo	-	-	-	1 626 852	1 626 852
Águas do Algarve	-	-	566 466	942 000	1 508 466
Águas de Santo André	-	-	238 770	40 000	278 770
AgdA - Águas Públicas Alentejo	1 693 410	-	-	107 277	1 800 687
AdRA - Águas Região de Aveiro	-	-	-	526 628	526 628
SIMDOURO	-	-	-	504 921	504 921
Águas do Douro e Paiva	-	-	-	1 273 416	1 273 416
Total	1 833 080	500 000	805 236	15 392 979	18 531 295

(*) Relative to the guarantee submitted by AdP Serviços for a current account overdraft contracted by AQUASIS, with a maximum limit of EUR 500,000.

51. Auditor's and Statutory Auditor's fees

The fees of the AdP Group Auditor and Statutory Auditor as at 31 December 2017 were the following:

	Statutory Auditor:	Audits	Other Services	Total
Ernst & Young, SROC	136 478	111 496	88 507	336 481
Alves da Cunha, A. Dias & Associados, SROC	20 550	-	-	20 550
Esteves, Pinho & Associados, SROC	63 540	-	12 800	76 340
	220 568	111 496	101 307	433 371

52. Subsequent events

On the date of issuing the current consolidated financial accounts, there is no knowledge of subsequent events that effect this same presentation.

Lisbon, 13 April 2018

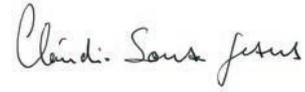
The Board of Directors



João Nuno Marques de Carvalho Mendes
(Chair)



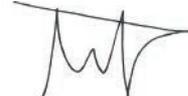
Carla da Conceição Afonso Correia
(Executive Vice-Chair)



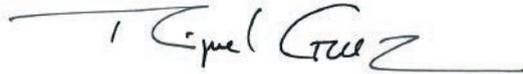
Cláudio Miguel André Sousa Jesus
(Executive Director)



José Manuel Leitão Sardinha
(Executive Director)



Juan Miguel Martín Iglesias
(Executive Director)



Miguel Jorge de Campos Cruz
(Non-Executive Director)

Chartered Accountant



Carla Isabel Costa Pinto Ribeiro

SUPERVISORY BOARD'S REPORT AND OPINION ON THE CONSOLIDATED ACCOUNTING DOCUMENTS

REPORT

- I. 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 and relating to the 2017 financial year.
- II. 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.
- III. The Supervisory Board also verified compliance with the applicable legal and statutory provisions and exercised its powers in accordance with Article 420 of the Commercial Companies Code.
- IV. The Supervisory Board examined the opinions and legal certifications of accounts relating to the invested companies. It did not find materially relevant situations of non-compliance.
- V. With regard to compliance with current legislation, namely the application of the Public Procurement Code, the Supervisory Board was informed that, along with the full compliance with that code by the instrumental and operational companies, the group designed a procedures manual with the aim of ensuring compliance with legal requirements and internal guidelines.
- VI. There was a reduction in the average number of employees in the group compared to 2016, together with the increase in the number of governing bodies, 41 more than in 2016. This resulted from the conclusion of the water supply and wastewater treatment territorial restructuring process through demergers which determined the appointment of new directors.
- VII. We should highlight the increase in staff costs of around EUR 4.6 million as a result of the payment of compensation, reversals and the reinstatement of remunerations established by collective bargaining agreements and as a result of the increase in the number of Governing Bodies as stated above.
- VIII. Under the powers invested 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.
- IX. The Annual Report and Accounts for 2016 provide information on compliance with the sustainability goals, even though the complete analysis of the group in the economic, social, environment, innovation and equality fields is described in the Sustainability Report for 2017, which shows material compliance with those goals.
- X. In compliance with article 508 of the Code of Commercial Companies, a separate report to the Annual Report was presented, e.g. a Non-Financial Statement on the year and which contains, reporting to the Sustainability Report 2017, information on the performance and evolution of the company regarding environmental and social issues and further issues related to employees, gender equality, non-

- discrimination, respect for human rights, combatting both corruption and attempts at bribery.
- XI. The disclosure obligations set out in Article 44 of Decree-Law 133/2013 of 3 October have been complied with as regards the annual publication of accounts analysed herein.
- XII. The Supervisory Board is familiar with the report issued by the external auditors on the consolidated accounts, and has no objections to its content.
- xiii. The Supervisory Board examined the Legal Certification of Consolidated Accounts issued as required by law by the Statutory Auditor, which includes the areas relevant to the audit and the other legal requirements, which are deemed to have been reproduced herein and which it agreed to. It also took note of the respective additional report of the same Statutory Auditor on the audit carried out.
- XIV. The Supervisory Board also highlights the maintenance of the debt position of municipal clients as regards 2016, a process that has otherwise experienced a positive trend since 2012, attaining the amount of EUR 345.7 million in gross terms, correspondingly highlighting how the majority of this sum, around EUR 232.9 million, had already expired. The AdP Group has continued with its efforts to recover and securitise the debts owed by municipalities and water supply and sanitation municipal companies. In this field, we would mention that the concession of the group loan by the EIB within the scope of the Juncker Plan, in the current financial year, destined to finance 50% of the Group's medium term investment program, established the possibility of providing a credit line of up to EUR 200 million destined for the acquisition by the EIB of the municipal debts and thereby enabling the settlement of the amounts outstanding to the AdP Group.
- XV. This further highlights how the consolidation of group operations drove a positive trend in the deviation in the recovery of costs, totalling EUR 12.5 million, which reflects a reduction on the EUR 23.7 incurred in 2016.
- XVI. Furthermore, the financial year saw the consolidation of the Group's financial management through means of the policy implemented incorporating the contracting of loans at the level of the holding company, AdP, SGPS, S.A., which in turn grants loans to its subsidiaries. Within this framework, there was a EUR 308 million reduction in the gross level of debt and with financial costs cut by over 10%. This comes in addition to the decrease in net financial debt held by all the AdP Group companies that provide water and sanitation services.
- XVII. The Supervisory Board understands that, at the end of this financial year, the holding company demerger processes should be continued with a process of standardisation of internal control procedures through means of a prior redefinition of the Internal Control Model and System of Evaluation.
- XVIII. As a consequence of the work undertaken, the Supervisory Board considers that the Report and the Financial Statements issued by the Board of Directors (which include the consolidated reporting of the financial position as at 31 December 2017, the consolidated reporting on the results by item and their integral earnings, the consolidated reporting on variations in company capital, the consolidated reporting on the cash flows for the financial year ending on the aforementioned date and the Notes to the Consolidated Financial Statements), are appropriate to understanding the asset situation of the business Group led by AdP - Águas de Portugal, S.G.P.S., S.A. as at 31 December 2017, and the way in which the results were attained and the activities undertaken.
- XIX. The Supervisory Board emphasizes all the collaboration it obtained from the Board of Directors, through the financial director, the statutory auditor and the 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 2017 annual report and consolidated accounts for AdP - Águas de Portugal, S.G.P.S., S.A., and considers they should be approved by the General Meeting

Lisbon, 23 April 2018

THE SUPERVISORY BOARD

Carla Maria Lamego Ribeiro
(Chair)

Mário José Alveirinho Carrega
(Member)

Ana Luisa Videira Gomes
(Member)

Legal persons and Registration number – 500 097 742 • Lisbon Company Registry Office • Share capital EUR 84,000,000

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RELATÓRIO E PARECER DO CONSELHO FISCAL SOBRE OS DOCUMENTOS DE PRESTAÇÃO DE CONTAS CONSOLIDADAS

RELATÓRIO

- 1- Em cumprimento das disposições legais e estatutárias aplicáveis, o Conselho Fiscal emite o presente Relatório e Parecer sobre o Relatório de Gestão e restantes documentos de prestação de contas consolidadas da sociedade AdP – Águas de Portugal, S.G.P.S., S.A., apresentadas pelo Conselho de Administração, relativamente ao exercício de 2017.
- 2- O Conselho Fiscal acompanhou a gestão da AdP – Águas de Portugal, S.G.P.S., S.A., e a evolução dos seus negócios, designadamente mediante contatos com os seus principais responsáveis, bem como através da leitura das atas das reuniões do Conselho de Administração e da Comissão Executiva. Efetuou reuniões com regularidade, nas quais, por via de regra, contou com a presença do Administrador responsável pelo pelouro financeiro, e do Revisor Oficial de Contas. O Conselho Fiscal obteve todos os esclarecimentos solicitados e dispôs da documentação que considerou necessária ao desempenho das suas funções de fiscalização.
- 3- O Conselho Fiscal procedeu ainda à análise do cumprimento das normas legais e estatutárias aplicáveis, e exerceu as suas competências em conformidade com o estabelecido no artigo 420.º do Código das Sociedades Comerciais.
- 4- O Conselho Fiscal teve conhecimento das reservas e ênfases constantes das certificações legais de contas relativas às empresas participadas não tendo chegado ao seu conhecimento situações de incumprimento materialmente relevantes.



- 5 - No que respeita ao cumprimento da legislação vigente, designadamente à aplicação do Código dos Contratos Públicos, foi o Conselho Fiscal informado que, a par do cumprimento integral do mesmo por parte das empresas instrumentais e operacionais o Grupo AdP procedeu à elaboração de um Manual de Procedimentos de Contratação Pública que visa uniformizar processos e garantir a observância dos requisitos legais e das orientações internas.
- 6 - O Grupo registou uma redução do número médio de colaboradores face a 2016, em paralelo com o aumento do número de Órgãos Sociais, mais 41 que em 2016, fato que decorreu da conclusão do processo de reorganização territorial das operações de abastecimento de água e saneamento de águas por via de cisões, determinando igualmente a nomeação de novas chefias.
- 7 - Destaca-se o aumento dos gastos com pessoal, em cerca de 4,6M€, decorrente do efeito das indemnizações, reversões e reposição das remunerações estabelecidas por instrumentos de regulamentação coletiva de trabalho assim como pelo aumento do número de Órgãos Sociais referido no ponto acima.
- 7 - No âmbito das competências que lhe são atribuídas pelos números 1 e 3, do artigo 33.º do Decreto-Lei n.º 133/2013, de 3 de outubro, o Conselho Fiscal verificou o cumprimento pela sociedade das obrigações aí estabelecidas, tendo emitido os Relatórios Trimestrais que foram remetidos às entidades competentes.
- 8 - O Relatório de Gestão e Contas de 2017 apresenta informação relativa ao cumprimento de objetivos de sustentabilidade, não obstante a análise completa para o Grupo neste âmbito beneficiar da apresentação do Relatório de Sustentabilidade relativo a 2017, revelando-se o cumprimento material daqueles.
- 9 - Foi dado cumprimento ao artigo 508.ºG do Código das Sociedades Comerciais, sendo apresentado em relatório separado do Relatório de Gestão e Contas, uma Demonstração não Financeira relativa ao exercício que contém, por remissão para o Relatório de Sustentabilidade de 2017, informação referente ao desempenho e evolução da sociedade quanto a questões ambientais, sociais e relativas aos



trabalhadores, igualdade de género, não discriminação, respeito pelos direitos humanos, combate à corrupção e tentativas de suborno.

- 10 – No mesmo sentido observou-se o cumprimento, na parte respeitante à prestação de contas anual aqui sujeitas a análise, das obrigações de divulgação estabelecidas no artigo 44.º do Decreto-Lei n.º 133/2013, de 3 de outubro.
- 11 – O Conselho Fiscal tomou conhecimento do Relatório emitido pelos Auditores Externos sobre as contas consolidadas, nada havendo a objetar quanto ao seu conteúdo.
- 12 – O Conselho Fiscal apreciou a Certificação Legal das Contas Consolidadas, emitida nos termos da legislação em vigor pelo Revisor Oficial de Contas, a qual integra as matérias relevantes de auditoria e os outros requisitos legais, que aqui se dão como reproduzidos e que mereceu o seu acordo. Tomou igualmente conhecimento do respetivo relatório adicional do mesmo Revisor Oficial de Contas sobre a fiscalização efetuada.
- 13 – O Conselho Fiscal destaca ainda a manutenção da situação de dívidas de clientes municipais face em 2016, um processo que tem tido uma evolução positiva desde 2012, alcançando um valor de 345,7M€ em termos brutos, sendo de salientar que na sua maioria, cerca de 232,9M€ se encontra vencida. O Grupo AdP tem continuado o esforço de recuperação e titularização da dívida dos municípios e das empresas municipais de abastecimento e saneamento. Neste domínio refere-se que, no âmbito da concessão do empréstimo grupado pelo BEI ao abrigo do Plano Juncker, no corrente exercício, destinado a financiar 50% do programa de investimento do Grupo no médio prazo, estabeleceu-se a possibilidade de ser utilizada uma linha até 200M€, destinada à aquisição pelo BEI de dívidas dos municípios permitindo assim a liquidação das dívidas que estes detenham ao Grupo AdP.
- 14 – Deve ser relevado que a consolidação das operações do grupo, favoreceu a evolução positiva do desvio de recuperação de gastos, atingindo em 2017 o valor de 12,5M€, o que representa uma redução de 23,7M€ face a 2016.

- 15 – Destaca-se ainda no corrente exercício a consolidação da gestão financeira do grupo por via da política implementada, assente na contratação de empréstimos ao nível da empresa-mãe, a AdP, SGPS, S.A., que por sua vez concede empréstimos às suas subsidiárias. Neste âmbito, observa-se a redução do endividamento bruto em 308M€ e a redução dos gastos financeiros em mais de 10%. Acresce a diminuição da dívida financeira líquida em todas as empresas do Grupo AdP que prestam serviços de água e saneamento.
- 15 – O Conselho Fiscal entende que findo, no presente exercício, o processo de cisões das empresas participadas, deve ser prosseguido um processo de uniformização dos procedimentos de controlo interno por via de uma prévia redefinição do Modelo e Sistema de Avaliação do Controlo Interno.
- 16 – Em consequência do trabalho desenvolvido, o Conselho Fiscal considera que o Relatório do Conselho de Administração e as Demonstrações Financeiras consolidadas (as quais compreendem a Demonstração consolidada da posição financeira em 31 de dezembro de 2017, as Demonstrações consolidadas dos resultados por naturezas e do rendimento integral, a Demonstração consolidada das variações do capital próprio, a Demonstração consolidada dos fluxos de caixa do exercício findo naquela data e as Notas às Demonstrações Financeiras consolidadas), são adequados à compreensão da situação patrimonial do Grupo empresarial liderado pela AdP – Águas de Portugal, S.G.P.S., S.A. em 31 de dezembro de 2017, e da forma como se formaram os resultados e se desenrolou a atividade.
- 17 – O Conselho Fiscal salienta toda a colaboração que obteve do Conselho de Administração, através do administrador responsável pelo pelouro financeiro, do Revisor Oficial de Contas, do Auditor Externo e dos Serviços da AdP – Águas de Portugal, S.G.P.S., S.A..

PARECER

Em consequência do acima referido, o Conselho Fiscal dá a sua concordância ao Relatório de Gestão e Contas Consolidadas do exercício de 2017 da AdP – Águas de Portugal, S.G.P.S., S.A., dando o seu parecer favorável a que sejam aprovados pela Assembleia Geral.

Lisboa, 23 de abril de 2018

O CONSELHO FISCAL



Carla Maria Lamego Ribeiro
(Presidente)



Mário José Alveirinho Carrega
(Vogal)



Ana Luísa Videira Gomes
(Vogal)

Legal Certification of Consolidated Accounts



ALVES DA CUNHA, A. DIAS & ASSOCIADOS
SOCIEDADE DE REVISORES OFICIAIS DE CONTAS, Lda.

LEGAL CERTIFICATION OF CONSOLIDATED ACCOUNTS

REPORT OF AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the attached consolidated financial statements of AdP - Águas de Portugal, S.G.P.S., S.A. (the Group), which include the statement of financial position as at 31 December 2017 (showing a total of EUR 6,150,632,350 and total equity of EUR 1,517,174,573, including a net profit of EUR 88,607,748 allocable to shareholders of the parent company), the consolidated income of results per nature, the consolidated 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 consolidated financial statements, including a summary of the main accounting policies.

In our opinion, the attached financial statements give a true, appropriate picture, in all material aspects, of the financial position of AdP- Águas de Portugal, S.G.P.S., S.A. as at 31 December 2017, its financial performance and cash flows during the period ended on that date, in accordance with the International Financial Reporting Standards as adopted in the European Union.

Basis for the opinion

Our audit was carried out in accordance with the International Standards on Auditing (ISA) and other standards and technical and ethical guidelines of the Portuguese Statutory Auditors Association. Our responsibilities pursuant to these standards are described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section below. We are independent of the Company pursuant to law and we comply with other ethical requirements under the code of ethics of the Portuguese Statutory Auditors Association.

We are convinced that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Areas relevant to the audit

The areas relevant to the audit are those that, in our professional judgment, were most important in auditing the financial statements of the current year. These areas were considered in the context of the audit of the financial statements as a whole, and also in the formation of the opinion, and we do not express a separate opinion concerning those areas.

1. Recognition and measurement of contractual investment

The contractual investment already made by the subsidiaries of AdP - Águas de Portugal, SGPS, S.A., which, given their status as multi-municipal system management companies, acting as concessionaires directly or in partnership, is considered in intangible assets according to IFRIC 12 and amounts to EUR 3,857,373,302 net of depreciation. The definition of the useful lives of concession assets, given the relevance of this investment, and the depreciation method

Sociedade Civil sob forma comercial • Capital Social: 25.000 euros • Matriculada na CRC Lisboa com o NIPC 502 289 740 inscrita na lista dos Revisores Oficiais de Contas com o n.º 74 • inscrita no Registo de Auditores da CMVM com o n.º 20161408 Rua Américo Durão, 6-83 Esq. - 1900-064 LISBOA-PORTUGAL • TEL.: 21 829 28 80 - FAX: 21 847 07 80 • acad@acad.pt • www.acad.pt

to be used are essential to calculating the amount of depreciation to be recognised in the consolidated income statement, especially in a highly regulated context such as that in which the Group operates.

Most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
<p>In accordance with the above-stated, the recognition and measurement of contractual investment is associated with a set of contractual and regulatory rules, in turn associated with exogenous factors of problematic estimation (flows and effluents for example), which are envisaged in the Economic and Financial Feasibility Study (EVEF) attached to the concession agreement and in the Tariff Proposal Budget (OPT) for the year.</p> <p>Moreover, the annual share of estimated expenditure to cover contractual expenditure on investments not yet realised is also determined from the above-mentioned EVEF.</p> <p>In view of the nature of this asset and its accounting treatment as a result of the application of IFRIC 12, as well as the degree of judgment associated with the assessment of the various contractual and regulatory requirements, it is our understanding that a significant risk is associated with the recognition and measurement of contractual investment.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> Analysis of the multi-municipal system management company OPTs and the EVEFs attached to the concession agreements; Obtaining and analysing the answers given by the statutory auditors of the subsidiaries to the audit instructions sent by us, namely regarding the work performed in the field of intangible assets; Obtaining and analysing the financial statements of the subsidiaries and the corresponding Legal Certification of Accounts; Holding meetings with the external auditor of the Group with a view, without prejudice to the autonomy of each party, to exchange information on the work developed, particularly for the area under analysis; Testing the reasonableness of the evolution of intangible assets, including depreciations and impairments, registered by the subsidiaries and considered in the consolidated financial statements; Assessment whether the corresponding disclosures in notes 2.5, 4.2, 8, 30, 39 and 49 to the consolidated financial statements are adequate.

2. Recognition and measurement of cost recovery deviations

Pursuant to Decree-Law Nos. 92/2015, 93/2015 and 94/2015, all of 29 May, of Decree-Law no. 16/2017, of 1 February, of Decree-Law no. 34/2017, of 24 March and the concession/partnership agreements in which the subsidiaries of AdP - Águas de Portugal, SGPS, S.A. are parties, the revenue from the regulated activity should allow full recovery of expenses and an annual guaranteed return for shareholders. The Cost Recovery Deviation (CRD) are corrections (credit or debit) in the revenue (in 2016: +12.488.619 euros) of regulated activities, so that the revenues of these are those required to comply with the contractual provisions.

Most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
<p>The recognition and measurement of CRD is associated with a set of legal provisions and contractual rules depending on multiple factors and the sanctioning of the Water and Wastewater Service Regulator (ERSAR). The CRD is estimated in each annual period based on the best information available at the time of preparation of the financial statements. In view of the degree of judgment and complexity involved in calculating the CRD and the effect on the calculation of revenue and consequently the profit of the period, it is our understanding that the risk associated to the recognition and ascertainment of CRDs is significant.</p>	<p>Analysis of the ERSAR opinions on the CRD to be recognised during the year; Obtaining and analysing the answers given by the statutory auditors of the subsidiaries with regulated business activities to the audit instructions sent by us, namely regarding the work performed in calculating the CRD; Obtaining and analysing the financial measurement of contractual investments, statements of the subsidiaries with regulated business activities and the corresponding Legal Certification of Accounts; Holding meetings with the external auditor of the Group with a view to, without prejudice to the autonomy of each party, exchanging information on the work developed, particularly in the area under analysis; Testing the reasonableness of the CRD amounts recorded by the subsidiaries with regulated activities and the CRD considered in the consolidated financial statements; Assessment whether the corresponding disclosures in notes 2.5, 4.7, 15 and 35 to the consolidated financial statements are adequate.</p>

3. Recoverability of costs from Municipalities

The net debt of the Municipalities to the Group on 31/12/2017 amounts to EUR 312,966,990 of which EUR 39,978,163 are classified as non-current assets. This debt, which for the most part is overdue, was generated by the systematic delays of payments made by the Municipalities, alleging financial difficulties and/or the non-recognition by the Municipalities of the amounts billed by the Group. The balance of trade receivables of current assets includes interest on arrears charged to the Municipalities due to these delays, which amount to EUR 17,051,393. In order to recover these amounts, the Group seeks to ensure preferential claims on current debts, establishing debt payment agreements with the debtor municipalities and issue injunctions.

Most significant risks of material misstatement	Summary of our response to the most significant risks of material misstatement
<p>Despite the legal mechanisms at its disposal, the recovery of debts from the Municipalities is slow, for reasons associated not only with the slow wheels of justice but also the specific characteristics of the debtors. As a result, the assessment of the impairment losses of the receivables in question requires consideration of multiple factors and interpretation in any appraisal. As a matter of fact, if these debts are not recovered, the economic-financial equilibrium of the concessions could be jeopardised, affecting the Group as a whole.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • Obtaining and analysing the answers given by the statutory auditors of the subsidiaries to the audit instructions sent by us, namely concerning the work performed to recover the debts from the Municipalities; • Obtaining and analysing the financial statements of the subsidiaries, with special emphasis on the evolution of the balances of Municipalities as clients, as well as the corresponding Legal Certification of Accounts; • Holding meetings with the external auditor of the Group with a view to, without prejudice to the autonomy of each party, exchanging information on the work developed, particularly in the area under analysis; • Testing the reasonableness of the balances of Municipalities as clients recorded by the subsidiaries and the joint balance considered in the consolidated financial statements; • Assessment whether the corresponding disclosures in notes 2.15.1, 3.4.1, 16 and 18 to the consolidated financial statements are adequate.

Responsibilities of the management body and the supervisory body relative to the consolidated financial statements

The management body is responsible for:

- preparing the consolidated financial statements to give a true and appropriate picture of the financial position, the financial performance and cash flows of the Group in accordance with the international financial reporting standards as adopted in the European Union;
- drawing up the Annual Report, pursuant to applicable law and regulations;
- establishing and maintaining an appropriate internal control system to enable the preparation of financial statements free from material misstatement due to fraud or error;
- adoption of accounting policies and criteria appropriate to the circumstances; and
- disclosure of any material fact that has influenced the Group's activity, financial position or profits; and
- the assessment of the Group's ability to remain a going concern, disclosing, when applicable, matters that may give rise to significant doubts about the going concern of the business.

The supervisory body is responsible for overseeing the preparation and disclosure of the Group's financial information.

Responsibilities of the auditor for the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error, and to issue a report stating our opinion. Reasonable assurance is a high level of assurance but it is not a guarantee that an audit performed in accordance with the ISA will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, separately or together, they can reasonably be expected to influence economic decisions of the users taken on the basis of those financial statements.

As part of an audit according to the ISA, we make professional judgments and maintain professional scepticism during

the audit and also:

- We identify and assess the material misstatement risk of the consolidated financial statements due to fraud or error, we design and perform audit procedures that respond to those risks, and we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is greater than the risk of not detecting material misstatement due to error, since fraud may involve collusion, falsifying, intentional omissions, false statements or overlapping of the internal controls;
- We obtain an understanding of the internal controls that is relevant to the audit for the purpose of designing audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Group's internal control system;
- We assess the adequacy of the accounting policies used and the reasonableness of accounting estimates and the respective disclosures made by the management body;
- We reach a conclusion on the appropriation of the use by the management body of the going concern assumption and, based on the audit evidence obtained, whether there is any material uncertainty related to events or conditions that could raise significant doubts about the Group's ability to continue its business activities. If we conclude that there is material uncertainty, we should draw attention in our report to the related disclosures included in the financial statements or, if these disclosures are not appropriate, we should modify our opinion. Our conclusions are based on audit evidence obtained at the date of our report. However, future events or conditions may cause the Group to discontinue its activities;
- We assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that ensures an appropriate presentation;
- We obtain sufficient and appropriate audit evidence regarding the financial information of the entities or activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the guidance, supervision and performance of the Group's audit and are ultimately responsible for our audit opinion;
- We communicate to the persons in charge of governance, including the supervisory body, the scope and planned timetable of the audit, among other aspects, as well as significant audit conclusions, including any significant internal control deficiencies identified during the audit;
- We establish, regarding the matters we have communicated to those in charge of governance, including the supervisory body, those found to be most important in the audit of the financial statements of the current year and which are the areas relevant to the audit. We state those areas in our report, except when law or regulations prohibit their public disclosure;
- We declare to the supervisory body that we comply with the relevant ethical requirements regarding independence and we report all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards in place.

Our responsibility also includes verifying whether the information contained in the annual report is consistent with the consolidated financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The annual report

In compliance with Article 451(3) (e) of the Commercial Companies Code, that the annual report was prepared in accordance with applicable legal and regulatory requirements, the information contained therein is in accordance with the audited consolidated financial statements and, taking into account the knowledge of and appraisal of the Group, we have not found any material misstatements.

On the non-financial information stipulated by article 508.º-G of the Commercial Companies Code

In compliance with Article 451.9 n.º 6, of the Commercial Companies Code, we would here state that the Group prepared a separate report to the management report that includes non-financial information as stipulated by Article 508.9-G of the Corporate Company Code published in conjunction with the management report.

The additional elements provided for in Article 10 of Regulation (EU) No. 537/2014

In compliance with Article 10 of Regulation (EU) No. 537/2014 of the European Parliament and the Council of 16 April 2014, and in addition to the areas relevant to the audit mentioned above, we also report the following:

- We were elected as the Statutory Auditor of AdP - Águas de Portugal, SGPS, S.A. for the first time by a unanimous written resolution of 9 March 2009, for a term of office from 2008 to 2010. We remained in office until the subsequent election at the general shareholders' meeting, held on 2 May 2012, when we were elected for a second term, from 2012 to 2014. We were elected for a third term at the general shareholders' meeting, held on 16 June 2015, for the period from 2015 to 2017. The management body has confirmed to us that it is not aware of the occurrence of fraud or suspected fraud having a material effect on the financial statements. In the planning and performance of our audit according to the ISA we have maintained professional scepticism and designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. We have not identified, as a result of our work, any material misstatement in the consolidated financial statements due to fraud.
- We confirm that the audit opinion we issue is consistent with the additional report we have prepared and delivered to the supervisory body of AdP - Águas de Portugal, SGPS, S.A. on this same date.
- We declare that we did not provide any services prohibited under Article 77.2, paragraph 8 of the Statutes of the Portuguese Statutory Auditors Association and that we maintained our independence from the Group during the performance of the audit.

Lisbon, 16 April 2018

Alves da Cunha, A. Dias & Associados, SROC, Lda.
represented by José Luís Areal Alves da Cunha (Statutory Auditor no. 5 585)



CERTIFICAÇÃO LEGAL DAS CONTAS

RELATO SOBRE A AUDITORIA DAS DEMONSTRAÇÕES FINANCEIRAS CONSOLIDADAS

Opinião

Auditámos as demonstrações financeiras consolidadas anexas da AdP – Águas de Portugal, SGPS, S.A. (o Grupo), que compreendem a demonstração consolidada da posição financeira em 31 de dezembro de 2017 (que evidencia um total de 6.150.632.350 euros e um total de capital próprio de 1.517.174.573 euros, incluindo um resultado líquido atribuível a acionistas da empresa-mãe de 88.607.748 euros), a demonstração consolidada dos resultados por naturezas, a demonstração consolidada do rendimento integral, a demonstração das variações do capital próprio consolidado e a demonstração dos fluxos de caixa consolidados relativas ao ano findo naquela data, e as notas às demonstrações financeiras consolidadas que incluem um resumo das políticas contabilísticas significativas.

Em nossa opinião, as demonstrações financeiras consolidadas anexas apresentam de forma verdadeira e apropriada, em todos os aspetos materiais, a posição financeira consolidada da AdP – Águas de Portugal, SGPS, S.A. em 31 de dezembro de 2017 e o seu desempenho financeiro e fluxos de caixa consolidados relativos ao ano findo naquela data de acordo com as normas internacionais de contabilidade tal como adotadas na União Europeia.

Bases para a opinião

A nossa auditoria foi efetuada de acordo com as Normas Internacionais de Auditoria (ISA) e demais normas e orientações técnicas e éticas da Ordem dos Revisores Oficiais de Contas. As nossas responsabilidades nos termos dessas normas estão descritas na secção “Responsabilidades do auditor pela auditoria das demonstrações financeiras consolidadas” abaixo. Somos independentes das entidades que compõem o Grupo nos termos da lei e cumprimos os demais requisitos éticos nos termos do código de ética da Ordem dos Revisores Oficiais de Contas.

Estamos convictos de que a prova de auditoria que obtivemos é suficiente e apropriada para proporcionar uma base para a nossa opinião.

Matérias relevantes de auditoria

As matérias relevantes de auditoria são as que, no nosso julgamento profissional, tiveram maior importância na auditoria das demonstrações financeiras consolidadas do ano corrente. Essas matérias foram consideradas no contexto da auditoria das demonstrações financeiras consolidadas como um todo, e na formação da opinião, e não emitimos uma opinião separada sobre essas matérias.

1. Reconhecimento e mensuração do investimento contratual

O investimento contratual já efetuado pelas subsidiárias da AdP – Águas de Portugal, SGPS, S.A. que, dada a sua qualidade de empresas gestoras de sistemas multimunicipais, intervêm como concessionárias diretamente ou em parceria, está considerado no ativo intangível de acordo com a IFRIC 12 e ascende a 3.857.373.302 euros, líquido de amortizações. Dada a relevância deste investimento, a determinação das vidas úteis dos ativos concessionados, bem como a definição do método de amortização a utilizar, é essencial para o cálculo das amortizações e reconhecer na demonstração dos resultados consolidados, sobretudo num contexto altamente regulado como aquele em que o Grupo atua.

Riscos de distorção material mais significativos	Síntese da resposta dada aos riscos de distorção material mais significativos
Tal como decorre do anteriormente referido, o reconhecimento e mensuração do investimento contratual está associado a um conjunto de regras	Os nossos procedimentos de auditoria incluíram, entre outros:



Riscos de distorção material mais significativos	Síntese da resposta dada aos riscos de distorção material mais significativos
<p>contratuais e regulamentares, por sua vez associadas a fatores exógenos de problemática estimação (caudais e efluentes, por exemplo), constantes no Estudo de Viabilidade Económica e Financeira (EVEF) anexo ao contrato de concessão e no Orçamento de Projeto de Tarifário (OPT) para o exercício.</p> <p>Acresce que, a quota-parte anual dos gastos estimados para fazer face às despesas contratuais em investimentos ainda não realizados também são determinados a partir do já citado EVEF.</p> <p>Atenta a natureza deste ativo e o seu tratamento contabilístico por força da aplicação da IFRIC 12, bem como o grau de julgamento associado à avaliação dos diversos pressupostos requeridos contratual e regulamentarmente, é nosso entendimento que o risco associado ao reconhecimento e à mensuração do investimento contratual é significativo.</p>	<ul style="list-style-type: none">• Análise dos OPT's das empresas gestoras dos sistemas multimunicipais e dos EVEF's anexos aos contratos de concessão;• Obtenção e análise das respostas dadas pelos ROC das subsidiárias às instruções de auditoria por nós remetidas, nomeadamente quanto ao trabalho realizado na área do ativo intangível;• Obtenção e análise das demonstrações financeiras das subsidiárias e das correspondentes Certificações Legais de Contas;• Realização de reuniões com o auditor externo do Grupo tendo em vista, sem prejuízo da autonomia de atuação de cada parte, a troca de informações sobre o trabalho desenvolvido, designadamente sobre o tema em análise;• Teste à razoabilidade da evolução do ativo intangível, incluindo amortizações e imparidades, registado pelas subsidiárias e considerado nas demonstrações financeiras consolidadas;• Avaliação sobre se as correspondentes divulgações nas notas 2.5, 4.2, 8, 30, 39 e 49 às demonstrações financeiras consolidadas são adequadas.

2. Reconhecimento e mensuração dos desvios de recuperação de gastos

Nos termos dos Decretos-Leis n.ºs 92/2015, 93/2015 e 94/2015, todos de 29 de maio, do Decreto-Lei n.º 16/2017, de 1 de fevereiro, do Decreto-Lei n.º 34/2017, de 24 de março e dos contratos de concessão/participação em que as subsidiárias da AdP – Águas de Portugal, SGPS, S.A. são parte, o réditto da atividade regulada deve permitir a recuperação integral dos gastos e uma remuneração anual garantida aos acionistas. Os Desvios de Recuperação dos Gastos (DRG) são as correções (a crédito ou a débito) realizadas no réditto (em 2017: +12.488.619 euros) das atividades reguladas, para que os rendimentos destas sejam os necessários ao cumprimento das disposições contratuais.

Riscos de distorção material mais significativos	Síntese da resposta dada aos riscos de distorção material mais significativos
<p>O reconhecimento e mensuração dos DRG está associado a um conjunto de disposições legais e regras contratuais dependentes de múltiplos fatores e sancionamento da <i>Entidade Reguladora dos Serviços de Águas e Resíduos</i> (ERSAR). Os DRG são estimados todos os anos com base na melhor informação disponível à data da preparação das demonstrações financeiras.</p> <p>Atento o grau de julgamento e a complexidade que envolve a determinação dos DRG e o seu efeito no cálculo do réditto e consequentemente no resultado do período, é nosso entendimento que o risco associado ao reconhecimento e à mensuração dos DRG é significativo.</p>	<p>Os nossos procedimentos de auditoria incluíram, entre outros:</p> <ul style="list-style-type: none">• Análise dos pareceres da ERSAR sobre os DRG a reconhecer no exercício;• Obtenção e análise das respostas dadas pelos ROC das subsidiárias com atividade regulada às instruções de auditoria por nós remetidas, nomeadamente quanto ao trabalho realizado sobre o cálculo dos DRG;• Obtenção e análise das demonstrações financeiras das subsidiárias com atividade regulada e das correspondentes Certificações Legais de Contas;• Realização de reuniões com o auditor externo do Grupo tendo em vista, sem prejuízo da autonomia de atuação de cada parte, a troca de informações sobre



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Riscos de distorção material mais significativos	Síntese da resposta dada aos riscos de distorção material mais significativos
	<p>o trabalho desenvolvido, designadamente sobre o tema em análise;</p> <ul style="list-style-type: none">• Teste à razoabilidade dos montantes de DRG registados pelas subsidiárias com atividade regulada e do DRG considerado nas demonstrações financeiras consolidadas;• Avaliação sobre se as correspondentes divulgações nas notas 2.5, 4.7, 15 e 35 às demonstrações financeiras consolidadas são adequadas.

3. Recuperabilidade dos saldos a receber de Municípios

A dívida líquida dos Municípios ao Grupo em 31/12/2017 ascende a 312.966.990 euros, dos quais 39.978.163 euros estão classificados como ativo não corrente. Esta dívida, que na sua maior parte se encontra vencida, foi gerada pelo (i) sistemático atraso com que os Municípios realizam os seus pagamentos alegando dificuldades financeiras e/ou (ii) pela falta de reconhecimento por parte destes dos montantes faturados pelo Grupo. O saldo de clientes do ativo corrente inclui juros de mora debitados aos Municípios em virtude destes atrasos, os quais ascendem a 17.051.393 euros. Para recuperar estes valores em dívida, o Grupo procura assegurar o privilégio creditório incidente sobre dívidas correntes, a realização de acordos de regularização com os Municípios devedores e a interposição de injunções.

Riscos de distorção material mais significativos	Síntese da resposta dada aos riscos de distorção material mais significativos
<p>Apesar dos mecanismos legais à sua disposição, a recuperação das dívidas dos Municípios revela-se lenta, por razões associadas não só ao funcionamento da justiça, mas também às particulares características dos devedores. Em consequência, a avaliação das perdas de imparidade dos créditos em causa requer a consideração de múltiplos fatores e sensibilidade de apreciação. Aliás, a não serem recuperadas estas dívidas, o equilíbrio económico-financeiro das concessões poderia ser posto em causa, afetando o Grupo como um todo.</p>	<p>Os nossos procedimentos de auditoria incluíram, entre outros:</p> <ul style="list-style-type: none">• Obtenção e análise das respostas dadas pelos ROC das subsidiárias às instruções de auditoria por nós remetidas, nomeadamente quanto ao trabalho realizado sobre a recuperabilidade dos créditos sobre os Municípios;• Obtenção e análise das demonstrações financeiras das subsidiárias, com especial incidência sobre a evolução dos saldos dos Municípios como clientes, bem como das correspondentes Certificações Legais de Contas;• Realização de reuniões com o auditor externo do Grupo tendo em vista, sem prejuízo da autonomia de atuação de cada parte, a troca de informações sobre o trabalho desenvolvido, designadamente sobre o tema em análise;• Teste à razoabilidade dos saldos dos Municípios enquanto clientes registados pelas subsidiárias e do saldo conjunto considerado nas demonstrações financeiras consolidadas;• Avaliação sobre se as correspondentes divulgações nas notas 2.15.1, 3.4.1, 16 e 18 às demonstrações financeiras consolidadas são adequadas.



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Responsabilidades do órgão de gestão e do órgão de fiscalização pelas demonstrações financeiras consolidadas

O órgão de gestão é responsável pela:

- preparação de demonstrações financeiras consolidadas que apresentem de forma verdadeira e apropriada a posição financeira, o desempenho financeiro e os fluxos de caixa do Grupo de acordo com as normas internacionais de contabilidade tal como adotadas na União Europeia;
- elaboração do relatório de gestão nos termos legais e regulamentares aplicáveis;
- criação e manutenção de um sistema de controlo interno apropriado para permitir a preparação de demonstrações financeiras isentas de distorção material devida a fraude ou erro;
- adoção de políticas e critérios contabilísticos adequados nas circunstâncias; e
- divulgação de qualquer facto relevante que tenha influenciado a atividade, a posição financeira ou os resultados do Grupo; e
- a avaliação da capacidade do Grupo de se manter em continuidade, divulgando, quando aplicável, as matérias que possam suscitar dúvidas significativas sobre a continuidade das atividades.

O órgão de fiscalização é responsável pela supervisão do processo de preparação e divulgação da informação financeira do Grupo.

Responsabilidades do auditor pela auditoria das demonstrações financeiras consolidadas

A nossa responsabilidade consiste em obter segurança razoável sobre se as demonstrações financeiras consolidadas como um todo estão isentas de distorções materiais devido a fraude ou erro, e emitir um relatório onde conste a nossa opinião. Segurança razoável é um nível elevado de segurança mas não é uma garantia de que uma auditoria executada de acordo com as ISA detetará sempre uma distorção material quando exista. As distorções podem ter origem em fraude ou erro e são consideradas materiais se, isoladas ou conjuntamente, se possa razoavelmente esperar que influenciem decisões económicas dos utilizadores tomadas com base nessas demonstrações financeiras.

Como parte de uma auditoria de acordo com as ISA, fazemos julgamentos profissionais e mantemos ceticismo profissional durante a auditoria e também:

- identificamos e avaliamos os riscos de distorção material das demonstrações financeiras consolidadas, devido a fraude ou a erro, concebemos e executamos procedimentos de auditoria que respondam a esses riscos, e obtemos prova de auditoria que seja suficiente e apropriada para proporcionar uma base para a nossa opinião. O risco de não detetar uma distorção material devido a fraude é maior do que o risco de não detetar uma distorção material devido a erro, dado que a fraude pode envolver conluio, falsificação, omissões intencionais, falsas declarações ou sobreposição ao controlo interno;
- obtemos uma compreensão do controlo interno relevante para a auditoria com o objetivo de conceber procedimentos de auditoria que sejam apropriados nas circunstâncias, mas não para expressar uma opinião sobre a eficácia do controlo interno do Grupo;
- avaliamos a adequação das políticas contabilísticas usadas e a razoabilidade das estimativas contabilísticas e respetivas divulgações feitas pelo órgão de gestão;
- concluímos sobre a apropriação do uso, pelo órgão de gestão, do pressuposto da continuidade e, com base na prova de auditoria obtida, se existe qualquer incerteza material relacionada com acontecimentos ou condições que possam suscitar dúvidas significativas sobre a capacidade do Grupo para dar continuidade às suas atividades. Se concluirmos que existe uma incerteza material, devemos chamar a atenção no nosso relatório para as divulgações relacionadas incluídas nas demonstrações financeiras ou, caso essas divulgações não sejam adequadas, modificar a nossa opinião. As nossas conclusões são baseadas na prova de auditoria obtida até à data do nosso relatório. Porém, acontecimentos ou condições futuras podem levar a que o Grupo descontinue as suas atividades;



Ac

- avaliamos a apresentação, estrutura e conteúdo global das demonstrações financeiras consolidadas, incluindo as divulgações, e se essas demonstrações financeiras representam as transações e acontecimentos subjacentes de forma a atingir uma apresentação apropriada;

- obtemos prova de auditoria suficiente e apropriada relativa à informação financeira das entidades ou atividades dentro do Grupo para expressar uma opinião sobre as demonstrações financeiras consolidadas. Somos responsáveis pela orientação, supervisão e desempenho da auditoria do Grupo e somos os responsáveis finais pela nossa opinião de auditoria;

- comunicamos com os encarregados da governação, incluindo o órgão de fiscalização, entre outros assuntos, o âmbito e o calendário planeado da auditoria, e as conclusões significativas da auditoria incluindo qualquer deficiência significativa de controlo interno identificado durante a auditoria;

- das matérias que comunicamos aos encarregados da governação, incluindo o órgão de fiscalização, determinamos as que foram as mais importantes na auditoria das demonstrações financeiras do ano corrente e que são as matérias relevantes de auditoria. Descrevemos essas matérias no nosso relatório, exceto quando a lei ou regulamento proibir a sua divulgação pública;

- declaramos ao órgão de fiscalização que cumprimos os requisitos éticos relevantes relativos à independência e comunicamos todos os relacionamentos e outras matérias que possam ser percecionadas como ameaças à nossa independência e, quando aplicável, as respetivas salvaguardas.

A nossa responsabilidade inclui ainda a verificação da concordância da informação constante do relatório de gestão com as demonstrações financeiras consolidadas, bem como a verificação de que a informação não financeira foi apresentada.

RELATO SOBRE OUTROS REQUISITOS LEGAIS E REGULAMENTARES

Sobre o relatório de gestão

Dando cumprimento ao artigo 451.º, n.º 3, al. e) do Código das Sociedades Comerciais, somos de parecer que o relatório de gestão foi preparado de acordo com os requisitos legais e regulamentares aplicáveis em vigor, a informação nele constante é concordante com as demonstrações financeiras consolidadas auditadas e, tendo em conta o conhecimento e apreciação sobre o Grupo, não identificámos incorreções materiais.

Sobre a informação não financeira prevista no artigo 508.º-G do Código das Sociedades Comerciais

Dando cumprimento ao artigo 451.º n.º 6, do Código das Sociedades Comerciais, informamos que o Grupo preparou um relatório separado do relatório de gestão que inclui a informação não financeira, conforme previsto no artigo 508.º-G do Código das Sociedades Comerciais, a publicar juntamente com o relatório de gestão.

Sobre os elementos adicionais previstos no artigo 10º do Regulamento (UE) nº 537/2014

Dando cumprimento ao artigo 10.º do Regulamento (UE) nº 537/2014 do Parlamento Europeu e do Conselho, de 16 de abril de 2014, e para além das matérias relevantes de auditoria acima indicadas, relatamos ainda o seguinte:

- Fomos eleitos como Revisor Oficial de Contas da AdP – Águas de Portugal, SGPS, S.A. pela primeira vez por deliberação social unânime por escrito de 9 de março de 2009 para um mandato compreendido entre 2008 e 2010, tendo-nos mantido em funções até à nova eleição ocorrida na assembleia geral de acionistas realizada em 2 de maio de 2012 para um segundo mandato compreendido entre 2012 e 2014. Fomos eleitos na assembleia geral de acionistas realizada em 16 de junho de 2015 para um terceiro mandato compreendido entre 2015 e 2017.

- O órgão de gestão confirmou-nos que não tem conhecimento da ocorrência de qualquer fraude ou suspeita de fraude com efeito material nas demonstrações financeiras. No planeamento e execução da nossa auditoria de acordo com as ISA mantivemos o ceticismo profissional e concebemos procedimentos de auditoria para responder



à possibilidade de distorção material das demonstrações financeiras consolidadas devido a fraude. Em resultado do nosso trabalho não identificámos qualquer distorção material nas demonstrações financeiras consolidadas devido a fraude.

- Confirmamos que a opinião de auditoria que emitimos é consistente com o relatório adicional que preparámos e entregámos ao órgão de fiscalização da AdP – Águas de Portugal, SGPS, S.A. nesta mesma data.

- Declaramos que não prestámos quaisquer serviços proibidos nos termos do artigo 77.º, número 8, do Estatuto da Ordem dos Revisores Oficiais de Contas e que mantivemos a nossa independência face ao Grupo durante a realização da auditoria.

Lisboa, 16 de abril de 2018

Alves da Cunha, A. Dias & Associados, SROC, Lda.
representada por José Luís Areal Alves da Cunha (ROC n.º 585)



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Auditor's Report

REPORT OF AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the attached consolidated financial statements of AdP - Águas de Portugal, S.G.P.S., S.A. (the Group), which include the Consolidated Statement of Financial Position as at 31 December 2017 (showing a total of 6.150.632.350 euros and total equity of 1.517.174.573 euros, including a net profit allocated to the Group's shareholders of 88.607.748 euros), the Consolidated Income Statement, 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, including a summary of the main accounting policies.

In our opinion, the attached consolidated financial statements give a true, appropriate picture, in all material aspects, of the consolidated financial position of AdP- Águas de Portugal, S.G.P.S., S.A. as at 31 December 2017, its consolidated financial performance and consolidated cash flows during the period ended on that date, in accordance with the International Financial Reporting Standards as adopted in the European Union.

Basis for the opinion

Our audit was carried out in accordance with the International Standards on Auditing (ISA) and other standards and technical and ethical guidelines of the Portuguese Statutory Auditors Association. Our responsibilities pursuant to these standards are described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section below. We are independent of the entities that make up the Group pursuant to law and we comply with other ethical requirements under the code of ethics of the Portuguese Statutory Auditors Association.

We are convinced that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Matters of relevance to the audit

The areas relevant to the audit are those that, in our professional judgment, were most important in auditing the consolidated financial statements of the current year. These areas should be considered in the context of the audit of the consolidated financial statements as a whole, and also in the formation of the opinion, and we do not express a separate opinion concerning those areas.



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We describe below the areas relevant to the audit of the current year:

1. Recognition and measurement of contractual investment

Description of the most significant risks of material misstatement

The rights of use of infrastructure is depreciated on a systematic basis according to the standard for obtaining economic benefits, which are approved by the regulator.

As mentioned in Note 2.4.4., depreciation is calculated on the basis of the flows (water and effluents) billed in a given year and the flows to be billed up to the end of the concession, which are envisaged in the Economic and Financial Feasibility Study (EVEF) attached to the concession agreement and in the Tariff Proposal Budget (OPT) for the year.

Moreover, in compliance with the provisions of the concession and partnership management contracts and other regulatory rules, an estimated amount needed to cover liabilities related to contractual investments is registered in the expenses of the financial year. These increases are also calculated based on the referred EVEF, which also forecasts the investments to be made.

The referred EVEF and OPT include various assumptions regarding the level of future activity of the concession/partnership and of the investments to be made, thus making it an area of increased judgment.

Summary of our response to the most significant risks of material misstatement

Our approach included the implementation of the following procedures:

- We analysed the budgets and tariff proposals and projects of the management companies of the multi-municipal systems, namely the information used to calculate the depreciation and adequacy of the flows estimated for subsequent years based on knowledge of the reality of the respective multi-municipal system;
- We analysed the consistency of the value of the contractual investment used to calculate the depreciation of the investment value of the EVEF approved by the concession grantor;
- We compared the flow rates used in the calculation of the depreciations with the information produced by the commercial department. We carried out tests to guarantee the reliability of this information;
- We performed the recalculation of the referred depreciation according to the established criteria; and
- We analysed the correspondence/communications that have existed to date between the AdP Group and the Regulator, in particular regarding the level of activity and investment to be made under the concession/partnership agreements.

Our approach also included the analysis of the disclosures made in notes 8.2 and 39, to ensure that the same comply with the provisions of the applicable accounting standards.



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2. Recognition and measurement of cost recovery deviations

Description of the most significant risks of material misstatement

The cost recovery deviations (CRD) correspond to the correction (positive in case of deficit, negative in case of surplus) to be recorded in the revenue from regulated activities, in order for this revenue to comply with the provisions of the various concession/partnership agreements, in particular with regard to the full recovery of the costs (including corporate income tax) and annual remuneration guaranteed to shareholders

As stated in note 2.5.6., the estimated CRD is calculated in each annual period based on the best information available at the time of preparation of the financial statements, namely the OPT – the Budget and Tariff Project. The management companies must, pursuant to the respective concession/partnership agreements, send the calculation of the CRD to the Regulator so that it can approve it.

Summary of our response to the most significant risks of material misstatement

Our approach included the implementation of the following procedures:

- We analysed the budgets and tariff proposals and projects of the management companies of the multi-municipal systems, namely the forecast income statement for the current year and the business activity assumptions underlying it;
- We performed the recalculation of the Guaranteed Return and corresponding CRD according to the criteria established in the concession agreements; and
- We analysed the correspondence /communications that have existed to date between the AdP Group and the Regulator, in particular regarding the expenditures permitted in the efficiency scenario and the approval of the CRD by the Regulator.



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3. Recoverability of costs from Municipalities

Description of the most significant risks of material misstatement

The amount recorded under the Trade Receivables item relative to Municipalities rose to 346 million euros as at 31 December 2017, as detailed in note 18.3 of notes to the income statement. That amount is composed of balances that are very aged, which indicates the existence of financial difficulties among the Municipalities and/or the existence of divergences regarding issued billing.

As a result of this situation, accrued income from interest on arrears is recorded (see also Note 20), which is determined in accordance with the law or debt settlement agreements.

In its assessment of the need to record impairment losses, the Board of Directors takes into consideration the adoption of the measures aimed at ensuring the recovery of the accounts receivable, which include activating the preferential claims mechanism (which is focused on current debts), concluding payment agreements and bringing injunctions or legal action. Specific situations of non-compliance and the expiry of billing rights are also taken into account.

Given the importance of the balance in total assets, failure to recover all amounts owed may jeopardise the economic and financial balance of the concessions/partnerships and, as such, jeopardise compliance with the contractual responsibilities.

Summary of our response to the most significant risks of material misstatement

Our approach included the implementation of the following procedures:

- Request of direct confirmation by the Municipalities about the balances and, when applicable, the debt settlement agreements;
- Analysis of lawyers' responses to direct requests for information about lawsuits in progress;
- Tests of the age of balances, focusing on the estimated legal time limits for collection rights, comparing them with the answers obtained from the lawyers;
- Reading of all debt settlement agreements signed with the Municipalities and analysis of their compliance;
- Analysis of the calculation of interest in arrears, in light of debt settlement agreements or the law and based on the age of the balances; and
- Performing analytical review procedures for all Sales and Services rendered sub-accounts, including the analysis of significant changes compared with the previous year and in view of expectations and contracted/budgeted activity, using data analysis tools (data analytics).

We also analysed the disclosures made in note 18, to ensure that these comply with the provisions of the applicable accounting standards, including the correct presentation of the balances as current or non-current assets.



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Responsibilities of the management body and the supervisory body relative to the consolidated financial statements

The management body is responsible for:

- preparing the consolidated financial statements to give a true and appropriate picture of the financial position, the financial performance and cash flows of the Group in accordance with the International Financial Reporting Standards as adopted in the European Union;
- drawing up the Annual Report, including the Corporate Governance Report, pursuant to law and regulations;
- establishing and maintaining an appropriate internal control system to enable the preparation of financial statements free from material misstatement due to fraud or error;
- adoption of accounting policies and criteria appropriate to the circumstances;
- assessing the Group's ability to remain a going concern, disclosing, when applicable, matters that may give rise to significant doubts about the going concern of the business.

Responsibilities of the auditor for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error, and to issue a report stating our opinion. Reasonable assurance is a high level of assurance but it is not a guarantee that an audit performed in accordance with ISA will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, separately or together, they can reasonably be expected to influence economic decisions of the users taken on the basis of those financial statements.

As part of an ISA audit, we make professional judgments and maintain professional skepticism during the audit and also:

- We identify and assess the material misstatement risk of the consolidated financial statements due to fraud or error, we design and perform audit procedures that respond to those risks, and we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is greater than the risk of not detecting material misstatement due to error, since fraud may involve collusion, falsifying, intentional omissions, false statements or overlapping of the internal control;
- We obtain an understanding of the internal control that is relevant to the audit for the purpose of designing audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the Group's internal control;
- We assess the adequacy of the accounting policies used and the reasonableness of accounting estimates and respective disclosures made by the management body;
- We reach a conclusion on the appropriation of the use by the management body of the



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going concern assumption and, based on the audit evidence obtained, whether there is any material uncertainty related to events or conditions that could raise significant doubts about the Group's ability to continue its business activities. If we conclude that there is material uncertainty, we should draw attention in our report to the related disclosures included in the financial statements or, if these disclosures are not appropriate, we should modify our opinion. Our conclusions are based on audit evidence obtained at the date of our report. However, future events or conditions may cause the Group to discontinue its activities;

- We assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that ensures an appropriate presentation;
- We obtain sufficient and appropriate audit evidence regarding the financial information of the entities or activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the guidance, supervision and performance of the Group's audit and are ultimately responsible for our audit opinion;
- We communicate to the persons in charge of governance, including the supervisory body, the scope and planned timetable of the audit, among other aspects, as well as significant audit conclusions, including any significant internal control deficiencies identified during the audit;
- We establish, regarding the matters we have communicated to those in charge of governance, including the supervisory body, those found to be most important in the audit of the consolidated financial statements of the current year and which are the areas relevant to the audit. We state those areas in our report, except when law or regulations prohibit their public disclosure; and
- We declare to the supervisory body that we comply with the relevant ethical requirements regarding independence and we report all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards in place.

Our responsibility also includes verifying whether the information contained in the Annual Report is consistent with the Consolidated financial statements.



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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The Annual Report

It is our opinion, pursuant to Article 451(3)(e) of the Commercial Companies Code, that the Annual Report was prepared in accordance with applicable legal and regulatory requirements, the information contained therein is in accordance with the audited consolidated financial statements and, taking into account the knowledge of and appraisal of the Group, we have not found any material misstatements.

Lisbon, 20 April 2018

Ernst & Young Audit & Associados - SROC, S.A. Sociedade de Revisores Oficiais de Contas
Represented by: Rui Manuel da Cunha Vieira (Statutory Accountant no. 1154)
Registered in CMVM under no. 20160766



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Relatório de Auditoria

RELATO SOBRE A AUDITORIA DAS DEMONSTRAÇÕES FINANCEIRAS CONSOLIDADAS

Opinião

Auditámos as demonstrações financeiras consolidadas anexas de AdP - Águas de Portugal, S.G.P.S., S.A. (o Grupo), que compreendem a Demonstração Consolidada da Posição Financeira em 31 de dezembro de 2017 (que evidencia um total de 6.150.632.350 euros e um total de capital próprio de 1.517.174.573 euros, incluindo um resultado líquido atribuível aos detentores do capital da empresa, enquanto mãe do Grupo, de 88.607.748 euros), a Demonstração Consolidada dos Resultados por Naturezas, a Demonstração Consolidada do Rendimento Integral, a Demonstração das Variações do Capital Próprio Consolidado e a Demonstração dos Fluxos de Caixa Consolidados relativos ao ano findo naquela data, e as Notas às demonstrações financeiras consolidadas que incluem um resumo das políticas contabilísticas significativas.

Em nossa opinião, as demonstrações financeiras consolidadas anexas apresentam de forma verdadeira e apropriada, em todos os aspetos materiais, a posição financeira consolidada de AdP - Águas de Portugal, S.G.P.S., S.A. em 31 de dezembro de 2017, o seu desempenho financeiro consolidado e os seus fluxos de caixa consolidados relativos ao ano findo naquela data, de acordo com as Normas Internacionais de Relato Financeiro, tal como adotadas na União Europeia.

Bases para a opinião

A nossa auditoria foi efetuada de acordo com as Normas Internacionais de Auditoria (ISA) e demais normas e orientações técnicas e éticas da Ordem dos Revisores Oficiais de Contas. As nossas responsabilidades nos termos dessas normas estão descritas na secção "Responsabilidades do auditor pela auditoria das demonstrações financeiras consolidadas" abaixo. Somos independentes das entidades que compõem o Grupo nos termos da lei e cumprimos os demais requisitos éticos nos termos do código de ética da Ordem dos Revisores Oficiais de Contas.

Estamos convictos de que a prova de auditoria que obtivemos é suficiente e apropriada para proporcionar uma base para a nossa opinião.

Matérias relevantes de auditoria

As matérias relevantes de auditoria são as que, no nosso julgamento profissional, tiveram maior importância na auditoria das demonstrações financeiras consolidadas do ano corrente. Essas matérias devem ser consideradas no contexto da auditoria das demonstrações financeiras consolidadas como um todo, e na formação da opinião, e não emitimos uma opinião separada sobre essas matérias.

Descrevemos de seguida as matérias relevantes de auditoria do ano corrente:

1. Reconhecimento e mensuração do investimento contratual

Descrição dos riscos de distorção material mais significativos	Síntese da nossa resposta aos riscos de distorção material mais significativos
<p>O direito de utilização de infraestruturas é amortizado numa base sistemática de acordo com o padrão de obtenção dos benefícios económicos, os quais são aprovados pela Entidade Reguladora.</p> <p>Tal como referido na Nota 2.5.4, as amortizações são calculadas tendo como base os caudais (água e efluentes) faturados num determinado exercício e os</p>	<p>A nossa abordagem incluiu a execução dos seguintes procedimentos:</p> <ul style="list-style-type: none">• Analisámos os orçamentos e projetos tarifários das empresas gestoras dos sistemas multimunicipais, nomeadamente a informação utilizada para o cálculo das amortizações e a adequabilidade dos caudais estimados para os anos subsequentes face ao

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Descrição dos riscos de distorção material mais significativos

caudais a faturar até ao final da concessão, os quais se encontram previstos no Estudo de Viabilidade Económica e Financeira anexo ao contrato de concessão (EVEF) e no Orçamento de Projeto de Tarifário para o exercício (OPT).

Adicionalmente, em cumprimento do estipulado nos contratos de concessão e de gestão de parcerias e demais regras regulatórias, é registada nos gastos do exercício uma quantia estimada para fazer face às responsabilidades quanto a investimentos contratuais. Também estes acréscimos são calculados com base no referido EVEF, o qual também prevê os investimentos a realizar.

Os referidos EVEF e OPT incluem diversos pressupostos relativamente ao nível de atividade futura da concessão/parceria e dos investimentos a realizar, sendo desta forma uma área de julgamento elevado.

Síntese da nossa resposta aos riscos de distorção material mais significativos

conhecimento da realidade do respetivo sistema multimunicipal;

- Analisámos a coerência do valor do investimento contratual utilizado para o cálculo das amortizações com o valor de investimento que consta do EVEF aprovado pelo Concedente;
- Comparámos os caudais utilizados no cálculo das amortizações com a informação produzida pelo departamento comercial, tendo efetuado testes para garantir a fiabilidade desta informação;
- Executámos o recálculo das referidas amortizações de acordo com os critérios estabelecidos; e
- Analisámos a correspondência/comunicações que existiram até à data entre o Grupo AdP e a Entidade Reguladora, em particular no que respeita ao nível de atividade e investimento a realizar ao abrigo dos contratos de concessão/parceria.

A nossa abordagem incluiu também a análise das divulgações efetuadas nas Notas 8.2 e 39, de forma a garantir que as mesmas respeitam as disposições das normas contabilísticas aplicáveis.

2. Reconhecimento e mensuração dos desvios de recuperação de gastos

Descrição dos riscos de distorção material mais significativos

Os Desvios de Recuperação de Gastos (DRG) correspondem à correção (positiva no caso de défice, negativa no caso de superavit) a registar ao rédito das atividades reguladas, para que este rédito obedeça ao disposto nos diversos contratos de concessão/parceria, nomeadamente no que diz respeito à recuperação integral dos gastos (incluindo o imposto sobre o rendimento) e à remuneração anual garantida aos acionistas.

Tal como referido na Nota 2.5.6, a estimativa dos DRG é, em cada exercício, determinada com base na melhor informação disponível à data da preparação das demonstrações financeiras, nomeadamente o Orçamento e Projeto Tarifário (OPT), devendo as entidades gestoras, nos termos dos respetivos contratos de concessão/parceria, enviar à Entidade Reguladora o cálculo do DRG para que esta o aprove.

Síntese da nossa resposta aos riscos de distorção material mais significativos

A nossa abordagem incluiu a execução dos seguintes procedimentos:

- Analisámos os orçamentos e projetos tarifários das empresas gestoras dos sistemas multimunicipais, nomeadamente a demonstração de resultados previsional para o ano corrente e os pressupostos de atividade que lhe estão subjacentes;
- Executámos o recálculo da Remuneração Garantida e do correspondente DRG de acordo com os critérios estabelecidos nos contratos de concessão; e
- Analisámos a correspondência/comunicações que existiram até à data entre o Grupo AdP e a Entidade Reguladora, em particular no que respeita aos gastos permitidos em cenário de eficiência e à aprovação do DRG por parte da Entidade Reguladora.



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3. Recuperabilidade dos saldos a receber de Municípios

Descrição dos riscos de distorção material mais significativos	Síntese da nossa resposta aos riscos de distorção material mais significativos
<p>O montante registado na rubrica de Clientes referente a Municípios ascende, a 31 de dezembro de 2017, a 346 milhões de euros e, tal como detalhado na nota 18.3 das notas às demonstrações financeiras, é composto por saldos que apresentam uma elevada antiguidade, o que indicia a existência de dificuldades financeiras por parte dos Municípios e/ou a existência de divergências quanto à faturação emitida. Decorrente desta situação, são registados acréscimos de rendimentos relativos aos juros de mora (ver também nota 20), os quais são determinados de acordo com a lei ou com os acordos de regularização de dívida.</p> <p>Na avaliação efetuada quanto à necessidade de registo de perdas por imparidade, o Conselho de Administração toma em consideração a adoção das medidas possíveis tendentes a assegurar a recuperabilidade dos saldos, entre as quais, a ativação do mecanismo associado ao privilégio creditório (o qual incide sobre as dívidas correntes), a realização de acordos de regularização de dívida e a interposição de injunções/ações judiciais. São também tidas em conta situações particulares de incumprimento e de prescrições do direito a cobrar.</p> <p>Dada a importância do saldo no total do ativo, a não recuperação da totalidade dos valores em dívida poderá colocar em causa o equilíbrio económico e financeiro das concessões/parcerias, e como tal o cumprimento das responsabilidades contratuais.</p>	<p>A nossa abordagem incluiu a execução dos seguintes procedimentos:</p> <ul style="list-style-type: none">• Efetuámos pedido de confirmação direta aos Municípios acerca dos saldos e, quando aplicável, dos acordos de regularização de dívida;• Analisámos as respostas dos advogados aos pedidos diretos de informação sobre os processos judiciais em curso;• Testámos a antiguidade de saldos, com foco nos prazos previstos de prescrição do direito de cobrança, comparando-os com as respostas obtidas dos advogados;• Realizámos a leitura de todos os acordos de regularização de dívida celebrados com os Municípios e análise do seu cumprimento;• Analisámos o cálculo dos juros de mora, à luz dos contratos de regularização de dívida ou da lei e tendo como base a antiguidade dos saldos; e• Executámos procedimentos de revisão analítica para todas as subcontas de Vendas e de Prestações de serviços, incluindo a análise das variações significativas face ao ano anterior e face às expectativas e à atividade contratada/orçamentada, recorrendo à utilização de ferramentas de análise de dados (<i>data analytics</i>). <p>Analisámos também as divulgações efetuadas nas Notas 16 e 18, de forma a garantir que as mesmas respeitam as disposições das normas contabilísticas aplicáveis, incluindo a correta apresentação dos saldos como ativos correntes ou não correntes.</p>

Responsabilidades do órgão de gestão e do órgão de fiscalização pelas demonstrações financeiras consolidadas

O órgão de gestão é responsável pela:

- preparação de demonstrações financeiras consolidadas que apresentem de forma verdadeira e apropriada a posição financeira, o desempenho financeiro e os fluxos de caixa do Grupo de acordo com as Normas Internacionais de Relato Financeiro, tal como adotadas na União Europeia;
- elaboração do Relatório de Gestão, incluindo o Relatório de Governo Societário, nos termos legais e regulamentares;
- criação e manutenção de um sistema de controlo interno apropriado para permitir a preparação de demonstrações financeiras isentas de distorções materiais devido a fraude ou erro;
- adoção de políticas e critérios contabilísticos adequados nas circunstâncias; e



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- avaliação da capacidade do Grupo de se manter em continuidade, divulgando, quando aplicável, as matérias que possam suscitar dúvidas significativas sobre a continuidade das atividades.

O órgão de fiscalização é responsável pela supervisão do processo de preparação e divulgação da informação financeira do Grupo.

Responsabilidades do auditor pela auditoria das demonstrações financeiras consolidadas

A nossa responsabilidade consiste em obter segurança razoável sobre se as demonstrações financeiras consolidadas como um todo estão isentas de distorções materiais devido a fraude ou erro, e emitir um relatório onde conste a nossa opinião. Segurança razoável é um nível elevado de segurança mas não é uma garantia de que uma auditoria executada de acordo com as ISA detetará sempre uma distorção material quando exista. As distorções podem ter origem em fraude ou erro e são consideradas materiais se, isoladas ou conjuntamente, se possa razoavelmente esperar que influenciem decisões económicas dos utilizadores tomadas com base nessas demonstrações financeiras.

Como parte de uma auditoria de acordo com as ISA, fazemos julgamentos profissionais e mantemos ceticismo profissional durante a auditoria e também:

- identificamos e avaliamos os riscos de distorção material das demonstrações financeiras consolidadas, devido a fraude ou a erro, concebemos e executamos procedimentos de auditoria que respondam a esses riscos, e obtemos prova de auditoria que seja suficiente e apropriada para proporcionar uma base para a nossa opinião. O risco de não detetar uma distorção material devido a fraude é maior do que o risco de não detetar uma distorção material devido a erro, dado que a fraude pode envolver conluio, falsificação, omissões intencionais, falsas declarações ou sobreposição ao controlo interno;
- obtemos uma compreensão do controlo interno relevante para a auditoria com o objetivo de conceber procedimentos de auditoria que sejam apropriados nas circunstâncias, mas não para expressar uma opinião sobre a eficácia do controlo interno do Grupo;
- avaliamos a adequação das políticas contabilísticas usadas e a razoabilidade das estimativas contabilísticas e respetivas divulgações feitas pelo órgão de gestão;
- concluímos sobre a apropriação do uso, pelo órgão de gestão, do pressuposto da continuidade e, com base na prova de auditoria obtida, se existe qualquer incerteza material relacionada com acontecimentos ou condições que possam suscitar dúvidas significativas sobre a capacidade do Grupo para dar continuidade às suas atividades. Se concluímos que existe uma incerteza material, devemos chamar a atenção no nosso relatório para as divulgações relacionadas incluídas nas demonstrações financeiras ou, caso essas divulgações não sejam adequadas, modificar a nossa opinião. As nossas conclusões são baseadas na prova de auditoria obtida até à data do nosso relatório. Porém, acontecimentos ou condições futuras podem levar a que o Grupo descontinue as suas atividades;
- avaliamos a apresentação, estrutura e conteúdo global das demonstrações financeiras consolidadas, incluindo as divulgações, e se essas demonstrações financeiras representam as transações e acontecimentos subjacentes de forma a atingir uma apresentação apropriada;
- obtemos prova de auditoria suficiente e apropriada relativa à informação financeira das entidades ou atividades dentro do Grupo para expressar uma opinião sobre as demonstrações financeiras consolidadas. Somos responsáveis pela orientação, supervisão e desempenho da auditoria do Grupo e somos os responsáveis finais pela nossa opinião de auditoria;
- comunicamos com os encarregados da governação, incluindo o órgão de fiscalização, entre outros assuntos, o âmbito e o calendário planeado da auditoria, e as conclusões significativas da auditoria incluindo qualquer deficiência significativa de controlo interno identificado durante a auditoria;
- das matérias que comunicamos aos encarregados da governação, incluindo o órgão de fiscalização, determinamos as que foram as mais importantes na auditoria das demonstrações financeiras consolidadas do ano corrente e que são as matérias relevantes de auditoria. Descrevemos essas matérias no nosso relatório, exceto quando a lei ou regulamento proibir a sua divulgação pública; e
- declaramos ao órgão de fiscalização que cumprimos os requisitos éticos relevantes relativos à independência e comunicamos todos os relacionamentos e outras matérias que possam ser percebidas como ameaças à nossa independência e, quando aplicável, as respetivas salvaguardas.



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A nossa responsabilidade inclui ainda a verificação da concordância da informação constante do Relatório de Gestão com as demonstrações financeiras consolidadas.

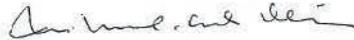
RELATÓRIO SOBRE OUTROS REQUISITOS LEGAIS E REGULAMENTARES

Sobre o Relatório de Gestão

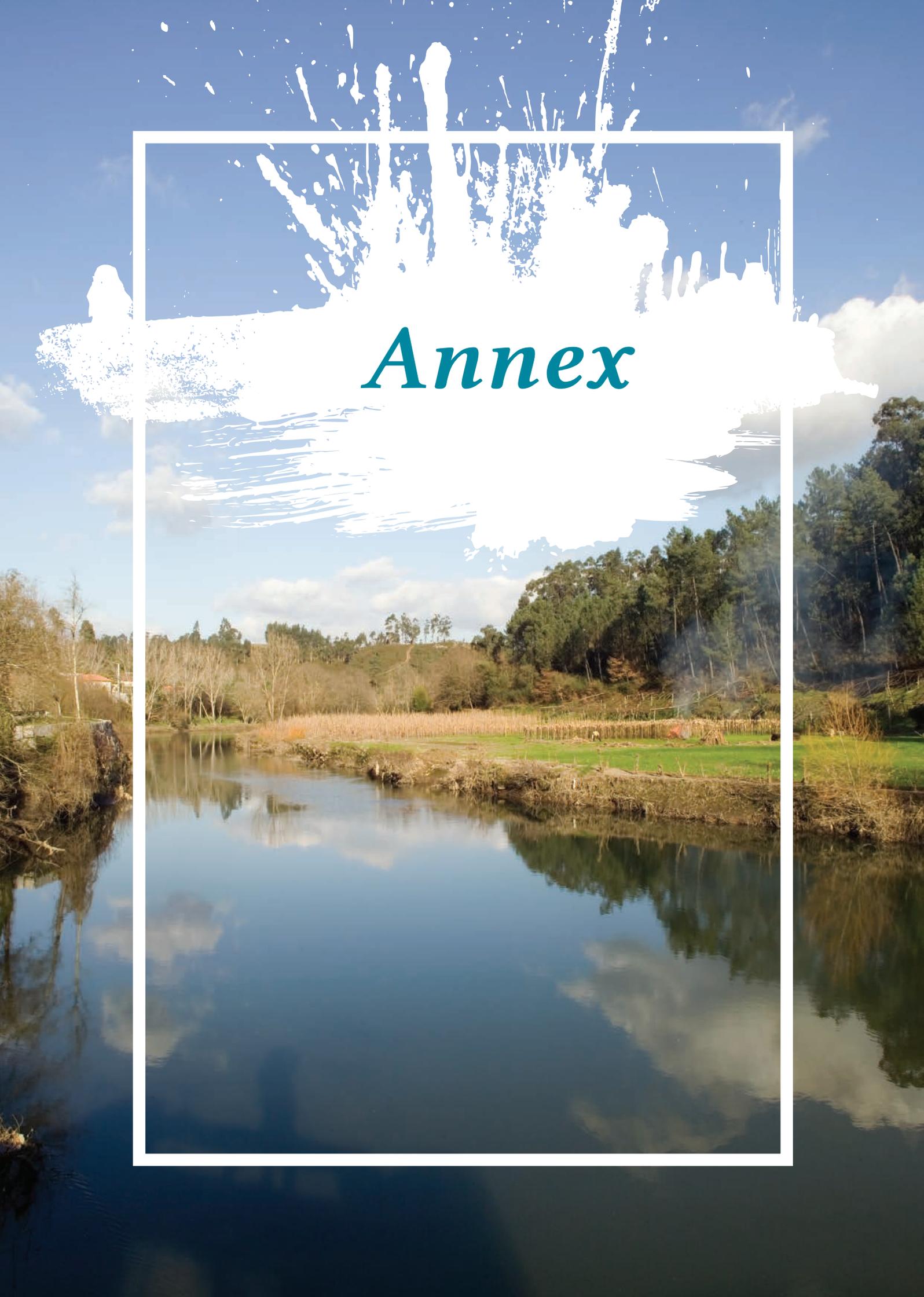
Dando cumprimento ao artigo 451.º, n.º 3, al. e) do Código das Sociedades Comerciais, somos de parecer que o Relatório de Gestão foi preparado de acordo com os requisitos legais e regulamentares aplicáveis em vigor, a informação nele constante é concordante com as demonstrações financeiras consolidadas auditadas e, tendo em conta o conhecimento e apreciação sobre o Grupo, não identificámos incorreções materiais.

Lisboa, 20 de abril de 2018

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Representada por:



Rui Manuel da Cunha Vieira (ROC nº 1154)
Registado na CMVM com o nº 20160766



Annex

Annex

Compliance with legal guidelines

In order to demonstrate our compliance with the legal guidelines of AdP SGPS, we have followed the structure set out in the DGTF letter 588 of 7 February 2018.

1. Management goals (article 38 of RJSPE) and Business Plan and Activities

a) Management goals:

Without undermining considerations as regards the implementation of the set strategic guidelines, the evaluation undertaken by the shareholder fund owners takes as their reference framework the annual performance objectives and indicators for the period of the mandate and formulates calculations for the respective degree of compliance.

The evaluation is carried out according to the degree of compliance with the objectives as detailed in the table below and is calculated by rounding off to the nearest decimal point the calculations made for each indicator.

Degree of Compliance	Global Assessment (GA)
AG < 1.8	Inadequate
1.8 ≤ AG < 2.5	Adequate
AG ≥ 2.5	Overcome

The indicators defined for the 2016-2018 mandate are contained in the table below:

Indicators	Goal	Assessment Mode	Initial Weight	Weight 2017	
Financial Objectives - Efficiency and Sustainability					
PRG - Cost Reduction Plan	Greater Management Efficiency: Not exceeding the weighting of costs indicated in the turnover (reference year: 2015)	PRG < 0. 0 ≤ PRG < 3% PGR ≥ 3%	not attained (1) attained (2) overcome (3)	12.5%	14.7%
Indebtedness	Non annual increase of the debt stock above 3%	END > 3% 0 < END ≤ 3% END ≤ 0%	not attained (1) attained (2) overcome (3)	12.5%	14.7%
Commercial debt of municipal debtors CDMD	Non increase of the due municipal debt stock	CDMD > 105% 95% ≤ CDMD ≤ 105% PGR < 95%	not attained (1) attained (2) overcome (3)	12.5%	14.7%
Degradation of the operating cash	Non degradation of the AdP Group cash flow position	DTE > 100% 85% < DTE ≤ 100% DTE ≤ 85%	not attained (1) attained (2) overcome (3)	5.0%	5.9%
Profitability	Promote profitability and sustainability of the Group's investment, taking the year 2015 as a reference	RCI < 95% 95% ≤ PRG < 110% PGR ≥ 110%	not attained (1) attained (2) overcome (3)	12.5%	14.7%
Environmental Objectives					
Quality of Water Supplied	Promote quality of water supplied, taking the year 2015 as reference	AQA < 99.5% 99.5% ≤ AQA < 100% AQA ≥ 100%	not attained (1) attained (2) overcome (3)	5.0%	5.9%
Quality of Wastewater Supplied AQAR	Promote the quality of treated wastewater, taking the year of 2015 as a reference	AQAR < 97.5% 97.5% ≤ AQAR < 100% AQAR ≥ 100%	not attained (1) attained (2) overcome (3)	5.0%	5.9%

Indicators	Goal	Assessment Mode	Initial Weight	Weight 2017	
Sectorial Objectives					
Economic and Financial Feasibility Studies (EFFS)	Review and monitoring of the EFFS of companies following the reorganisation.	EFFS>31/12/2017 30/06/2017<EFFS≤31/12/2017 EFFS≤30/06/2017	not attained (1) attained (2) overcome (3)	10%	12%
Destaque de sistemas systems in the metropolitan areas of Lisbon and Oporto	Approval of the core targets by the relevant sector authorities	DTQ=0 0<DTQ<3 DTQ≥3	not attained (1) attained (2) overcome (3)	10.0%	11.8%
Core targets of multimunicipal consolidação da organização dos serviços em Baixa no País SBx	Through increasing the number of downstream systems operated under the scope of the AdP Group, with implementation taking place either through a partnership contract with the municipalities or through an alternative contract model previously approved by the relevant sector authorities.	not applicable in 2017		5.0%	0.0%
Reorganisation of the Managing Entities (ME) in order to return efficiency gains	Reorganisation of the managing entities (ME) of systems operated and managed by the AdP Group according to specific strategic guidelines 3 and 5.	not applicable in 2017		5.0%	0.0%
Corporate Objectives					
Reorganisation of the AdP Group Corporate Centre	Implementation of the AdP Corporate Centre reorganisation as swiftly as is feasible	not applicable in 2017		5.0%	0.0%

The results for the year of 2017 are contained in the table below, with the Global Evaluation result in excess of 2.8.

Indicators	Calculation formula	Indicator	Valuation method	Assessment	Weight	Result
financial objectives - Efficiency and sustainability						
Cost Reduction Plan CRP	$PRG = (GV + COSC + (GP-I)) / \text{Turnover} - (\text{Ratio year N} / \text{Ratio 2015})$	5.0%	PRG<0% 0≤PRG<3% PGR≥3%	not attained (1) attained (2) overcome (3)	● 3	14.7% 0.4
Indebtedness	$[(\text{Stock Debt (Year N)} / \text{Stock Debt (Year N-1)}) - 1]$	(13.2%)	END>3% 0<END≤3% END≤0%	not attained (1) attained (2) overcome (3)	● 3	14.7% 0.4
Commercial debt of municipal debtors DCDMA	$DCDMA = [\text{Balance of municipalities debt expired (Year N)}] / [\text{Balance of municipalities debt expired (Year N-1)}]$	98.7%	DCDMA>105% 95%≤DCDMA≤105% PGR<95%	not attained (1) attained (2) overcome (3)	● 2	14.7% 0.3
Degradation of operating cash	$DOC = \sum_{i=1}^k W_i \frac{[ARTi(\text{year N}) - APTi(\text{year N})]}{[ARTi(\text{year N-1}) - APTi(\text{year N-1})]}$ Wi (Holding only) = Weight of company i turnover in the AdP Group	65.5%	DTE>100% 85%<DTE≤100% DTE≤85%	not attained (1) attained (2) overcome (3)	● 3	5.9% 0.2
Profitability	$RCI = [(EBIT-DRG) / (\text{Total net assets} - \text{DTA} - \text{IDA} - \text{AIF} - \text{SI} - \text{PCNR})] \text{ Ratio Year N} / \text{Ratio 2015}$	152.6%	RCI<95% 95%≤PRG<110% PGR≥110%	not attained (1) attained (2) overcome (3)	● 3	14.7% 0.4
Environmental objectives						
Quality of water supplied	$QA = \sum_{ni=1} (\text{Quality of water} \times \text{Volume of water supplied}) / \sum_{ni=1} \text{Volume of water supplied}$ $AQA = [QA (\text{Year N}) / QA 2015]$	99.9%	AQA<99.5% 99.5%≤AQA<100% AQA≥100%	not attained (1) attained (2) overcome (3)	● 2	5.9% 0.1
Quality of wastewater AQAR	$QAR = \sum_{ni=1} (\text{Quality of wastewater} \times \text{Population with treatment}) / \sum_{ni=1} \text{Population with treatment}$ $AQAR = [QAR (\text{Year N}) / QAR 2015]$	101.1%	AQAR<97.5% 97.5%≤AQAR<100% AQAR≥100%	not attained (1) attained (2) overcome (3)	● 3	5.9% 0.2

Indicators	Calculation formula	Indicator	Valuation method	Assessment	Weight	Result
Sectorial objectives						
Economic and Financial Feasibility Studies (EVEF)	EVEF=No. of reviewed EVEF's by selected companies	Before 31/07/2017	EVEF>31/12/2017 30/06/2017<EVEF≤31/12/2017 EVEF≤30/06/2017	not attained (1) ● 3 attained (2) Overcome (3)	12%	0.4
Highlight of multimunicipal systems in the Lisbon and Oporto metropolitan areas	DTQ=Number of highlights of multimunicipal systems approved by the sector authorities until the end of 2016 and with operations starting at the beginning of 2017	Three by the end of 2016 with operations starting at the beginning of 2017	DTQ=0 0<DTQ<3 DTQ≥3	not attained (1) ● 3 attained (2) Overcome (3)	11.8%	0.4
Global Assessment (GA)			AG<1.8 1.8≤AG<2.5 AG≥2.5	Unsuited Suited Overcome	● 3 --	2.8

b) Implementation of the Activity Plan Budget for 2017

Under the terms of Decree-Law no. 133/2013, of 3 October ('RJSPE'), the General Directorate of the Treasury and Finances communicated, through notification no. 1626 of 5 June 2017, the approval of the 2017 PAO – the Activity Plan and Budget, also the object of a favourable opinion from the Supervisory Board and UTAM and approved by the State Secretary for the Environment through the Dispatch dated 23 May 2017 and by Dispatch of the State Secretary for the Treasury and Finance on 24 May 2017.

The AdP SGPS 2017 PAO, as well as its implementation, materially complied with the financial principles stipulated by the State Budget Law for 2017 (Law no. 42/2016, of 28 December), of the Instructions for Drafting Provisional Management Instruments (notification 5939, of 4 November 2016) and the Decree-Law for Budgetary Implementation for 2017 (Decree-Law no. 25/2017, of 3 March).

The key indicators for budgetary implementation feature in the table below:

	Unit.	2017	Budget 2017	Performance	Observations
EBITDA*	EUR	1 040 456	583 522	178%	EBITDA increased through positive change in the turnover, other operational revenue and staff costs.
CMVC+COSC+Staff Costs	EUR	9 074 401	9 239 914	98%	Essentially given the 3% reduction in staff costs.
PRC	%	87.3%	88.5%	99%	Combined effect of the increase in turnover and reduction of operational costs, particularly staff costs
Cost with communications/travel and stays/ allowances	EUR	87 641	103 646	85%	Given the reduction of communication costs and allowances
Turnover	EUR	9 976 140	9 828 436	102%	Results reflect a greater increase in revenues from invested companies compared to the planned budget
Net results	EUR	62 939 863	52 025 746	121%	The main contribution comes from financial results, gains from shareholdings in excess of EUR 11 million
Individual indebtedness (includes intra group)	EUR	691 590 909	592 090 452	117%	Ascertainment of compliance with the debt limit is observed with respect to the consolidated financial statements, in accordance with article 45, paragraph 1 of the State Budget Law and article 125, paragraph 2 of the Budget Execution Decree, being 16% lower than the estimated;
Individual indebtedness (excludes intra group)	EUR	571 590 909	592 090 452	97%	The individual indebtedness of AdP SGPS fell by 3%, disregarding the intragroup balance of 120 million euros contracted with companies with cash surpluses, within the scope of the Group's cash management policy implemented in 2017.
Consolidated indebtedness	EUR	2 027 673 140	2 400 000 000	84%	
Financial investment	EUR	18 063 666	32 300 145	56%	Variation resulting from AdP SGPS in its role as holding company

	Unit.	2017	Budget 2017	Performance	Observations
Staff costs (without reversals)	EUR	4 515 261	4 646 405	97%	Variations is essentially the result of rebilling of employees provided for in the budget and who, over the year, moved to other positions in Group companies.
No. of workers	n.º	62	62	100%	Does not include employees with suspended contract, employees redeployed to other companies as well as those loaned. The Company Secretary is considered as a Governing Body.
Car fleet costs	EUR	249 101	280 422	89%	Results from savings from leases (recalculations) and fuels
No. of vehicles	n.º	27	27	100%	Maintenance of the number of vehicles (includes vehicle under replacement)
APT	days	71	52	136%	Results from intra-group balance amounting to EUR 1.2 million. After removing that amount, the Average Payment Time would be 51 days. Internal control measures have already been implemented to reduce these situations and a reduction in APT took place, e.g. 33 days fewer in 2017 compared to 2016.

* Operational Result+(Amortisations-Investment Grants)+ Provisions+Impairment losses and reversals - CRD-Revenue/ Construction costs (IFRIC12).

2. Financial risk management

AdP Group business activities are exposed to a variety of financial risk factors: credit risk, liquidity risk and cash flow risk associated to the interest rate. The AdP Group has correspondingly developed and implements a risk management program which, together with constantly monitoring the financial markets, seeks to minimise any potential adverse effects on the financial performance of AdP and its subsidiaries. Risk management is the responsibility of the central treasury department, based on policies approved by the Board of Directors. The treasury 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 is responsible for establishing the general risk management principles and also the exposure limits. All transactions undertaken using derivatives require prior approval from the Board of Directors and the ministry, which sets the parameters for each transaction and approves the formal documents describing their specific purposes.

Interest rate risk

The AdP Group interest rate risk basically stems from long-and short-term loans. 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. AdP SGPS manages its interest rate-linked cash flow risk by taking out swaps that enable the conversion of loans with floating interest rates into fixed interest rate loans. Likewise, the guaranteed remuneration of concession contracts, and the consequent tariff deviation, is associated with the volatility of interest rates. The table below provides approximate sensitivity analysis of the AdP Group financial costs.

	31.12.2017	Average rate +1%	Average rate -1%
At variable interest rates	6 008 458	12 659 262	4 986 675
	6 008 458	12 659 262	4 986 675

Exchange rate risk

The AdP Group holds negligible exposure to exchange rate risks. 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 operating currency. The AdP Group central treasury manages net Group exposure to each currency, contracting swaps centrally so as to minimise commercial risks to recognised assets and liabilities. The AdP Group maintains investments denominated in foreign currencies with net assets exposed to exchange rate risk through conversion, and funding in foreign currencies exposed to exchange rate risk. The exchange rate risk inherent in net foreign currency assets is managed by taking out loans in that same currency.

Liquidity risk and capital risk

Managing the liquidity risk requires holding a reasonable level of cash and cash equivalents and implies consolidating floating debt through an adequate amount of credit facilities and the ability to liquidate market positions. The AdP Group treasury department, given the dynamics of the underlying businesses, strives to secure floating debt flexibility by maintaining credit lines for that purpose. The Group manages liquidity risk by taking out and maintaining such credit lines and financing facilities with a firm underwriting commitment with domestic and international financial institutions able to provide immediate access to funds. The table below details AdP Group liabilities by intervals of contracted residual maturity. The amounts shown in the table are the non-discounted contractual cash flows for future payment (thus, without the interest incurred by these liabilities).

	< 1 year	1 to 5 years	> 5 years
Financing (note 28)	88 834 855	491 435 426	1 447 402 859
Suppliers and other liabilities	150 108 186	74 793 199	18 097 256

The AdP Group does not expect any difficulties in complying with its short-term liabilities. The AdP Group considers it is positioned to ensure the renewal of its main credit facilities, particularly short-term bank loans. Their immediate repayment is therefore not expected.

Short term credit lines

As at 31 December 2017, the AdP Group had contracted short term credit lines for a total amount of EUR 252.2 million, of which EUR 578,000 had been drawn down on this date.

The AdP Group goals regarding its management of capital, which represents a broader concept than the capital disclosed on the balance sheet, strives to maintain an optimal capital structure through prudent recourse to debt to enable it to reduce the cost of capital. The aim of managing capital risks is to safeguard the Group as a going concern, with a reasonable return for shareholders and the generation of benefits for all stakeholders. The AdP Group policy involves the parent company, AdP, SGPS, S.A. contracting loans with financial corporations (except for EPAL and investment loans - EIB), which are in turn loaned to its subsidiaries. This policy seeks to optimise the capital structure for greater efficiency and to reduce the average cost of capital.

	31.12.2017	31.12.2016
Non-current loans	1 938 838 285	2.052 427 136
Current loans	88 834 855	282 938 148
BES Bonds	-	4 095 200
Capital reconstitution fund	(51 767 695)	(63 494 841)
Available financing	(66 460 256)	(223 266 659)
Net debt	1 909 445 189	2 052 698 984
Subsidies for investment	1 600 730 064	1 636 104 671
Total equity capital	1 517 174 573	1 444 978 843
Capital and subsidies	3 117 904 637	3 081 083 514
Debt / total capital	0.61	0.67

The AdP Group financing model fundamentally incorporates two major categories enabling the equilibrium of the capital structure, bank loans, in particular those loans contracted from the EIB, and equity and non-repayable investment grants.

Credit risk

Credit risk is essentially related to the risk of a counterparty defaulting on their contractual obligations resulting in financial loss to the Group. The AdP Group is exposed to the credit risk over the course of its operational, investment and cash management activities.

a) Operating counterparty

Credit risk in operations basically derives from receivables for services rendered to customers (water and wastewater services). This risk is theoretically low, given the nature of the services 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 levels. 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 duly notified central government as to the unsustainability of the current arrears of some municipalities within the objective of finding alternative ways to collect the amounts outstanding. The AdP SGPS Board of Directors constantly assesses the adoption of measures designed to ensure the recovery of the balances receivable from the municipalities, which include the PAEL program, activating the mechanism associated with preferential claims (focused on current debts) and the establishment of payment agreements, injunctions or lawsuits.

Even while taking into consideration the uncertainties existing around the periods within which Municipal clients shall meet their obligations, the AdP SGPS Board of Directors continues to understand that these outstanding balances do not currently display any indications that they shall result in the recognition of losses due to impairment (except in highly specific situations).

b) Deposit counterparty

The following table sets out the maximum exposure of the Group to credit risk (not including customer and other debtor balances) as at 31 December 2017, not considering any collateral held or other credit enhancements. The defined exposure for assets on the balance sheet reflects their carried over value as reported on the main balance sheet.

Bank held financial assets	31.12.2017	31.12.2016
Current accounts	46 674 403	40 700 933
Term accounts	18 869 149	182 169 149
Other bonds	94 235	4 187 992
Capital reconstitution fund	51 767 695	63 494 841
	117 405 482	290 552 915

Rating	31.12.2017
A-	112 540
A1	1 000
B1	66 994
B3	132 648
Ba1	5 990 483
Baa1	380 121
BB-	6 160 904
BBB-	100 867 218
Caa2	3 099 909
Without attributed rating	593 665
	117 405 482

Note: Rating obtained from the respective financial institution websites in February 2018.

c) Derivatives counterparty

Águas de Portugal, SGPS manages interest rate-linked cash flow risks by taking out swaps that enable the conversion of loans with floating interest rates into fixed interest rate loans. AdP makes recourse to derivatives solely to manage its exposure to financial risks (interest rate). 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 IAS 39 rules and requirements. Those that do not qualify as hedge accounting instruments are recorded on the balance sheet at their fair value and any changes to them duly recognised in the profit or loss items. The fair value of derivatives is estimated according to listed instruments whenever available. In the absence of market prices, the fair value of derivatives is estimated by the discounted cash flow method as determined by external entities and based on generally accepted market valuation techniques. Derivatives are recognised at fair value on their trade date. Subsequently, the fair value of derivatives is regularly adjusted and with any gains or losses resulting from this revaluation recorded directly in the income statement for the period, with the exception of those referring to hedge derivatives. In turn, recognition of changes in the fair value of hedge derivatives depends on the nature of the hedged risk and the hedging model applied.

Regulatory risk

Law 10/2014 of 6 March approved the new statutes of ERSAR, which now becomes an independent administrative body with greater autonomy in terms of organisation, functions and financial matters and equivalent to the other independent regulators.

Regulation is the most significant restriction on the profits returned by Group economic activities. The regulator is empowered to take measures that might generate negative impacts on cash flow due to the contractual scope for defining a productive efficiency scenario that stipulates the expenses for recovery by the tariff that differ from the expenses actually incurred. These expenses include financial expenses

The following table shows the evolution of the average financing rate of AdP SGPS, including interest incurred annually with remunerated liabilities and other associated charges in the last 5 years.

Separate accounts

Years	2017	2016	2015	2014	2013
Financial costs (€)	4 381 031	4 728 255	6 655 209	8 225 140	12 071 336
Average financing rate (%)	0.69%	0.88%	1.20%	1.35%	2.52%

Consolidated accounts

Years	2017	2016	2015	2014	2013
Financial expenditure (€)	52 439 669	57 967 870	70 733 782	87 640 704	104 164 360
Average financing rate (%)	2.30%	2.45%	2.67%	3.15%	3.67%

3. Limit on growth in borrowing, under the auspices of no.1 of Article 45 of Law 43/2016 of December 28 (2017 State Budget Law), calculated as per instructions on the process of rendering accounts for 2017 (DGTF letter 1269 of 7 February 2018).

Separate accounts:

	2017	2016	2015	2014	2013	Variation 17/16 Value	(EUR)
Remunerated liabilities							%
Remunerated financing (current and non-current) -	691 590 909	575 000 000	505 000 000	605 000 000	605 000 000	116 590 909	23.1%
- of which granted by the General Directorate of Treasury and Finance (GDTF)	0	0	0	0	0	0	0.0%
Capital increase through appropriation	0	0	0	0	0	0	0.0%
Capital increase through credit conversion	0	0	0	0	0	0	0.0%
Adjusted indebtedness	0	0	0	0	0	0	0.0%
	2017	2016				Variation 17/16 Value	%
Gross indebtedness (1)	691 590 909	575 000 000				116 590 909	20.3%
Intragroup Loans (2)	120 000 000	0				120 000 000	100.0%
Gross indebtedness without intragroup (1)-(2)	571 590 909	575 000 000				(3 409 091)	(0.6%)

The increase in debt stems from the treasury centralisation policy that the Group implemented in 2017, corresponding essentially to the loans obtained from group companies through treasury surpluses. Irrespective, compliance with the debt limits is achieved in the consolidated accounts in keeping with that stipulated by no. 2 of art. 125 of Decree-Law no. 25/2017, 3 March, verifying the reduction in gross consolidated debt of 13%.

Consolidated accounts:

	(EUR)					
Remunerated liabilities	2017	2016	2015	2014	2013	Variation 17/16 Value %
Remunerated financing (current and non-current)	2 027 673 140	2 335 365 285	2 414 824 421	2 738 545 374	0	(307 692 145) (13.2%)
- of which granted by the GDTF	0	0	0	0	0	0 0.0%
Capital increase by injection	0	0	0	0	0	0 0.0%
Capital injection by conversion of credits	0	0	0	0	0	0 0.0%
Adjusted indebtedness	0	0	0	0	0	0 0.0%

	2017	2016	Variation 17/16 Value %
Gross indebtedness	2 027 673 140	2 335 365 285	(307 692 145) (13.2%)
Availabilities	66 460 256	223 266 659	(156 806 403) (70.2%)
Reconstitution fund	51 767 695	63 494 841	(11 727 146) (18.5%)
Net indebtedness	1 909 445 189	2 048 603 785	(139 158 596) (6.8%)

4. The average payment time to suppliers in accordance with Council of Ministers Resolution 34/2008 of 22 February and with the amendment made by Ordinance 9870/2009 of 13 April, and the disclosure of payments in arrears as defined by Decree-Law 65-A/2011 of 17 May and the strategy deployed to reduce them

	2017	2016	Variation 17/16 Value %
Deadline (days)	71	104	(33) (32.2%)

The reduction in the PMP average payment period results from the implementation of internal control policies tending to eliminate or significantly reduce the occurrence of outstanding debts to Group companies, in particular to AdP Serviços. Stripping out these intra-group debts, the PMP period stands at 51 days.

Table of overdue debt pursuant to Decree-Law 65-A/2011 of 17 May as at 31/12/2017

Payments in arrears	Amount of debts expired in accordance with art. 1 DL 65-A/2011 (EUR)				
	Value (EUR) 0-90 days	90-120 days	120-240 days	240-360 days	> 360 days
Procurement of goods and services	211 634	33 275	533	3 063	100
Equity acquirement	0	0	0	0	0
Total	211 634	33 275	533	3 063	100

5. Measures taken and results obtained in compliance with shareholder recommendations made when approving the accounts

The shareholders made no recommendations when approving the accounts.

6. Remuneration

The board confirms compliance with the guidelines on remunerations in effect in 2017.
(For detailed information see Appendix I)

7. Compliance with Articles 32 and 33 of the Public Manager Statute, with regard to:

a) Non-utilisation of credit cards or other payment instruments by public managers to make payments in the service of the company.

Article 32 of the Public Manager Statute, as republished by Decree-Law 8/2012 of 18 January, was complied with in full as regards the utilisation of credit cards and other payment instruments by public managers for making payments in the service of the company as well as for the reimbursement of public managers for any expenses falling within the corporate entertainment expense concept.

b) Non-reimbursement of public managers for any expenses falling within the concept of personal entertainment expenses.

Full compliance was rendered to the stipulations of article 32 of the Public Manager Statute, as re-published by Decree-Law no. 8/2012, of 18 January, specifically as regards the reimbursement of public managers for any expenditure that falls within the scope of staff representation costs.

c) Communication expenses, including for mobile phones, household phones

Board member (Name)	Communication expenditure (EUR)		Observations
	Defined monthly allowance	Annual amount	
João Nuno Marques de Carvalho Mendes	80	353	
Carla da Conceição Afonso Correia	80	349	
Cláudio Miguel André Sousa Jesus	80	2 124	Expenses resulting from the performance of functions while Manager of the Holding and Chairman of AdP Internacional
Juan Miguel Martín Iglesias	80	444	
José Manuel Leitão Sardinha	80	-	Remuneration is paid by EPAL.
Miguel Jorge de Campos Cruz	-	-	
		3 270	

d) The monthly fuel and toll costs for company vehicles

Board member (Name)	Monthly allowance fuel and tolls	Gastos período associados a viaturas (EUR)			
		Fuel	Tolls	Total	Observations
João Nuno Marques de Carvalho Mendes	572	2 186	1 304	3 490	
Carla da Conceição Afonso Correia	458	1 054	178	1 232	
Cláudio Miguel André Sousa Jesus	458	2 732	1 220	3 953	
Juan Miguel Martín Iglesias	458	1 656	773	2 429	
José Manuel Leitão Sardinha	458	-	-	-	Remuneration is paid by EPAL.
Miguel Jorge de Campos Cruz	-	-	-	-	
				11 103	

8. Compliance with the provisions of no.2 of article 16 of RJSPE and article 11 of EGP which forbids undocumented or confidential expenses

AdP SGPS fully complies with the provisions of Article 16 (2) of Decree-Law 133/2013 of 3 October and Article 11 of the EGP and thus did not incur or record any undocumented or confidential expenses.

9. The preparation and dissemination of the report on remunerations paid to women and men as stipulated in paragraph 2 of Council of Ministers Resolution 18/2014 of 7 March

In compliance with paragraph 2 of Council of Ministers Resolution 18/2014 of 7 March and the procedures in place in the AdP Group, AdP SGPS SA promotes, disseminates and publishes on its website, information on the remuneration paid to women and men in its annual sustainability report.

10. Preparation and publication of the annual prevention of corruption report in compliance with the provisions of no.1 of article 46 of Decree Law 133/2013 of 3 October

In compliance with Article 46 (1) of Decree-Law 133/2013 of 3 October, and in accordance with the procedures put in place in the AdP Group, AdP SGPS carries out an annual assessment of the company management plan for risks of corruption and interconnected infractions. It correspondingly drafts a report on its conclusions regarding Group companies, any occurrences detected or the risk of occurrences and other events mentioned in Article 2 (1) (a) of Law 54/2008 of 4 September:

“a) ... Information on the prevention of active or passive corruption, economic and financial crimes, money laundering, influence peddling, unlawful appropriation of public assets, mismanagement, embezzlement, economic investment in business, abuse of power, breach of confidentiality, acquisition of property or securities as a result of unlawful usage of privileged information while working for the public administration or in the state-owned business sector”.

In order to guarantee compliance with Article 46 (2) of Decree-Law 133/2013 of 3 October, this annual report is published on the AdP SGPS website and sent to the technical unit (UTAM).

11. Public procurement

Without infringing on the autonomy of AdP Group companies for undertaking public tender procedures in accordance with the needs encountered, for the purpose of compliance with the public service obligations in effect, there is a shared services unit in operation - AdP - Águas de Portugal Serviços Ambientais, S.A. – that functions as the operational structure of centralisation, optimisation and rationalisation of the acquisition of goods and services of a transversal nature, therefore spanning categories such as energy, insurance, vehicles, fuels, reagents, laboratory materials, among others.

Within this framework, a relational model was established under the auspices of which there is a list of a set of differentiated goods and services that are contracted and procured through the Acquisitions and Logistics Department of AdP Serviços.

The existence of this internal Group structure derives from the extent it is able to leverage economies of scale and synergies for the collective action of AdP Group companies and thereby obtain more attractive contractual conditions for this set of companies while simultaneously releasing them from the need to convey the autonomous contractual procedures inherent to the associated administrative and financial processes, thus adding value to their activities.

As regards the internal procedures in effect for contracting goods and services in 2017, AdP SGPS approved a set of measures for adoption by AdP Group companies in order to guarantee their compliance with the regime handed down by the Public Contracts Code and the control mechanisms for ensuring the appropriate compliance with legal rules and internal orientations as regards contracting and procurement as well as complying with the recommendations stipulated by Report no. 7/2017, of Court of Audit, among which we here highlight:

- Approval of a standard minute with information for launching public tender procedures;
- Definition of internal guidelines spanning a number of entities invited in accordance with the respective procedure types;

- Designation of those responsible for overseeing the training phase for contracting (administrative procedures manager) and the contract implementation phase (contract manager);
- Optimisation of the IT tool adopted for controlling compliance with the regime stipulated by article 113, no. 2, of the CCP;
- Monitoring of contractual procedures by the Internal Audit and the Risk Control unit.

Following the review of the Public Contracts Code, approved by Decree-Law no. 111-B/2017, of 31 August, this stipulates the reconfiguration of the standard minutes for opening tender procedures and the procedural pieces as well as the approval of an additional set of measures of a transversal scope (for example – the AdP Group Procurement Manual and Contracting Manual).

We would highlight how in 2017 neither acts nor contracts were signed by AdP SGPS with a value over EUR 5 million not subject to prior review by the Court of Audit, in accordance with that determined by article 47 of the Court of Audit Organisation and Process Law.

12. Measures taken under the auspices of company membership of the SNCP – the National Public Procurement System

The companies making up the AdP Group joined the SNCP – the National Public Procurement System on 3 March 2014 in the capacity of voluntary procurement entities. Since then public procurement procedures have taken place through recourse to the SNCP covering different framework agreements, such as:

- paper and office supplies
- surveillance and security
- fuel for vehicles
- cars and motorcycles,
- licensing of software and connected services,
- hygiene and cleaning

On 26 September 2017, the third addendum was signed between ESPAP and AdP Serviços, within the scope of enabling the utilisation of SNCP by the following AdP Group companies **(i)** Águas do Douro e Paiva, S.A., **(ii)** SIMDOURO - Saneamento do Grande Porto, S. A., **(iii)** Águas do Tejo Atlântico, S.A., and **(iv)** SIMARSUL - Saneamento da Península de Setúbal, S. A., established as a result of the restructuring of the water sector within the framework of implementing Decree-Law no. 72/2016, of 4 November of Decree-Law no. 16/2017, of 1 February, and Decree-Law no. 34/2017, of 24 March.

The contracting of goods and services through SNCP has established an ongoing option for AdP Group companies enabling the capturing of value not only by leveraging the demand resulting from scale but also through the simplification and speed that characterise this means and thereby ensuring the more efficient management of their resources.

13. Measures to reduce operating costs set out in Article 124 of DLEO 2017, justifying non-compliance with its guidelines and goals

AdP SGPS adopted various measures for the reduction of costs and that led to compliance with the defined guidelines and objectives.

The table below shows the results of the operating cost reduction plan, as required by Article 124 of the Decree-Law on Fiscal Execution no. 25/2017 and the GDTF model.

PRC (EUR)	2017 Perf.	2016 Perf.	2015 Perf.	2017/ 2016	
				Δ Absol.	Var.%
(0) EBITDA*	1 040 456	677 351	(2 843 737)	363 106	54%
(1) COMC	0	0	0	0	0%
(2) COSC	4 559 141	4 759 756	8 669 936	(200 616)	(4%)
(3) Staff costs amended from charges i), ii) e iii)	4 148 422	4 335 377	4 260 108	(186 956)	(4%)
(3.i) Compensation paid for termination	279 788	32 516	171 561	247 272	760%
(3.ii) Impacto da reversão das reduções remuneratórias	87 051	145 112	23 367	(58 061)	(40%)
(3.iii) Impact from the application of articles 20 and 21 of LOE 2017 (State Budget Law???)	0	0	0	0	0%
(4) Operational costs) = (1)+(2)+(3)	8 707 562	9 095 134	12 930 044	(387 571)	(4%)
(5) Turnover (NV)b)	9 976 140	9 865 814	10 143 964	110 326	1%
(6) Cost amount/ NV = (4)/(5)	87%	92%	127%	5 p.p.	(5%)
(i) Communication costs (COSC)	19 596	39 555	40 383	(19 959)	(50%)
(ii) Travel and accommodation costs (COSC)	62 040	48 784	63 773	13 256	27%
(iii) Costs with allowances (Staff costs)	6 006	9 994	29 844	(3 988)	(40%)
(iv) Costs with vehicles c)	248 200	287 707	336 558	(39 507)	(14%)
Total = (i) + (ii) + (iii) + (iv)	335 842	386 039	470 558	(50 198)	(13%)
Total number of HR (GB+MB+Employees) d)	87	88	86	(1)	(1%)
No. of Governing Bodies (GB)	14	14	14	0	0%
No. of managers (MB)	16	16	14	0	0%
No. of workers (without GB and MB)	57	58	58	(1)	(2%)
No. workers/ No. CD	3.6	3.6	4.1	(0.1)	0.00
No. of vehicles	27	32	32	(5)	(16%)

a) In order to ascertain compliance with the operational cost reduction measures (CMCMC + COSC + Staff costs), costs with compensation for termination, the effects of reversal of remuneration reductions and the effects of the provisions of articles 20 and 21 of SBL 2017 are not taken into account.

b) Turnover is amended from exploration grants and compensation payments

c) Costs with vehicles should include: rents/ amortisations, inspections, insurance, tolls, fuel, maintenance, repair, pneumatics, rates and taxes

* Operational result+(Amortisations-Invest. Grants)+ Provisions+Impairment Losses and Reversals-CRD-Revenue/Construction Costs (IFRIC12)

d) The total number of human resources includes workers with suspended contracts.

This verifies overall compliance with the cost reduction measures, specifically of the PRC, given that the weighting of operational costs in terms of the business turnover fell by 5 p.p. between 2016 and 2017. This result stemmed primarily from the following aggregate effects:

- Rise in business turnover by 1%;
- Reduction of COSC in 4%;
- Reduction of 4% in staffing costs, corrected by the costs incurred from the return of austerity wage cuts, compensation for redundancies and the effects resulting from the application of the terms of articles 20 and 21 of the State Budget Law;

This also highlights the 13% reduction in the set of costs arising from communications, business travel, expenses and accommodation (-11%), as well as the costs associated with the vehicle fleet (-14%).

14. Principle of state treasury unit (Article 28 of the RSJPE and Article 111 of Law 42/2016 of 28 December and article 90 of DLEO 2917)

The Group companies were exempted from the principle of the treasury unit for 2013, 2014 and 2015 (by Order 834/2015 of the Secretary of State of 2 June 2015).

Following the procedure adopted in previous years, on 28 April 2016, AdP SGPS requested, under the final part of Article 86 (1) of Law 7-A/2016 of 30 March, which approved the State Budget for 2016 and that established in Article 28 (3) of Decree-Law 133/2013 of 3 October, for the Under Secretary of State of the Treasury and Finance and the Secretary of State of the Environment, partial exemption from compliance with the state treasury unit for a two-year period. Order 841/16-SEATF of 16 August, issued in response to the request of AdP SGPS, that expressly authorises the partial exemption from compliance with the treasury unit of the state allowing the companies of the Águas de Portugal Group to use commercial banks for financing operations, since "IGCP does not guarantee the provision of short- or medium-term financing operations, since it does not have the legal framework to do so." However, this order does not cover the transfer of non-permanent cash surpluses to IGCP which led to a different legal interpretation by AdP SGPS and IGCP on the compulsory transfer of non-permanent surpluses to IGCP by state-owned enterprises. In order to clarify this issue, on 23 December 2016, AdP SGPS sent a new letter to the Under Secretary of State of the Treasury and the Secretary of State of the Environment to request instructions on the scope of the provisions of the State Budget Law for 2016, also informing about the negative financial impact resulting from the increase in the scope of the mandatory transfer of surpluses to the IGCP to include any non-permanent surpluses. In reply to this request for clarification, Order 38/17-SEATF of 16 January approved the opinion of the IGCP in order to ensure that all financial investments of state-owned enterprises, both permanent and non-permanent, are transferred to the IGCP. Águas de Portugal Group companies took up the adoption of the measures necessary to fully implement and comply with the instructions handed down by the Assistant State Secretary of the Treasury and Finance at every group company.

The following framework details the absence of financial applications held by AdP SGPS beyond the scope of the IGCP.

Commercial Banking	1st Quarter €	2nd Quarter €	3rd Quarter €	4th Quarter €
---	-	-	-	-
---	-	-	-	-
Total	-	-	-	-
Interest earned	-	-	-	-

AdP SGPS, within the scope of defining its social object, acts as a flexible and efficient instrument that enables the centralised and specialist management of the holdings that make up its portfolio. Correspondingly, beyond the strategic guidelines in effect for managers that represent the provision of the technical services of administration and management, this represents a crucial factor in the financial running of the holdings in relation to the broader domain (the totality of the current holdings).

The universe of the Group's companies spans a set of holdings in the environment sector with different phases of maturity and hence AdP SGPS takes on responsibility for coordinating and obtaining the financing necessary to meet the respective needs of these companies while always taking into account the final objective, that of maintaining a balance in the financial structure from a consolidated perspective. Within this framework, AdP SGPS:

- Accompanied companies in their relations with the Cohesion Fund so as to facilitate their access to community support funding;
- Carried out negotiations with the EIB, from 1997 onwards, with the objective of financing the projects associated with the first phase and having then secured a EUR 167 million credit line;
- In 2000, there began a new round of negotiations with the EIB over the investments associated with the second phase, which culminated in the concession of three lines of financing (implemented between 2005 and 2009), for a total amount of EUR 1.472 billion;
- Given that the EIB lines and support from the Cohesion Fund proved insufficient given the financing required by the totality of the project portfolio, AdP SGPS embarked on a process to access foreign markets in 2003, carrying out a private placing of 10-year debt in Japan in 2005 and advancing with three bond issues through a private placement in 2007 for 15 and 20 years and, in 2016, a 12-year shareholder bond for a total of EUR 675 million;

- In 2017, there was the signing of a 25-year line of financing with the EIB for EUR 220 million to deal with the investments necessary at the existing companies and ongoing through to 2021, without the backing of any guarantee, whether from the state or the banking system.

All the funding raised by long term operation is applied to the financing of the multi-municipal systems and partnerships in the component regarding investment and treasury funding for the first years of operation.

The emphasis placed on the water supply and wastewater treatment systems stems from the scale of the investments and the inherently associated temporal requirements.

The centralisation of a significant proportion of AdP SGPS funding has enabled the cohesive and coherent management of the Group's financial needs, having avoided any shortfalls in the treasury or insolvency issues despite the serious financial problems Portugal has experienced. Complementing this medium and long term framework, AdP SGPS also centralised negotiations with the banking system in order to obtain short term financing, reducing the capacity of individual banks to penalise some holding companies, whether on the grounds of costs or of credit.

The fact that AdP SGPS centrally negotiates credit lines and periodically verifies the existence of certain temporary surpluses has ensured the maintenance of financial stability at satisfactory levels and reducing the impacts on Group operating activities.

15. Recommendations made to the company as a result of audits by the Court of Auditors in the last three years

In accordance with the Audit Report no. 7/2017, of 27 April 2017, with its focus on the tenders directly awarded by Águas de Portugal Group companies in the period between 2012 and the first semester of 2014, the Boards of Directors made the following recommendations:

- Recourse to direct adjusted tenders thoroughly and appropriately applies all of the norms of the CCP, taking specifically into consideration the jurisprudence of this Court of Audit;
- Planning contracting in accordance with historical and recurrent needs whenever possible for public tender contractual processes (including period framework agreements, whenever necessary).

Taking into account compliance with the recommendations handed down by the Court of Audit, the Group implemented measures designed to guarantee compliance with the legal regime stipulated in the CCP – the Public Contracts Code and the monitoring of the contractual implementation with a particular emphasis on establishing the control mechanisms capable of ensuring the appropriate compliance with the legal rules and the internal guidelines with respect to public contracting processes.

16. Information disclosed on the SOE website as at 31 December 2017 (GDTF* portal - www.dgtf.pt)

Information to be entered in the SEE website	Dissemination		Comments
	Y	N	
Statutes			N.A. see note
Type of company			N.A. see note
Ownership and shareholding structure			N.A. see note
Governance Model / Governing Body Member			N.A. see note
- Identification of governing bodies			N.A. see note
- Type of remuneration set			N.A. see note
- Disclosures of remunerations earned by the Governing Bodies			N.A. see note
- Identification of the functions and duties of the members of the Board of Directors			N.A. see note
- Presentation of the core resume of members of the Board of Directors			N.A. see note
Public financing effort			N.A. see note
Summary file			N.A. see note
Historical and current financial information			N.A. see note
Principles of good governance			N.A. see note
- Internal and external set of rules the company is subject to			N.A. see note
- Relevant transactions with related bodies			N.A. see note
- Other transactions			N.A. see note
- Analysis if the sustainability of the company in the following fields:			N.A. see note
- Economic			N.A. see note
- Social			N.A. see note
- Environmental			N.A. see note
- Ascertainment of compliance with the principles of good governance			N.A. see note
- Ethics Code			N.A. see note

Note: According to the guidelines of the General Directorate of Treasury and Finance, AdP does not disclose information in the SEE website as it is not directly held by the State.

Appendix I

1 – Table of the General Assembly

Mandate (Beginning - End)	Position	Name	Established ticket (EUR)	Gross amount earned (EUR)
2015-2017	Chair	Ana Cristina Pereira Sequeira Rodrigues	650.00	650.00
2015-2017	Vice-chair	Maria Fernanda Joanaz Martins	520.00	520.00
2015-2017	Secretary	Manuel Bruno Gouveia Pereira	400.00	400.00
				I 570.00

2 – Board of Directors

Mandate (Beginning - End)	Position	Name	Designation		Yes/ No	OPRLO ⁽²⁾		N° of Mandates
			Form ⁽¹⁾	Date		Originating entity	Paying entity (O/D) ⁽²⁾	
2016-2018	Executive chair	João Nuno Marques de Carvalho Mendes	DUE	01/06/16	No	-	-	1
2016-2018	Executive vice-chair	Carla da Conceição Afonso Correia	DUE	01/06/16	No	-	-	1
2016-2018	Executive director	Cláudio Miguel André de Sousa Jesus	DUE	01/06/16	No	-	-	2
2016-2018	Executive director	Juan Miguel Martín Iglesias	DUE	01/07/16	No	-	-	1
2016-2018	Executive director	José Manuel Leitão Sardinha	DUE	01/06/16	No	-	-	2
2016-2018	Non executive director representing Parpública, SGPS, S.A.	Miguel Jorge de Campos Cruz	DUE	18/04/17	No	-	-	1

(1) Indicate Resolution (R)/ GM/ DUE/ Order (O).

(2) Option of remuneration from the place of origin - provided for in no. 8 of article 28.º of EGP; indicate paying entity (O-Originem/ D-Destino).

Member of the Board of Directors	Entity	Accumulation of roles		Regime
		Position	Regime	
João Nuno Marques de Carvalho Mendes	AdP - Águas de Portugal, Serviços Ambientais, S.A.	Non-executive chair	Public	
Carla da Conceição Afonso Correia	AdP - Águas de Portugal, Serviços Ambientais, S.A.	Non-executive director	Public	
Cláudio Miguel André de Sousa Jesus	AdP - Águas de Portugal, Serviços Ambientais, S.A.	Non-executive director	Public	
	AdP- Águas de Portugal Internacional, Serviços Ambientais, S.A.	Executive chair	Public	
Juan Miguel Martín Iglesias	AdP - Águas de Portugal, Serviços Ambientais, S.A.	Non-executive director	Public	
José Manuel Leitão Sardinha	AdP - Águas de Portugal, Serviços Ambientais, S.A.	Non-executive director	Public	
	EPAL - Empresa Portuguesa das Águas Livres, S.A.	Executive chair	Public	
	Águas do Vale do Tejo, S.A.	Executive chair	Public	
Miguel Jorge de Campos Cruz, representing Parpública, S.A.	Parpública, SGPS, S.A.	Executive chair	Public	

Member of the Board of Directors (Name)	Set [Y/N]	EGP Classification [A/B/C]	Gross monthly remuneration (€)	
			Monthly income	Allowances representing
João Nuno Marques de Carvalho Mendes	Y	A	5 722.75	2 289.10
Carla da Conceição Afonso Correia	Y	A	5 150.47	2 060.19
Cláudio Miguel André de Sousa Jesus	Y	A	4 578.20	1 831.28
José Manuel Leitão Sardinha ⁽¹⁾	Y	A	-	-
Juan Miguel Martín Iglesias	Y	A	4 578.20	1 831.28
Miguel Jorge de Campos Cruz, representing Parpública, SGPS; S.A. ⁽²⁾	n.a.	A	-	-

(1) Remuneration paid by EPAL.

(2) Remuneration of the non-executive paid by Parpública, SGPS, S.A.

Member of the Board of Directors (Name)	Annual remuneration (EUR)				
	Fixed ⁽¹⁾	Variable ⁽²⁾	Gross amount (3)=(1)+(2)	Remuneration reductions ⁽⁴⁾	Final gross amount (5)=(3)-(4)
João Nuno Marques de Carvalho Mendes	107 587.73	0,00	107 587.73	5 379.20	102 208.53
Carla da Conceição Afonso Correia	96 828.83	0,00	96 828.83	4 840.70	91 988.13
Cláudio Miguel André de Sousa Jesus	86 070.18	0,00	86 070.18	4 303.40	81 766.78
José Manuel Leitão Sardinha ⁽²⁾	-	0,00	0.00	0.00	0.00
Juan Miguel Martín Iglésias	86 070.18	0,00	86 070.18	4 303.40	81 766.78
Miguel Jorge de Campos Cruz, representing Parpública, SGPS, S.A ⁽⁷⁾	-	0,00	0.00	0.00	0.00
			376 556.92	18 826.70	357 730.22

(1) The amount of fixed remuneration corresponds to the salary + allowances (without reductions).

(4) Reduction provided for in article 12. of Law no. 12-A/2010, of 30 June.

(6) Remuneration paid by .

(7) Remuneration of the non-executive paid by Parpública, SGPS, S.A.

Member of the Board of Director (Name)	Social benefits (EUR)							
	Meal allowance		Social welfare regime			Annual cost		Other
	Amount / Day	Amount paid Year	Identify	Annual cost	Annual cost health insurance	Annual cost life insurance	Identify	Value
João Nuno Marques de Carvalho Mendes	4.77 ⁽¹⁾	1 132.90	Social Sec.	25 944.90	2 700.46	1 890.15	-	-
Carla da Conceição Afonso Correia	6.41	1 576.86	Social Sec.	22 735.11	2 072.40	1 478.28	-	-
Cláudio Miguel André de Sousa Jesus	6.41	1 160.21	Social Sec.	20 517.35	2 238.87	1 890.15	-	-
José Manuel Leitão Sardinha ⁽²⁾	-	-	-	-	-	-	-	-
Juan Miguel Martín Iglésias	4.77 ⁽¹⁾	1 137.42	Social Sec.	20 556.07	2 240.46	945.07	-	-
Miguel Jorge de Campos Cruz, representing Parpública, SGPS, S.A ⁽³⁾	-	-	-	-	-	-	-	-
		5 007.39		89 753.43	9 252.19	6 203.65		0.00

(1) Daily amount from 01-01-2017 to 31-07-2017 = 4,52 EUR; from 01-08-2017 to 31-12-2017 = 4,77 EUR.

(2) Remuneration paid by EPAL.

(3) Remuneration of the non-executive billed by Parpública, SGPS, S.A.

Member of the Board of Directors (Name)	Vehicle costs								
	Ascribed vehicle	Contract signature	Reference amount of car	Modality	Start year	End year	Monthly rent amount	Annual rent costs (EUR)	Remaining contract allowances (no.)
João Nuno Marques de Carvalho Mendes	Yes	Yes	-	AOV	27/05/2009	26/12/2017	727.32	9 548.79	0
Carla da Conceição Afonso Correia	Yes	Yes	-	AOV	07/10/2008	06/01/2018	332.38	3 774.03	0
Cláudio Miguel André de Sousa Jesus	Yes	Yes	-	AOV	07/04/2009	15/02/2015	955.18	2 750.46	0
José Manuel Leitão Sardinha ⁽¹⁾	Yes	Yes	-	AOV	13/11/2013	12/05/2015	1 065.08	0.00	0
Juan Miguel Martín Iglésias	Yes	Yes	-	AOV	17/04/2009	16/04/2015	895.64	13 216.76	0
Miguel Jorge de Campos Cruz, representing Parpública, SGPS, S.A	--	--	--	--	--	--	--	--	--

(1) Remuneration paid by EPAL.

Member of the Board of Directors (Name)	Service travel	Annual costs associated to Service Travel (EUR)				Total travel costs (Σ)
		Accommodation cost	Allowances	Other Identify	Value	
João Nuno Marques de Carvalho Mendes	1 599.49	171.00	0.00	Parking/Taxis	1.60	1 772.09
Carla da Conceição Afonso Correia	0.00	168.00	0.00	Parking/Taxis	78.10	246.10
Cláudio Miguel André Sousa Jesus*	25 965.88	832.50	151.90	Parking/Taxis	230.20	27 180.48
José Manuel Leitão Sardinha ⁽¹⁾	0.00	0.00	0.00	--	0.00	0.00
Juan Miguel Martín Iglesias	175.29	171.00	0.00	Parking	79.50	425.79
Miguel Jorge de Campos Cruz, representing Parpública, SGPS, S.A	--	--	--	--	--	--
						29 624.46

(1) Remuneration paid by EPAL.

* Expenses resulting from the performance of the job as Holding manager and Chair of AdP Internacional.

3 – Supervision

Supervisory board

Mandate (Beginning - End)	Position	Name	Designation		Monthly remuneration status set (EUR)	No. of mandates
			Form ⁽¹⁾	Date		
2015-2017	Chair	Carla Maria Lamego Ribeiro	AG	16/06/15	1 602.37	2
2015-2017	Director	Mário José Alveirinho Carrega	AG	16/06/15	1 201.78	2
2015-2017	Director	Ana Luisa Videira Gomes	AG	16/06/15	1 201.78	2

(1) Indicate AG/DUE/Order.

Name	Annual Remuneration (EUR)		
	Gross (1)	Gross reductions (2)	Final amount (3) = (1)-(2)
Carla Maria Lamego Ribeiro	-	-	-
Mário José Alveirinho Carrega	16 824.87	841.40	15 983.47
Ana Luisa Videira Gomes	16 824.87	841.40	15 983.47
	33 649.74	1 682.80	31 966.94

ROC

Mandate (Beginning - End)	Position	Identification Name	Statutory auditor SROC/ROC		Designation Form ⁽¹⁾	Date	Date of Contract	N° of years in the Group	No. of years in the company
			Member of the Bar of Statutory Auditors no.	No of register in CMVM					
2015-2017	Chartered Accountant	Alves da Cunha, A. Dias, Associados, SROC, S.A., rep. by Dr. Alves da Cunha, ROC	74	2699	AG	16/06/15	16/06/15	10	10

Note: The current (SROC e ROC) and the substitute (SROC e ROC) shall be identified.

(1) Indicate GM/ DUE/ Order (D).

Nome ROC/FU	Annual amount of the service provision contract 2017 (EUR)			Annual amount of additional services - 2017 (EUR)			
	Amount (1)	Reduction (2)	Final amount 3=(1)-(2)	Identification of the service	Amount (1)	Reduction (2)	Final amount 3=(1)-(2)
Alves da Cunha, A. Dias, Associados, SROC, S.A., rep. by Dr. Alves da Cunha, ROC	20 550.00	Not applicable	20 550.00		0	0	0

External Auditor

Name of the external auditor	Identification of the external auditor		Hiring date	Duration of the contract	No of years working in the Group	N° of years working in the company
	N.º OROC	Nº CMVM				
Ernst & Young	178	9011	2009	2016-2017	9	9

Name of the external auditor	Annual amount of the service provision contract 2017 (EUR)			Annual amount of additional services - 2017 (EUR)			
	Amount (1)	Reduction (2)	Final amount 3=(1)-(2)	Identification of the service	Amount (1)	Reduction (2)	Final amount 3=(1)-(2)
Ernst & Young	49 334.00	Not applicable	49 334.00	Final consulting and other audit related services	52 491.00	Not applicable	52 491.00

Appendix 2

Compliance with the legal guidelines - 2017	Compliance Y/N/N.A.	Quantification/ Identification	Justification / Reference to the item in the Report
Management objectives			See item 1.a)
Financial objectives - Efficiency and sustainability			
Management efficiency	Y	5%	Objective overcome
Indebtedness limit	Y	(13%)	Objective overcome
Commercial debt of municipal debtors	Y	99%	Objective attained
Degradation o operating cash	Y	65%	Objective overcome
Profitability	Y	153%	Objective overcome
Environmental objectives			
Quality of water supplied	Y	100%	Objective attained
Quality of wastewater	Y	101%	Objective overcome
Sectorial objectives			
Economic and Financial Feasibility Studies (EFFS)	Y	Before 31/07/2017	Objective overcome
Outline of multimunicipal systems in the metropolitan areas of Lisbon and Oporto	Y	3 by the end of +2016 with operations starting at the beginning of 2017	Objective overcome
Input for the initiative of consolidation of the organisation of downstream services in the country	N.A.	--	Objective assessed only in 2018
Reorganisation of EG xx in order to promote improvement of the levels of efficiency	N.A.	--	Objective assessed only in 2018
Reorganisation of the corporate centre of AdP Group	N.A.	--	Objective assessed only in 2018
Targets to meet and contained in the PAO 2017			See item 1.b)
Benchmark financial principles			
EBITDA*	Y	178%	
CMVC+COSC+Staff Costs	Y	98%	
PRC	Y	99%	
Cost with communications/travel and stays/ allowances	Y	85%	
Turnover	Y	102%	
Net results	Y	121%	
Consolidated indebtedness	Y	84%	
Financial investment	Y	56%	
Staff costs (without reversals)	Y	97%	
No. of workers	Y	100%	
Car fleet costs	Y	89%	
No. of vehicles	Y	100%	
APT	N	136%	
Financial risk management	Y	0.69%	See item 2
Limits to both growth and indebtedness	Y	(13%)	See item 3
Evolution of APT to suppliers	Y	(33)	Ver Ponto 4
Disclosure of arrears	Y	36 971 €	See item 4
Recommendations of the shareholders as at the last approval of accounts	N.A.		See item 5
Remunerations			
Management prizes not awarded	Y		
Governing Bodies - remuneration reductions in 2017	Y	18 826.70 €	See item 6 - Appendix I
Supervision (CF/ROC/FU) - remuneration reductions in 2017 (if applicable)	Y	1 682.80 €	See item 6 - Appendix I
External auditor - remuneration reduction in 2017 (if applicable)	N.A.		Not applicable in the reduction of remuneration considering article 49.º of State Budget Law 2017
Remaining workers - ban on remuneration improvements, under the terms of art. 38 of Law 82-B/2014, extended to 2017 through article 19 of Law no. 114/2017, of 29 December:	Y		
EGP - article 32 and 33 of EGP			
Non use of credit cards	Y		See item 7
Non reimbursement of employees allowances	Y		See item 7
Maximum amount of communication-related costs	Y		See item 7
Maximum amount of fuel and tolls monthly allocated to company vehicles	Y		See item 7

Compliance with the legal guidelines - 2017	Compliance Y/N/N.A.	Quantification/ Identification	Justification / Reference to the item in the Report
Non-documented or confidential expenses - no. 2 of article 16 of RJSPE and article 11 of EGP			
Prohibition to incur in non-documented or confidential expenses	Y		See item 8
Promotion of wage equality between women and men - no 2 of RCM no. 18/2014			
Preparation and dissemination of a report on remunerations paid to women and men	Y	www.adp.pt	See item 9
Preparation and dissemination of a annual report on prevention of corruption	Y	www.adp.pt	See item 10
Public Procurement			See item 11
Application of the names of public procurement by the company	Y		
Application of the norms of public procurement by invest companies	Y		
Contracts submitted to prior notice by the Court of Auditors	N.A.		
Measures taken at the level of compliance of the company with the National System of Public Procurement (NSPP)	Y		See item 12
Court of Auditors' Audits	Y		See item 15
Vehicles			See item 11
No. of vehicles	Y	(5)	See item 13
Operational costs of public companies	Y	(5%)	See item 13
Principle of Treasury Unit (article 28 of DL 133/2013)			See item 14
Availabilities and applications centralized in the IGCP	Y	100%	
Availabilities and applications in Public Banking	Y	--	
Interest earned from non-compliance of UTE and handed as Government Revenue	Y	--	

* * Operational result + (Amortisations - Investment grants)+ Provisions + Impairment losses and reversals - CRD-Revenue/ Construction costs (IFRIC12).



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STATEMENT

The documents entitled “Supervisory Board’s Report and Opinion on the Individual Accounting Documents” published on pages 144 to 146, “Legal Certification of (individual) accounts” published on pages 151 to 154, “Auditors report” on the individual accounts” published on pages 159 to 162. “Supervisory Board’s Report and Opinion on the Consolidated Accounting Documents” published on pages 244 to 246. “Legal Certification of (Consolidated) accounts” published on pages to 252 to 257 and “Auditors report” (on the Consolidated accounts) published on pages 264 to 270 of this annual report were translated by Kevin Rose Unipessoal, Lda from the original documents included in Águas de Portugal “Relatório e Contas 2017”.

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Edited by

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